2017

HOLLARD LIFE ASSURANCE COMPANY LIMITED

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

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

(Registration number 1993/001405/06)
Audited consolidated annual financial statements
for the year ended 30 June 2017

CONTENTS

Group salient features

for the year ended 30 June 2017

	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000
Statement of profit or loss information					
Gross premium income(1)	**5 859 951**	5 559 092	5 175 795	6 134 144	5 414 026
Net written premium income(2)	**4 515 535**	4 919 405	4 411 143	5 407 534	4 816 872
Investment income(3)	**580 816**	659 883	613 552	783 741	763 955
Net insurance claims	**1 321 759**	1 531 859	1 612 730	2 117 493	2 353 907
Profit attributable to equity holders of the parent	**854 885**	1 264 206	1 073 562	1 148 826	1 121 112
Statement of financial position information					
Insurance liabilities	**7 867 088**	9 363 579	10 177 737	13 097 931	11 781 892
Equity attributable to equity holders of the parent	**1 459 195**	1 898 546	2 321 795	2 084 966	1 804 223
Total assets	**11 551 833**	13 048 984	14 173 460	16 600 998	14 919 605
Financial assets (i.e. listed investments and unlisted investments)	**8 874 154**	10 466 866	11 154 706	13 789 566	12 393 561
Cash and cash equivalents	**1 241 566**	1 716 828	1 970 839	1 966 963	1 774 949
Actuarial information					
Statutory excess of assets over liabilities (Company)	**596 683**	577 325	1 192 283	992 591	855 066
Capital adequacy requirement (CAR)(4)	**232 116**	218 567	320 350	324 197	304 944
Value of in-force business(5)	**5 075 131**	4 558 706	4 906 397	4 569 511	3 993 958
Total embedded value(5)	**6 553 718**	6 471 975	7 280 584	6 713 255	5 866 819
Statutory excess of assets over liabilities as a multiple of CAR	**2.6**	2.6	3.7	3.1	2.8

(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 and unrealised profits and/or losses on the investment and trading portfolios.*

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

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

Directors' responsibility statement and approval of annual financial statements

for the year ended 30 June 2017

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

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

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Group's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework.

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

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

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

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

These annual financial statements, set out on pages 73 to 135 have been approved by the Board of the Group and Company and are signed on their behalf by:

ADH Enthoven
Chairman

31 October 2017

NG Kohler
Chief Executive Officer

31 October 2017

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 2017

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 Group's and Company's financial statements, and assessed that these fairly represent the financial position of the Group and Company. The Committee further reviewed the Group's and Company's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee met three times during the year, and the chairman of the Committee reported on the work of the Committee to the Board.

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

MR Bower
Chairman: Audit Committee

31 October 2017

Statement of actuarial values of assets and liabilities

as at 30 June 2017

	Notes	2017 R'000	2016 R'000
Published reporting basis			
Total assets as per Company financial position	2	11 568 618	13 062 839
Less: Liabilities		10 090 031	11 149 570
Actuarial value of policy liabilities	3, 4	7 867 088	9 363 579
Deferred income tax		529 139	552 214
Long-term liabilities		400 104	–
Current liabilities as per Company financial position		1 293 700	1 233 777
Excess of assets over liabilities		1 478 587	1 913 269
Represented by:			
Share capital and share premium		20 000	20 000
Retained earnings as per Company financial position		1 458 587	1 893 269
		1 478 587	1 913 269
Statutory basis			
Total assets on the statutory basis		11 541 839	13 029 513
Less: Liabilities		10 945 156	12 452 190
Actuarial value of policy liabilities		9 610 462	11 172 773
Deferred income tax		40 994	45 640
Current liabilities as per Company financial position		1 293 700	1 233 777
Excess of assets over liabilities		596 683	577 323
Capital adequacy requirement	5	232 116	218 567
Capital adequacy: times covered		2,6	2,6
Reconciliation of excess assets between published reporting basis and statutory basis			
Excess assets on published reporting basis		1 478 587	1 913 269
Excess assets on statutory basis		596 683	577 323
Difference		881 904	1 335 946
The difference between the excess assets on the published reporting basis and statutory basis is due to:			
Elimination of negative reserves		1 718 414	1 770 175
Tier II capital		(400 104)	–
Inadmissible assets		26 779	33 325
Unapproved reinsurance		24 960	39 020
Deferred income tax		(488 145)	(506 574)
Total		881 904	1 335 946
Analysis of change in excess assets			
The excess of the value of assets over the value of liabilities has changed as follows over the reporting year:			
Excess of assets at beginning of year		1 913 269	2 374 187
Excess of assets at end of year		1 478 587	1 913 269
Change in excess assets over the reporting year		(434 682)	(460 918)
This change in the excess assets is due to the following factors:			
Investment return on excess assets		325 577	241 520
Investment income		329 757	249 730
Capital appreciation		(4 180)	(8 210)
Operating profit		958 486	1 348 819
(Increase)/decrease in liabilities due to change in valuation methods or assumptions		(108 745)	(7 927)
Taxation		(319 556)	(350 930)
Total earnings after taxation		855 762	1 231 482
Dividends declared		(1 290 444)	(1 692 400)
Total change in excess assets		(434 682)	(460 918)

Statement of actuarial values of assets and liabilities (continued)

as at 30 June 2017

Certification of the financial position

I hereby certify that:

The valuation of Hollard Life Assurance Company Limited as at 30 June 2017, 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 2017 and will continue to be so in the foreseeable future.

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

31 October 2017

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 2017

1. Published reporting valuation methods and assumptions

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

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

2. Valuation basis – assets

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

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

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

- Individual life policies;
- Credit life policies administered internally;
- Funeral policies;
- Personal accident policies; 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 December 2016. The primary assumptions used in the gross premium valuation (excluding compulsory margins) are as follows (2016 assumptions shown in parentheses):

- Expenses were allowed for based on an expense analysis carried out during the year (unchanged);
- Expenses inflation of 5.60% per annum (2016: 6.80%);
- Future bonuses under reversionary bonus policies remained unchanged;
- Mortality assumptions were set based on the results of a mortality experience analysis carried out during the year with explicit allowance for HIV/AIDS (the mortality basis for direct funeral business was revised to be consistent with the results of the analysis);
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year (the Altrisk lapse rates at durations in excess of six years were reduced in line with experience);
- Future investment returns were based on the asset mix backing the liabilities with the following assumed future yields: cash 7.10% (2016: 7.50%), gilts 8.10% (2016: 8.50%), property 9.10% (2016: 9.50%) and equities 11.60% (2016: 12.00%). Income tax was allowed for explicitly at the appropriate rates and capital gains tax was allowed for implicitly in the discount rate (unchanged);
- The liabilities under the whole life portfolios (Altrisk and Funeral) have been valued assuming an asset mix of 100% government bonds;
- A discretionary margin of R228 million (2016: R241 million) was held as partial elimination of negative reserves;
- A contingency reserve to cover possible data problems of R50 million (2016: R41.6 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.

The CAR quoted above is the minimum capital adequacy requirement (MCAR). The MCAR exceeded the termination capital adequacy requirement (TCAR) as well as the ordinary capital adequacy requirement (OCAR). For the purpose of grossing up the intermediate ordinary capital adequacy requirement (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 2016 valuation. Changes in the main assumptions have been outlined in note 3 above and had an overall impact of reducing the value of actuarial liabilities by R109 million (2016: (R7.9 million)) during the financial year.

Embedded value statement

as at 30 June 2017

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 12.10% (2016: 12.50%).

	2017 R'000	2016 R'000
Value of in-force business	5 075 131	4 558 706
Excess of assets over liabilities	1 478 587	1 913 269
Total embedded value	6 553 718	6 471 975

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

Independent Auditor’s report

TO THE SHAREHOLDER OF HOLLARD LIFE ASSURANCE COMPANY LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

We have audited the consolidated and separate financial statements of Hollard Life Assurance Company Limited (the Group) set out on pages 83 to 134, which comprise the statements of financial position as at 30 June 2017, and the statements of profit or loss and comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 June 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Other Information

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

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

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

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

Responsibilities of the directors for the Consolidated and Separate Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

Independent Auditor's report (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Hollard Life Assurance Company Limited for 24 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Dinesh Munu
Partner

31 October 2017

National Executive: *LL Barn Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer *MJ Jarvis Chief Operating Officer *GM Pinnock Audit *N Sing Risk Advisory *NB Kader Tax *TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries *JK Mazzocco Talent & Transformation *MJ Comber Reputation & Risk *TJ Brown Chairman of the Board

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

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Directors' report

for the year ended 30 June 2017

The Directors have pleasure in presenting the Directors' report which forms part of the Group's and Company's annual financial statements for the year ended 30 June 2017.

Nature of business

The Company is a registered life assurer and transacts in all classes of life assurance business throughout the Republic of South Africa. The activities and details of the interests in subsidiaries, associates and joint ventures are listed in notes 28, 29 and 35 on pages 131 and 134 of the annual financial statements.

General review

In the year under review the Group achieved net profit attributable to the equity holders of the parent of R854 885 000 (2016: R1 264 206 000), which arose from the Group's operations as follows:

	2017 R'000	2016 R'000
Net premium income	4 515 535	4 919 405
Investment income	580 816	659 883
Other income	74 606	142 305
Total revenue	5 170 957	5 721 593
Net insurance benefits and claims	1 321 759	1 531 859
Other operating expenses	2 702 741	2 594 611
Total expenses	4 024 500	4 126 470
Results of operating activities	1 146 457	1 595 123
Share of profit of associates	29 298	21 026
Profit before taxation	1 175 755	1 616 149
Taxation	(320 303)	(351 965)
Profit for the year	855 452	1 264 184
Non-controlling interest	567	(22)
Net profit attributable to the equity holder of the parent	854 885	1 264 206

Share capital

During the year the shareholding in the Company changed from Hollard Holdings (Pty) Ltd to Hollard Fundco (RF) (Pty) Ltd. There was no change in the authorised and issued ordinary share capital of the Company during the year.

Dividends

Dividends on ordinary shares of R1 290 444 000 (2016: R1 692 400 000) were declared by the Company during the year.

Subsidiaries, associates and joint ventures

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

- Richton Employee Benefit Consultants (Pty) Ltd

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

- Ducome Brokers (Pty) Ltd (full 25% shareholding sold)
- Fiscal Tree Investments (Pty) Ltd (full 25% shareholding sold)
- Portman Wealth Solutions (Pty) Ltd (full 25% shareholding sold)
- Precept Wealth Solutions (Pty) Ltd (full 10% shareholding sold)

The Company's aggregate share of the profits and (losses) of subsidiaries and associates for the year amounted to R2 466 555 and R29 298 000 respectively (2016: (R2 719 328) and R21 026 000 respectively).

Going concern

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

Subsequent events

It has been announced that effective from 1 October 2017 Saks Ntombela will take over the role as CEO from Nic Kohler. Apart from this, the Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

Directors' report (continued)

for the year ended 30 June 2017

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 25 November 2016:

- NG Kohler, R Fihrer and B Ngonyama.

Executive Directors

NG Kohler (Group CEO), WT Lategan (Group CFO) and TBT Mparutsa 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, AS Nkosi 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 Fundco (RF) (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 2017

	Notes	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
Assets					
Property and equipment	4	84 696	3 898	83 491	2 760
Intangible assets	5	20 686	15 844	20 686	15 844
Interest in subsidiaries	6	–	–	20 917	19 619
Investments in associates	7	55 298	58 895	67 795	65 437
Financial assets	8	8 874 154	10 466 866	8 872 747	10 465 655
Reinsurance assets		375 374	135 610	375 374	135 610
Insurance, loans and other receivables	10	850 396	614 747	854 379	621 300
Deferred taxation	11	168	64	–	–
Current income taxation		49 495	36 232	49 461	36 200
Cash and cash equivalents	12	1 241 566	1 716 828	1 223 768	1 700 414
Total assets		11 551 833	13 048 984	11 568 618	13 062 839
Equity and liabilities					
Share capital and premium	13	20 000	20 000	20 000	20 000
Foreign currency translation reserve		22 502	26 294	–	–
Non-distributable reserves		10 738	–	–	–
Retained earnings		1 405 955	1 852 252	1 458 587	1 893 269
Equity attributable to equity holders of the parent		1 459 195	1 898 546	1 478 587	1 913 269
Non-controlling interest		1 450	883	–	–
Total equity		1 460 645	1 899 429	1 478 587	1 913 269
Long-term borrowings	17	400 104	–	400 104	–
Policyholder liabilities	14	7 867 088	9 363 579	7 867 088	9 363 579
Outstanding claims		312 265	312 734	312 265	312 734
Reinsurance liabilities		342 808	132 677	342 808	132 677
Employee benefits	15	166 555	150 783	165 919	150 783
Deferred taxation	11	529 139	552 214	529 139	552 214
Trade and other payables	16	472 606	410 160	472 708	410 269
Shareholders for dividend		–	227 314	–	227 314
Current income taxation		623	94	–	–
Total liabilities		10 091 188	11 149 555	10 090 031	11 149 570
Total equity and liabilities		11 551 833	13 048 984	11 568 618	13 062 839

Statements of profit or loss

for the year ended 30 June 2017

		GROUP		COMPANY	
	Notes	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Revenue					
Gross premium income	18	5 859 951	5 559 092	5 859 951	5 559 092
Reinsurance premiums outwards	18	(1 344 416)	(639 687)	(1 344 416)	(639 687)
Net premium income		4 515 535	4 919 405	4 515 535	4 919 405
Interest		386 746	521 767	385 446	520 690
Dividends		70 013	57 953	118 198	72 728
Realised profit on disposal of investments	19	19 923	522 127	19 453	464 286
Unrealised profit/(loss) on revaluation of investments	20	84 555	(441 964)	68 435	(413 052)
Rental income		19 579	–	19 556	–
Investment income		580 816	659 883	611 088	644 652
Other income		74 606	142 305	67 322	104 751
Total revenue		5 170 957	5 721 593	5 193 945	5 668 808
Expenses					
Policyholder benefits	23	3 622 393	2 683 063	3 622 393	2 683 063
Transfer to policyholder liabilities	14	(2 300 634)	(1 151 204)	(2 300 634)	(1 151 204)
Net insurance claims		1 321 759	1 531 859	1 321 759	1 531 859
Commission and other acquisition costs		481 530	488 690	481 530	488 690
Interest paid		60 587	19 384	60 295	19 135
Marketing and administration expenses		2 160 624	2 086 537	2 155 043	2 046 712
Total expenses		4 024 500	4 126 470	4 018 627	4 086 396
Results of operating activities		1 146 457	1 595 123	1 175 318	1 582 412
Share of profit of associates		29 298	21 026	–	–
Profit before taxation	21	1 175 755	1 616 149	1 175 318	1 582 412
Taxation	22	320 303	351 965	319 556	350 930
Profit for the year		855 452	1 264 184	855 762	1 231 482
Profit for the year attributable to:					
Equity holders of the parent		854 885	1 264 206		
Non-controlling interest		567	(22)		
		855 452	1 264 184		

Statements of comprehensive income

for the year ended 30 June 2017

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Profit for the year	855 452	1 264 184	855 762	1 231 482
Other comprehensive (loss)/income				
Exchange differences on translating foreign operations	(3 792)	4 943	–	–
Other comprehensive (loss)/income for the year	(3 792)	4 943	–	–
Total comprehensive income for the year	851 660	1 269 127	855 762	1 231 482
Total comprehensive income attributable to:				
Equity holders of the parent	851 093	1 269 149		
Non-controlling interests	567	(22)		
	851 660	1 269 127		

Statements of changes in equity

for the year ended 30 June 2017

	Attributable to equity holders of the parent							
	Issued share capital R'000	Share premium R'000	Foreign currency translation reserve R'000	Non-distributable reserves R'000	Retained earnings R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
GROUP								
Balance at 1 July 2015	20	19 980	21 351	–	2 280 446	2 321 797	905	2 322 702
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 paid on ordinary shares	–	–	–	–	(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
Profit for the year	–	–	–	–	854 885	854 885	567	855 452
Other comprehensive loss	–	–	(3 792)	–	–	(3 792)	–	(3 792)
Total comprehensive income	–	–	(3 792)	–	854 885	851 093	567	851 660
Transfer between reserves	–	–	–	10 738	(10 738)	–	–	–
Dividends paid on ordinary shares	–	–	–	–	(1 290 444)	(1 290 444)	–	(1 290 444)
Balance at 30 June 2017	20	19 980	22 502	10 738	1 405 955	1 459 195	1 450	1 460 645
COMPANY								
Balance at 1 July 2015	20	19 980	–	–	2 354 187	2 374 187		
Profit for the year	–	–	–	–	1 231 482	1 231 482		
Total comprehensive income	–	–	–	–	1 231 482	1 231 482		
Dividends paid on ordinary shares	–	–	–	–	(1 692 400)	(1 692 400)		
Balance at 30 June 2016	20	19 980	–	–	1 893 269	1 913 269		
Profit for the year	–	–	–	–	855 762	855 762		
Total comprehensive income	–	–	–	–	855 762	855 762		
Dividends paid on ordinary shares	–	–	–	–	(1 290 444)	(1 290 444)		
Balance at 30 June 2017	20	19 980	–	–	1 458 587	1 478 587		

Statements of cash flows

for the year ended 30 June 2017

	Notes	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
Cash flows from operating activities					
Cash receipts from policyholders and other customers		4 279 886	4 901 690	4 282 457	4 891 379
Cash paid to policyholders, suppliers and employees (net of transfers to reserves)		(5 141 629)	(5 007 025)	(5 136 867)	(4 960 031)
Cash utilised by operations	24	(861 743)	(105 335)	(854 410)	(68 652)
Interest paid		(60 587)	(19 384)	(60 295)	(19 135)
Dividends paid	25	(1 517 758)	(1 465 086)	(1 517 758)	(1 465 086)
Interest received		386 746	521 767	385 446	520 690
Dividends received	26	136 236	46 029	184 421	60 804
Rental received		19 579	–	19 556	–
Other Income		74 606	142 305	67 322	104 751
Taxation paid	27	(356 216)	(471 910)	(355 892)	(471 803)
Net cash outflow from operating activities		(2 179 137)	(1 351 614)	(2 131 610)	(1 338 431)
Cash flows from investing activities					
Acquisition of property and equipment	4	(97 743)	(1 878)	(97 506)	(1 394)
Acquisition of intangible assets		(9 539)	(14 128)	(9 539)	(14 128)
Acquisition of listed and unlisted investments		(1 989 293)	(1 503 966)	(1 989 301)	(1 511 708)
Acquisition of bonds		(1 170 363)	(705 105)	(1 170 363)	(705 105)
Proceeds on disposal of listed and unlisted investments		2 320 532	1 485 472	2 320 532	1 485 472
Proceeds on disposal of bonds		2 392 581	1 498 533	2 392 581	1 498 533
Proceeds on disposal of non-current assets held for sale		–	375 943	–	375 943
Acquisition of subsidiary	28	(1 000)	–	(1 000)	–
Cash obtained through acquisition of subsidiaries	28	653	–	–	–
Acquisition of associates		(8 846)	(7 040)	(8 846)	(7 040)
Dividends received from associates		48 187	–	–	–
Decrease in loans to subsidiaries		–	–	(300)	2 543
Decrease in loans to associates		(102)	18	(102)	18
Increase in foreign currency translation reserve		–	4 943	–	–
Increase in loans due to Group companies		(6 395)	(12 890)	(6 395)	(12 890)
Increase in other loans		(174 901)	(22 299)	(174 901)	(22 299)
Net cash inflow from investing activities		1 303 771	1 097 603	1 254 860	1 087 945
Cash flows from financing activities					
Increase in long-term borrowings		400 104	–	400 104	–
Net cash inflow from financing activities		400 104	–	400 104	–
Cash and cash equivalents					
Net decrease in cash and cash equivalents		(475 262)	(254 011)	(476 646)	(250 486)
Cash and cash equivalents at beginning of year		1 716 828	1 970 839	1 700 414	1 950 900
Cash and cash equivalents at end of year	12	1 241 566	1 716 828	1 223 768	1 700 414

Notes to the annual financial statements

for the year ended 30 June 2017

1. Accounting policies

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

1.1 Basis of presentation

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

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

Use of estimates and judgements

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of which form the basis of making judgements about the carrying values of assets and liabilities, that are not readily apparent from other sources. Actual results may differ from these estimates.

The Group's and Company's estimates and underlying assumptions are reviewed for reasonability on an ongoing basis. Revisions to accounting estimates are recognised in the income statement in the year in which the estimates are revised, if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements is disclosed in note 1.19 on page 100 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 2016. The adoption of these revised standards and interpretations did not have any effect on the Group's and Company's financial performance or position, although they did give rise to additional disclosures including, in some cases, changes to existing accounting policies.

The Group and Company will comply with standards issued but not yet effective for the 2017 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 cashflow. 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 2017

- IFRS 9: *Financial Instruments* – Reissue of a complete standard with all the chapters incorporated (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IFRS 10: *Consolidated Financial Statements* – Amendments on sale or contribution of assets between an investor and its associate or joint venture (deferred indefinitely). This standard is expected to have an impact on the financial statements.
- IFRS 15: *Revenue from contracts with customers* – Original issue (effective from annual periods beginning on or after 1 January 2017). This standard is expected to have an impact on the financial statements.
- 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). This standard is expected to have an impact on the financial statements.
- IFRS 15: *Revenue from contracts with customers* – Clarifications to IFRS 15 (effective from annual periods beginning on or after 1 January 2018). This standard is expected to have an impact on the financial statements.
- IFRS 16: *Leases* – Original issue (effective from annual periods beginning on or after 1 January 2019). This standard is expected to have an impact on the financial statements.
- IAS 7: *Cash Flow Statement* – Amendments as a result of the Disclosure initiative (effective from annual periods beginning on or after 1 January 2017). This standard is expected to have an impact on the financial statements.
- 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). This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Amendments on Sale or Contribution of Assets between an investor and its associate or joint venture (deferred indefinitely). This standard is expected to have an impact on the financial statements.
- IFRS 17: *Insurance Contracts* – Original issue that replaces IFRS 4 *Insurance Contracts* (effective from annual periods beginning on or after 1 January 2021). This standard is expected to have a material impact on the financial statements.

1.2 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 Group's net investments in associates, are not recognised unless the Group has incurred obligations or made payments on behalf of the associate. Post-acquisition profits are recognised in the income statement.

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

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

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. Accounting policies (continued)

1.2 Basis of consolidation (continued)

Interests in joint arrangements

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

The results and assets and liabilities of joint ventures are incorporated in these annual financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the joint ventures, less any impairment in the value of individual investments. Post-acquisition losses of a joint venture in excess of the Group's interest in that joint venture, which includes any long-term 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.

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 purchase taxes, but excluding trade discounts and rebates. Maintenance and repairs expenditure, which neither adds to the value of property and equipment nor significantly prolongs its expected useful life, is recognised directly in the income statement.

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

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

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

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

The assets' useful lives are reviewed at each statement of financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are charged directly to the income statement during the financial period in which they are identified.

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

1.5 Intangible assets

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

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

Computer software

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

Re-acquired rights

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

1.6 Non-derivative financial instruments

Capital management

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

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

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. Accounting policies (continued)

1.6 Non-derivative financial instruments (continued)

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 loans and receivables. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of 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 have a positive intention and ability to hold to maturity are classified as held-to-maturity investments and are included in non-current assets, except for maturities within 12 months from the statement of financial position date, which are classified as current assets. This category also includes all assets that are not designated either at fair value through profit or loss or fair value through other comprehensive income.

iii) Financial assets at fair value through other comprehensive income

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

iv) Loans and receivables

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

v) Linked products

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

vi) Forward share purchase agreements

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

vii) Other

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

Recognition and measurement

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

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

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

Gains or losses

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

Fair value

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

The fair value of investments is based on quoted bid prices for listed instruments 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.

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.

1.7 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. Accounting policies (continued)

1.8 Cash and cash equivalents

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

1.9 Non-current assets held for sale

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

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

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

1.10 Share capital

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

1.11 Policyholder insurance and investment contracts – Classification

Standards of Actuarial Practice (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*, defined insurance liabilities are allowed to be measured under existing local practice. The Group and Company have adopted the Standards of Actuarial Practice (SAP) and 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 demarcate these contracts in the following two broad categories:

i) Insurance contracts

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

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

ii) Investment contracts

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

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

Management of insurance and financial risk

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

i) Insurance risk

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

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

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

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

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 75, 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 2.5 times at 30 June 2017 (2016: 2.6 times).

Mortality and morbidity business

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

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Management of insurance and financial risk (continued)

i) Insurance risk (continued)

Mortality and morbidity business (continued)

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 their exposure to mortality and morbidity risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect. The Group and Company manage these risks by way of regular investigations into mortality and morbidity experience and through their underwriting strategy and reinsurance arrangements.

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

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

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

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

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

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

Liability adequacy test

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

Claims development table

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

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 2017, 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 75 to 76 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 monitor their exposure to individual counterparties to ensure that no single concentration exceeds predetermined limits. An appropriate level of provision is maintained against doubtful debts.

Key areas of credit risk exposure include:
- Cash and cash equivalents;
- Financial assets and liabilities;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid; and
- Amounts due from insurance intermediaries and administrators.

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

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

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

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

1.12 Revenue recognition and insurance activity expenditure

Premium income

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. Accounting policies (continued)

1.12 Revenue recognition and insurance activity expenditure (continued)

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 estimate the relevant cash flows considering all contractual terms of the financial instruments under consideration.

When a receivable is impaired, the Group and Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original interest rate of the instrument, and continue unwinding the discount as interest income. All interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

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

Rental income

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

Policyholder benefits

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

Policyholder liabilities

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

Commission

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

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.

1.13 Employee benefits

Pension and provident scheme arrangements

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

Profit-sharing and bonus plans

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

Leave pay

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

Termination benefits

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

Equity compensation plan

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

Other post-employment obligations

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

1.14 Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case the related income tax is also recognised in other comprehensive income.

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

Current taxation

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

Deferred taxation

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

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

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

Dividend Withholding Tax

Government notice number 1073, issued by National Treasury on 20 December 2011, introduced a withholding tax on dividends into South Africa with effect from 1 April 2012 in lieu of secondary tax on companies. The Company is exempt from paying withholding tax on ordinary share dividends received as 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.

1.15 Provisions

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

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

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

1.16 Borrowings

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

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

1. Accounting policies (continued)

1.17 Operating leases

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

1.18 Dividend distribution

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

1.19 Critical accounting estimates and judgements in applying accounting policies

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

Liability arising from claims under insurance contracts

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

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

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

The Group and Company's procedures for determining significant reserving assumptions are outlined in note 1.11 on page 94 of these financial statements.

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

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

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

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

Valuation of unlisted investments

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

In using discounted cash flow analyses, the discount rate used is based on the build-up method which incorporates a risk-free rate of 6.32%, an equity risk premium and an unsystematic risk premium.

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

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

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

Goodwill

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

2. Financial risk management

2.1 Introduction

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

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

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

i) Providing risk cover to individuals. The Group's and Company's core competencies are to understand the life related risk needs of individuals and to design sustainable products that provide financial stability to policyholders and their dependants in times of death, disability and/or illness; 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 2017

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 are exposed to credit risk include:

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

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

Insurance, loans and other receivables

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

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

The Group and Company provide for impairment in respect of their insurance debtors, loans and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group and Company have a dedicated Investment Committee that monitors the investment mandates set by the Board. Through these mandates, the Group and Company limit exposure to credit risk through diversification and by mainly investing in liquid securities and with counterparties that have a minimum credit rating or, where such ratings are not available, by internal analysis according to strict criteria. Given these high credit ratings requirements, management does not expect any counterparty to fail to meet its obligations.

The Group seeks to avoid concentration of credit risk to groups of counterparties, asset management houses, business sectors, product types and geographical segments by diversifying the investment mandate to various asset management houses and enforcing a strict application of mandates according to an internal, actuarially calculated asset allocation framework. Financial assets are graded and invested according to this framework and the Investment Committee regularly reviews compliance to that effect.

The analysis of credit quality of the Group's and Company's assets is disclosed in note 3.1 (a) on page 105 of these 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 Company and Group with capital management. However, the Group and Company remain liable to their policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the Group and Company are exposed to credit risk.

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

2.2.2 Liquidity risk

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

The Group and Company are exposed to daily calls on their available cash resources as a result of claims arising from their life insurance and investment contracts. The Investment Committee sets limits on the minimum proportion of maturing funds that must be available to meet such calls in order to cover claims at unexpected levels of demand. Based on actuarial modelling of historical and future expected trends, the Group and Company have estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 3.2 on pages 108 and 109. 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 109 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 2017

2. Financial risk management (continued)

2.2 Exposure to risks arising from financial instruments (continued)

2.2.3 Market risk (continued)

c) Other market price (or equity) risk

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

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

The Group and Company are assisted by external asset managers to manage their market price risk. In accordance with this strategy certain investments are designated at fair value through profit or loss financial instruments because their performance is actively monitored and they are managed on a fair value basis.

The Investment Committee actively monitors equity assets, listed and unlisted, owned by the Group and Company, which include some material shareholdings in the Group's and Company's strategic partners. Concentrations of specific equity holdings are also monitored.

Capital management

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

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

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

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

3. Risk management

3.1 Credit risk

a) Credit rating

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

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

GROUP	AA R'000	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not rated R'000	Total R'000
2017														
Unlisted investments – Preference Shares	–	–	–	–	–	–	–	–	–	–	–	–	394 755	394 755
Bonds – held at fair value through profit or loss*	–	–	–	20 314	476 112	–	–	865 942	1 454 101	1 983	113 181	177 745	26 724	3 136 102
Loans – interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	245 859	245 859
Loans – non-interest bearing	–	–	–	–	–	–	–	–	–	–	–	–	98 966	98 966
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	–	114 417	114 417
Cash and cash equivalents	–	38 625	–	8	–	–	–	390 818	412 279	–	16 664	–	383 172	1 241 566
Financial Assets	–	38 625	–	20 322	476 112	–	–	1 256 760	1 866 380	1 983	129 845	177 745	1 263 893	5 231 665
Premium debtors	–	–	–	–	–	–	–	–	–	–	–	–	272 985	272 985
Policy loans	–	–	–	–	–	–	–	–	–	–	–	–	8 784	8 784
Reinsurance assets	–	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	18 805	375 374
Other insurance assets	–	–	–	–	–	–	–	–	–	–	–	–	109 386	109 386
Insurance Assets	–	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	409 960	766 529
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

** 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 (R2.5m) (2016: R0.63m). 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 2017

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	A- R'000	BBB+ R'000	BBB R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not rated R'000	Total R'000
2017														
Unlisted investments – Preference shares	–	–	–	–	–	–	–	–	–	–	–	–	393 441	393 441
Bonds – held at fair value through profit or loss*	–	–	–	20 314	476 112	–	–	865 942	1 454 101	1 983	113 181	177 745	26 724	3 136 102
Loans – interest bearing	–	–	–	–	–	–	–	–	–	–	–	–	245 859	245 859
Loans – non-interest bearing	–	–	–	–	–	–	–	–	–	–	–	–	98 582	98 582
Other loans and receivables	–	–	–	–	–	–	–	–	–	–	–	–	118 784	118 784
Cash and cash equivalents	–	38 625	–	8	–	–	–	390 818	412 073	–	16 664	–	365 579	1 223 767
Financial Assets	–	38 625	–	20 322	476 112	–	–	1 256 760	1 866 174	1 983	129 845	177 745	1 248 969	5 216 535
Premium debtors	–	–	–	–	–	–	–	–	–	–	–	–	272 985	272 985
Policy loans	–	–	–	–	–	–	–	–	–	–	–	–	8 784	8 784
Reinsurance assets	–	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	18 805	375 374
Other insurance assets	–	–	–	–	–	–	–	–	–	–	–	–	109 386	109 386
Insurance Assets	–	533	213 299	–	–	118 514	–	–	19 292	4 931	–	–	409 960	766 529
2016														
Unlisted investments	–	–	–	–	–	–	–	–	–	–	–	–	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

* *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 (R2.5m) (2016: R0.63m). 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
2017								
Loans to associates	102	–	2 892	2 994	102	–	2 892	2 994
Unlisted investments	4 707 322	–	–	4 707 322	4 706 008	–	–	4 706 008
Bonds – at fair value through profit and loss	3 136 102	–	–	3 136 102	3 136 102	–	–	3 136 102
Financial assets	7 843 526	–	2 892	7 846 418	7 842 212	–	2 892	7 845 104
Premium debtors	272 985	19 520	6 301	298 806	272 985	19 520	6 301	298 806
Insurance assets	272 985	19 520	6 301	298 806	272 985	19 520	6 301	298 806
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

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

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

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:

	2017 R'000	2016 R'000
Balance at beginning of year	(34 510)	(4 280)
– Collective impairment loss recognised	(1 976)	(30 230)
– Collective impairment loss utilised	30 185	–
Balance at end of year	(6 301)	(34 510)

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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 R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Open-ended R'000
GROUP						
2017						
Financial assets at fair value through profit or loss	**8 874 154**	**8 874 154**	**5 278 445**	**2 335 320**	**59 225**	**1 201 164**
Reinsurance assets	**375 374**	**375 374**	**375 374**	**–**	**–**	**–**
Insurance, loans and other receivables	**850 396**	**850 396**	**754 499**	**95 897**	**–**	**–**
Loans to associates	**102**	**2 994**	**2 994**	**–**	**–**	**–**
Cash and cash equivalents	**1 241 566**	**1 241 566**	**1 241 566**	**–**	**–**	**–**
	11 341 592	**11 344 484**	**7 652 878**	**2 431 217**	**59 225**	**1 201 164**
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	–	–	–
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
COMPANY						
2017						
Financial assets at fair value through profit or loss	**8 872 747**	**8 872 747**	**5 277 038**	**2 335 320**	**59 225**	**1 201 164**
Reinsurance assets	**375 374**	**375 374**	**375 374**	**–**	**–**	**–**
Loans to subsidiaries	**5 633**	**5 633**	**5 633**	**–**	**–**	**–**
Loans to associates	**102**	**2 994**	**2 994**	**–**	**–**	**–**
Insurance, loans and other receivables	**854 379**	**854 379**	**758 482**	**95 897**	**–**	**–**
Cash and cash equivalents	**1 223 768**	**1 223 768**	**1 223 768**	**–**	**–**	**–**
	11 332 003	**11 335 895**	**7 643 289**	**2 431 217**	**59 225**	**1 201 164**
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

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
2017						
Insurance Liabilities						
Reinsurance liabilities	**342 808**	**342 808**	**–**	**342 808**	**342 808**	**–**
Outstanding claims	**312 265**	**–**	**312 265**	**312 265**	**–**	**312 265**
Policyholder liabilities	**7 867 088**	**–**	**7 867 088**	**7 867 088**	**–**	**7 867 088**
	8 522 161	**342 808**	**8 179 353**	**8 522 161**	**342 808**	**8 179 353**
Financial Liabilities						
Long-term liabilities	**400 104**	**104**	**400 000**	**400 104**	**104**	**400 000**
Trade and other payables	**472 606**	**472 606**	**–**	**472 708**	**472 708**	**–**
	872 710	**472 710**	**400 000**	**872 812**	**472 812**	**400 000**
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	–

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:

	2017				2016			
Asset class	ZAR Carrying amount R'000	USD $'000	Euro €'000	GBP £'000	ZAR Carrying amount R'000	USD $'000	Euro €'000	GBP £'000
Financial assets								
Hedge fund investments	**1 028**	**63**	**8**	**5**	2 895	114	–	63
Cash and cash equivalents	**167 791**	**10 207**	**–**	**2 034**	184 584	9 891	–	2 032
Gross statement of financial position exposure	**168 819**	**10 270**	**8**	**2 039**	187 479	10 005	–	2 095

The following significant exchange rates applied during the year:

	2017		2016	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	**13.59**	**13.05**	14.50	14.66
Euro	**14.82**	**14.91**	16.10	16.29
GBP	**17.24**	**16.99**	21.45	19.49

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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
2017				
USD	8 367	(8 367)	8 034	(8 034)
GBP	1 758	(1 758)	1 733	(1 733)
	10 125	(10 125)	9 767	(9 767)
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)

3.3.3 Interest rate risk

Profile – Group

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

	2017			2016		
	Carrying amount R'000"	Nominal interest rate %	Effective interest rate %	Carrying amount R'000"	Nominal interest rate %	Effective interest rate %
Fixed rate instruments						
Financial assets						
Bonds						
– Due in 2 years or less	2 067 488	8.03	8.19	3 011 630	7.96	7.84
– Due between 2 years and 5 years	1 009 454	9.10	9.80	1 398 906	9.20	8.57
– Due after 5 years	59 160	10.22	10.65	53 052	7.38	7.38
	3 136 102			4 463 588		

Profile – Group

	2017 Carrying amount R'000	2016 Carrying amount R'000
Variable rate instruments		
Financial assets		
Loans – interest-bearing	245 859	178 229
Cash and cash equivalents	1 241 566	1 716 828
	1 487 425	1 895 057

Profile – Company

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

	2017			2016		
	Carrying amount R'000	Nominal interest rate %	Effective interest rate %	Carrying amount R'000	Nominal interest rate %	Effective interest rate %
Fixed rate instruments						
Financial assets						
Bonds						
– Due in 2 years or less	2 067 488	8.03	8.19	3 011 630	7.96	7.84
– Due between 2 and 5 years	1 009 454	9.10	9.80	1 398 906	9.20	8.57
– Due after 5 years	59 160	10.22	10.65	53 052	7.38	7.38
	3 136 102			4 463 588		
Variable rate instruments						
Financial assets						
Loans – interest bearing	245 859			178 229		
Cash and cash equivalents	1 223 768			1 700 414		
	1 469 627			1 878 643		

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 2016.

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

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:

	2017			2016		
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	1 030 637	Listed	JSE	1 060 682	Listed	JSE
Ordinary shares	56 410	Not listed	N/A	184 187	Not listed	N/A
Preference shares	403 815	Not listed	N/A	359 770	Not listed	N/A
	1 490 862			1 604 639		

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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 2016.

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
2017				
Description of equity investment				
Ordinary shares – JSE	20 613	(20 613)	(20 613)	20 613
	20 613	(20 613)	(20 613)	20 613
2016				
Description of equity investment				
Ordinary shares – JSE	21 214	(21 214)	(21 214)	21 214
	21 214	(21 214)	(21 214)	21 214

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 2016.

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
2017				
Description of equity investment				
Ordinary shares	1 947	(1 947)	1 947	(1 947)
Preference shares	7 452	(7 452)	7 452	(7 452)
	9 399	(9 399)	9 399	(9 399)
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)

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	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Interest income on unimpaired loans and receivables	18 970	11 237	18 970	11 237
Interest income on financial assets measured at amortised cost	73 621	84 573	73 621	84 573
Interest income on financial assets designated as at fair value through profit and loss	294 156	424 075	292 856	424 075
Net gain on financial assets as at fair value through profit and loss*	174 491	39 525	189 821	39 525
Financial income	561 238	559 410	575 268	559 410
Interest expense on financial liabilities measured at amortised cost	60 587	7 349	60 295	7 349
Net fee costs from third parties in respect of holding financial assets on their behalf	11 798	11 369	11 798	11 369
Financial expense	72 385	18 718	72 093	18 718
Net financial income	488 853	540 692	503 175	540 692
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	92 591	95 810	92 591	95 810
– Total interest expense	60 587	7 349	60 295	7 349
	32 004	88 461	32 296	88 461

** 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 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
Impairment of loans				
impairment recognised	12 430	–	12 430	42
Impairment of premium debtors				
impairment recognised	6 301	34 510	6 301	34 510
Total	18 731	34 510	18 731	34 552

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
4. Property and equipment				
Cost				
Office equipment	39 824	5 946	36 775	3 240
Motor vehicles	803	322	322	322
Furniture and fittings	1 197	1 025	–	–
Leasehold improvements	63 971	8 000	63 971	–
Total Property and equipment cost	105 795	15 293	101 068	3 562
Accumulated depreciation				
Office equipment	(8 333)	(2 687)	(6 125)	(755)
Motor vehicles	(582)	(47)	(101)	(47)
Furniture and fittings	(833)	(661)	–	–
Leasehold improvements	(11 351)	(8 000)	(11 351)	–
Total Accumulated depreciation	(21 099)	(11 395)	(17 577)	(802)
Net carrying amount				
Office equipment	31 491	3 259	30 650	2 485
Motor vehicles	221	275	221	275
Furniture and fittings	364	364	–	–
Leasehold improvements	52 620	–	52 620	–
Net carrying amount at end of year	84 696	3 898	83 491	2 760
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	3 898	2 639	2 760	1 833
Additions	97 713	1 878	97 506	1 394
Office equipment	33 733	1 538	33 535	1 125
Motor vehicles	–	269	–	269
Furniture and fittings	9	71	–	–
Leasehold improvements	63 971	–	63 971	–
Depreciation for the year	(16 945)	(619)	(16 775)	(467)
Office equipment	(5 531)	(541)	(5 370)	(430)
Motor vehicles	(54)	(37)	(54)	(37)
Leasehold improvements	(11 351)	–	(11 351)	–
Furniture and fittings	(9)	(41)	–	–
Acquisition through business combination	30	–	–	–
Office equipment	30	–	–	–
Net carrying amount at end of year	84 696	3 898	83 491	2 760

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
5. Intangible assets				
Intangible assets at cost				
Cost				
Computer software	34 028	24 257	28 256	18 717
	34 028	24 257	28 256	18 717
Accumulated amortisation and impairment				
Computer software	(13 342)	(8 413)	(7 570)	(2 873)
	(13 342)	(8 413)	(7 570)	(2 873)
Net carrying amount				
Computer software	20 686	15 844	20 686	15 844
Net carrying value at end of year	20 686	15 844	20 686	15 844
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	15 844	9 546	15 844	9 546
Additions	9 539	14 128	9 539	14 128
Computer software	9 539	14 128	9 539	14 128
Write-off	–	(5 635)	–	(5 635)
Re-acquired rights	–	(3 300)	–	(3 300)
Computer software	–	(2 335)	–	(2 335)
Impairment, amortisation charge	(4 697)	(2 195)	(4 697)	(2 195)
Computer software	(4 697)	(2 195)	(4 697)	(2 195)
Net carrying value at end of year	20 686	15 844	20 686	15 844

	COMPANY 2017 R'000	COMPANY 2016 R'000
6. Interest in subsidiaries		
Interest in subsidiaries comprises:		
Shares at fair value through profit or loss	15 284	14 287
Loans to subsidiaries	8 655	8 396
	23 939	22 683
Impairment on loans	(3 022)	(3 064)
	20 917	19 619
Loans bear interest at the following rates:		
Prime less 5.15%	5 625	5 332
Interest free	8	–
Loans have the following terms of repayment:		
30 June 2020	5 625	5 332
31 July 2017	8	–
Loans – 30 June	5 633	5 332

Details of subsidiaries are provided in note 35 on page 134 of these financial statements.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
7. Investments in associates				
Investments in associates comprise:				
Shares at fair value through profit or loss			67 693	65 437
Shares at cost	55 594	66 058		
Group share of post-acquisition profits	(398)	(7 163)		
Carrying value of associates	55 196	58 895	67 693	65 437
Loans to associates	102	–	102	–
	55 298	58 895	67 795	65 437
Loans bear interest at the following rates:				
Prime			102	–
Loans have the following terms of repayment:				
30 September 2020			102	–

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

	Life assurance R'000	Investment R'000	Total R'000
Analysis of associates for 30 June 2017			
Total assets	345 606	–	345 606
Total liabilities	(110 554)	–	(110 554)
Net assets	235 052	–	235 052
Net profit before taxation	78 895	–	78 895
Taxation	(4 024)		(4 024)
Net profit after taxation	74 871	–	74 873
Group share of post-acquisition profits	(398)	–	(398)
Carrying amount of interest in associates	55 196	–	55 196
Loans to associates	102	–	102
Fair valuation of associates (at Company level)	67 693	–	67 693
Analysis of associates for 30 June 2016			
Total assets	291 470	6 612	298 082
Total liabilities	(86 519)	(3 648)	(90 167)
Net assets	204 951	2 964	207 915
Net profit before taxation	74 451	41	74 492
Taxation	(19 077)	(162)	(19 239)
Net profit after taxation	55 373	(121)	55 253
Group share of post-acquisition profits	(7 163)	(170)	(7 163)
Carrying amount of interest in associates	53 288	5 607	58 895
Fair valuation of associates (at Company level)	59 690	5 747	65 437

8. Financial assets

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
Fair value through profit and loss	8 874 154	10 466 866	8 872 747	10 465 655
	8 874 154	10 466 866	8 872 747	10 465 655
Group and Company's financial assets are designated into the following three broad categories for management reporting purposes:				
Listed investments (financial assets designated as at fair value through profit and loss)	1 030 730	1 060 682	1 030 637	1 060 682
Unlisted investments (financial assets designated as at fair value through profit and loss)	4 707 322	4 942 596	4 706 008	4 941 385
Bonds (financial assets designated as at fair value through profit and loss)	3 136 102	4 463 588	3 136 102	4 463 588
	8 874 154	10 466 866	8 872 747	10 465 655
Listed investments				
Shares at fair value	1 030 730	1 060 682	1 030 637	1 060 682
Unlisted investments				
Shares at fair value	417 165	436 888	417 165	436 888
Linked products at fair value	4 290 157	4 505 708	4 288 843	4 504 497
Unlisted investments at fair value	4 707 322	4 942 596	4 706 008	4 941 385
Total listed and unlisted investments at fair value	5 738 052	6 003 278	5 736 645	6 002 067

	GROUP AND COMPANY R'000	Maturity spread %	Nominal interest rate %	Effective interest rate %
Bonds (Financial assets carried at fair value through profit or loss):				
Analysis of debt securities by maturity spread for 30 June 2017				
0 – 2 years	2 067 488	65.90	8.03	8.19
2 – 5 years	1 009 454	32.20	9.10	9.80
Later than 5 years	59 160	1.90	10.22	10.65
	3 136 102	100		
Analysis of debt securities 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 5 years	53 052	1.20	7.38	7.38
	4 463 588	100		

All bonds reported above are South African in origin.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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

	Designated at fair value through profit or loss R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per Statement of Financial Position R'000	Fair value of financial instruments R'000
GROUP							
2017							
Assets							
Investments in associates	–	–	–	–	55 298	55 298	55 298
Financial assets	8 874 154	–	8 874 154	–	–	8 874 154	8 874 154
Reinsurance assets	–	–	–	375 374	–	375 374	–
Insurance, loans and other receivables	–	455 977	455 977	289 108	105 311	850 396	455 977
Cash and cash equivalents	–	1 241 566	1 241 566	–	–	1 241 566	1 241 566
Total assets	8 874 154	1 697 543	10 571 697	664 482	160 609	11 396 788	10 626 995
Liabilities							
Long-term liabilities	–	400 104	400 104	–	–	400 104	400 104
Policyholder liabilities	–	–	–	7 867 088	–	7 867 088	–
Outstanding claims	–	–	–	312 265	–	312 265	–
Reinsurance liabilities	–	–	–	342 808	–	342 808	–
Employee benefits	–	–	–	–	166 555	166 555	–
Trade and other payables	–	–	–	373 933	98 673	472 606	–
Total liabilities	–	400 104	400 104	8 896 094	265 228	9 561 426	400 104
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	–	1 716 828	1 716 828	–	–	1 716 828	1 716 828
Total assets	10 466 866	1 991 447	12 458 313	384 066	150 567	12 992 946	12 517 208
Liabilities							
Policyholder liabilities	–	–	–	9 363 579	–	9 363 579	–
Outstanding claims	–	–	–	312 734	–	312 734	–
Reinsurance liabilities	–	–	–	132 677	–	132 677	–
Employee benefits	–	–	–	–	150 783	150 783	–
Shareholders for dividends	–	–	–	–	227 314	227 314	–
Trade and other payables	–	–	–	284 384	125 776	410 160	–
Total liabilities	–	–	–	10 093 374	503 873	10 597 247	–

	Designated at fair value through profit or loss R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per Statement of Financial Position R'000	Fair value of financial instruments R'000
COMPANY							
2017							
Assets							
Interest in subsidiaries	20 917	–	20 917	–	–	20 917	20 917
Investments in associates	67 795	–	67 795	–	–	67 795	67 795
Financial assets	8 872 747	–	8 872 747	–	–	8 872 747	8 872 747
Reinsurance assets	–	–	–	375 374	–	375 374	–
Insurance, loans and other receivables	–	455 977	455 977	289 108	109 294	854 379	455 977
Cash and cash equivalents	–	1 223 768	1 223 768	–	–	1 223 768	1 223 768
Total assets	8 961 459	1 679 745	10 641 204	664 482	109 294	11 414 980	10 641 204
Liabilities							
Long-term liabilities	–	400 104	400 104	–	–	400 104	400 104
Policyholder liabilities	–	–	–	7 867 088	–	7 867 088	–
Outstanding claims	–	–	–	312 265	–	312 265	–
Reinsurance liabilities	–	–	–	342 808	–	342 808	–
Employee benefits	–	–	–	–	165 919	165 919	–
Trade and other payables	–	–	–	373 933	98 775	472 708	–
Total liabilities	–	400 104	400 104	8 896 094	264 694	9 560 892	400 104
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	–	1 700 414	1 700 414	–	–	1 700 414	1 700 413
Total assets	10 550 711	1 975 033	12 525 744	384 066	98 225	13 008 035	12 525 743
Liabilities							
Policyholder liabilities	–	–	–	9 363 579	–	9 363 579	–
Outstanding claims	–	–	–	312 734	–	312 734	–
Reinsurance liabilities	–	–	–	132 677	–	132 677	–
Employee benefits	–	–	–	–	150 783	150 783	–
Shareholders for dividends	–	–	–	–	227 314	227 314	–
Trade and other payables	–	–	–	284 384	125 885	410 269	–
Total liabilities	–	–	–	10 093 374	503 982	10 597 356	–

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
GROUP				
2017				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	1 005 955	–	–	1 005 955
Listed debentures	24 774	–	–	24 774
Unlisted ordinary shares*	10 737	–	2 613	13 350
Unlisted preference shares*	–	–	403 815	403 815
Unit trusts	–	4 079 841	–	4 079 841
Bonds	1 262 558	1 873 544	–	3 136 102
Hedge fund investments	–	156 520	–	156 520
Annuities	–	53 797	–	53 797
	2 304 024	6 163 702	406 428	8 874 154
** These investments do not meet the definition of related parties.*				
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.*				
COMPANY				
2017				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	1 005 862	–	–	1 005 862
Listed debentures	24 774	–	–	24 774
Unlisted ordinary shares*	10 737	–	2 613	13 350
Unlisted preference shares*	–	–	403 815	403 815
Unit trusts	–	4 078 527	–	4 078 527
Bonds	1 262 558	1 873 544	–	3 136 102
Hedge fund investments	–	156 520	–	156 520
Annuities	–	53 797	–	53 797
Investment in associate	–	–	67 795	67 795
Investment in subsidiary	–	–	20 917	20 917
	2 303 931	6 162 388	495 140	8 961 459
** These investments do not meet the definition of related parties.*				
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.*

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

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

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

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

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

	At 1 July 2016 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 2017 R'000	Total gains or losses for the period included in profit or loss for assets held at 30 June 2017 R'000
GROUP							
Financial assets carried at fair value through profit or loss							
Unlisted ordinary shares	144	–	2 469	–	–	2 613	–
Unlisted preference shares	359 770	31 511	146 503	43 052	(177 021)	403 815	31 511
Total financial instruments	359 914	31 511	148 972	43 052	(177 021)	406 428	31 511
COMPANY							
Financial assets carried at fair value through profit or loss							
Unlisted ordinary shares	144	–	2 469	–	–	2 613	–
Unlisted preference shares	359 770	31 511	146 503	43 052	(177 021)	403 815	31 511
Investment in associate	65 437	(6 589)	8 846	–	101	67 795	(6 589)
Investment in subsidiary	19 619	(2)	1 000	–	300	20 917	(2)
Total financial instruments	444 970	24 920	158 818	43 052	(176 620)	495 140	24 920

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

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

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

	2017		
	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	19 923	84 555	104 478
	19 923	84 555	104 478
COMPANY			
Total gains or losses included in profit or loss for the year	19 453	68 435	87 888
	19 453	68 435	87 888

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:

	2017			
	GROUP		COMPANY	
	Carrying amount R'000	Effect of reasonably possible alternative assumptions (+/-) R'000	Carrying amount R'000	Effect of reasonably possible alternative assumptions (+/-) R'000
Financial assets carried at fair value through profit or loss				
Unlisted ordinary shares	2 613	261	2 613	261
Unlisted preference shares	403 815	40 381	403 815	40 381
Investment in associate	–	–	67 795	6 780
Investment in subsidiary	–	–	20 917	2 092
Total financial instrument	406 428	40 642	495 140	49 514

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%.

10. Insurance, loans and other receivables

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
Premium debtors	272 985	265 038	272 985	265 038
Other receivables	224 187	149 745	228 170	156 298
Total insurance and other receivables	497 172	414 783	501 155	421 336
Loans				
Secured interest and interest-free loans	152 621	103 896	152 621	103 896
Unsecured interest-free loans	96 088	–	96 088	–
Total loans[1]	248 709	103 896	248 709	103 896
Receivable from Group companies				
Receivable from Group companies	104 515	96 068	104 515	96 068
Total due from Group companies[2]	104 515	96 068	104 515	96 068
Total insurance, loans and other receivables	850 396	614 747	854 379	621 300
(1) The interest rates charged on the secured and unsecured loans comprise:				
Prime rate of interest	76 271	3 577	76 271	3 577
Prime plus 1.36%	5 313	5 339	5 313	5 339
Prime plus 2%	6 778	7 287	6 778	7 287
Prime plus 5%	42 801	65 783	42 801	65 783
Variable rate of interest	–	4 658	–	4 658
10.5% interest	5	–	5	–
South African Revenue Services Rate	12 149	11 674	12 149	11 674
Hollard Investments Money Market Fund rate	3 890	–	3 890	–
Johannesburg Inter-Bank Rate ("JIBAR") + 7%	5 414	5 578	5 414	5 578
Interest-free loans	96 088	–	96 088	–
Total loans	248 709	103 896	248 709	103 896
(1) The repayments terms of the secured and unsecured loans comprise:				
90 days after notice	12 149	8 270	12 149	8 270
Repaid quaterly	93 698	63 784	93 698	63 784
Monthly instalments	5	4	5	4
Specific date	128 660	22 173	128 660	22 173
No fixed terms of repayment	14 197	9 665	14 197	9 665
Total loans	248 709	103 896	248 709	103 896
(2) The interest rates charged on the loans to Group companies comprise:				
Prime less 3.8%	10 002	–	10 002	–
80% of prime	19 363	17 343	19 363	17 343
Prime rate of interest	20 225	18 296	20 225	18 296
5% interest	52 432	–	52 432	–
7% interest	–	48 898	–	48 898
Interest-free loans	2 493	11 531	2 493	11 531
Total due from Group companies	104 515	96 068	104 515	96 068
(2) The repayment terms of the loans to Group companies comprise:				
Specific date	81 798	75 187	81 798	75 187
90 days after notice	20 224	18 589	20 224	18 589
No terms of repayment	2 493	2 292	2 493	2 292
Total due from Group companies	104 515	96 068	104 515	96 068

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
11. Deferred taxation				
Deferred income tax assets				
Deferred income tax to be recovered within 12 months	168	64	–	–
Balance at end of year	168	64	–	–
Balance at beginning of year	64	821	–	–
Movements during the year attributable to:				
Acquisition of subsidiary	168	–	–	–
Unutilised tax losses	–	(741)	–	–
Provisions	(64)	(16)	–	–
Balance at end of year	168	64	–	–
Balance comprises:				
Provisions	168	64	–	–
Balance at end of year	168	64	–	–
Deferred income tax liabilities				
Deferred income tax to be recovered after 12 months	529 139	552 214	529 139	552 214
Balance at end of year	529 139	552 214	529 139	552 214
Balance at beginning of year	552 214	549 105	552 214	549 105
Movements during the year attributable to:				
Unrealised gains on assets at fair value through profit or loss	18 720	(4 071)	18 720	(4 071)
Unutilised tax losses	4 387	(662)	4 387	(662)
Policyholder liabilities change in valuation basis	(18 430)	61 641	(18 430)	61 641
Change in tax rate	–	21 141	–	21 141
Other releases to profit and loss	(27 752)	(74 940)	(27 752)	(74 940)
Balance at end of year	529 139	552 214	529 139	552 214
Balance comprises:				
Policyholder liabilities change in valuation basis	488 145	506 574	488 145	506 574
Unutilised tax losses	(4 490)	(8 878)	(4 490)	(8 878)
Provisions	(27 753)	–	(27 753)	–
Unrealised gains on assets at fair value through profit or loss	73 237	54 518	73 237	54 518
Balance at end of year	529 139	552 214	529 139	552 214

The deferred tax provision of R18 430 000 (2016: R61 641 000) 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 75 of these annual financial statements.

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
12. Cash and cash equivalents				
Cash and cash equivalents consist of cash on hand, current accounts and short-term deposits with maturity of less than 12 months.				
Cash on call	607 849	939 165	605 838	939 165
Cash at bank	293 589	372 469	277 894	356 063
Cash on deposit	340 020	405 176	340 020	405 176
Cash on hand	108	18	16	10
	1 241 566	1 716 828	1 223 768	1 700 414

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
13. Share capital and premium				
Authorised				
100 000 000 ordinary shares of 1 cent each	1 000	1 000	1 000	1 000
Issued and fully paid				
2 000 000 ordinary shares of 1 cent each	20	20	20	20
Share premium	19 980	19 980	19 980	19 980
Issued Share Capital	20 000	20 000	20 000	20 000
Dividends per share (cents)	645	846	645	846

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.

During the 2017 financial year the direct shareholder of the Company changed from Hollard Holdings (Pty) Ltd to Hollard Fundco (RF) (Pty) Ltd.

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
14. Policyholder liabilities				
Policyholder liabilities under investment contracts:				
Balance at beginning of year	4 952 383	4 601 546	4 952 383	4 601 546
IAS 39 adjustment	(73)	(3 361)	(73)	(3 361)
Movement for the year	830 884	354 198	830 884	354 198
Balance at end of year	5 783 194	4 952 383	5 783 194	4 952 383
Policyholder liabilities under insurance contracts:				
Balance at beginning of year	4 411 196	5 576 191	4 411 196	5 576 191
IAS 39 adjustment	72	3 361	72	3 361
Amounts expensed elsewhere in the income statement	(26 740)	(17 152)	(26 740)	(17 152)
Amount transferred from the income statement	(2 300 634)	(1 151 204)	(2 300 634)	(1 151 204)
Balance at end of year	2 083 894	4 411 196	2 083 894	4 411 196
	7 867 088	9 363 579	7 867 088	9 363 579
The movement in the policyholder liabilities balance for the purposes of the statement of cash flows is reported as follows:				
Increase in policyholder liabilities under investment contracts	830 811	350 837	830 811	350 837
Decrease in policyholder liabilities under insurance contracts	(2 327 302)	(1 164 995)	(2 327 302)	(1 164 995)
Total decrease in policyholder liabilities under investment and insurance contracts	(1 496 491)	(814 158)	(1 496 491)	(814 158)
Gross insurance liabilities	7 591 124	8 905 388	7 591 124	8 905 388
Total reinsurers' share of insurance liabilities	275 964	458 191	275 964	458 191
Net insurance liabilities	7 867 088	9 363 579	7 867 088	9 363 579
15. Employee benefits				
Balance at beginning of year	150 783	154 610	150 783	154 610
Charged to profit and loss	15 772	(3 827)	15 136	(3 827)
– Additional provisions raised during the year	145 038	2 693	145 038	2 693
– Used during the year	(129 902)	(6 520)	(129 902)	(6 520)
– Acquisition of subsidiary	636	–	–	–
Balance at end of year	166 555	150 783	165 919	150 783
Analysis of total provisions				
– Current	166 555	150 783	165 919	150 783

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

15. Employee benefits (continued)

Leave pay

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

The Group's and Company's provision for leave pay amounted to R27 444 385 and R27 368 257 respectively at the statement of financial position date (2016: R19 467 323 and R19 467 323 respectively).

Incentive scheme

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

The Group's and Company's provision for staff incentives amounted to R132 190 225 and R131 630 613 respectively at the statement of financial position date (2016: R128 621 890 and R128 621 890 respectively).

Restructuring

The Group's and Company's provision for staff restructuring amounted to R6 920 348 and R6 920 348 respectively at the statement of financial position date (2016: R2 693 364 and R2 693 364 respectively).

	GROUP		COMPANY	
	2017 R'000	2016 R'000	**2017 R'000**	2016 R'000
16. Trade and other payables				
Trade and other creditors	**43 938**	88 472	**43 684**	88 472
Other liabilities	**428 668**	321 688	**429 024**	321 797
	472 606	410 160	**472 708**	410 269
Other liabilities				
Included in other liabilities are life assurance premiums amounting to R2 641 000 in respect of policies that incepted after the statement of financial position date (2016: R2 869 000).				
All balances are current.				
17. Long-term borrowings				
Interest-bearing loan	**400 104**	–	**400 104**	–
	400 104	–	**400 104**	–
The loan bears interest at the 3 month JIBAR + 215bps and is serviced quarterly. The loan is repayable on the tenth anniversary of the advance date (12 August 2016). The loan is unsecured.				
18. Net premium income				
Individual and group				
Single premiums	**611**	850	**611**	850
Recurring premiums	**5 733 995**	5 452 912	**5 733 995**	5 452 912
Reinsurance premiums inwards	**125 345**	105 330	**125 345**	105 330
Gross premium income	**5 859 951**	5 559 092	**5 859 951**	5 559 092
Reinsurance premiums outwards	**(1 344 416)**	(639 687)	**(1 344 416)**	(639 687)
	4 515 535	4 919 405	**4 515 535**	4 919 405

Net premium income represents income from insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and are accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 14 on page 125 for details of the movement in policyholder liabilities under investment contracts.

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
19. Realised profit/(loss) on disposal of investments				
Listed investments	(101)	25 283	(101)	25 283
Unlisted investments	20 024	496 844	19 554	439 003
	19 923	522 127	19 453	464 286
20. Unrealised profit/(loss) on revaluation of investments				
Listed investments	25 138	(58 048)	25 140	(58 048)
Unlisted investments	59 417	(383 916)	43 295	(355 004)
	84 555	(441 964)	68 435	(413 052)

	2017			2016		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
21. Profit before taxation						
Profit before taxation is determined after charging:						
Directors' and prescribed officers' emoluments						
Executive Directors						
Director A						
Basic salary	1 740	1 740	3 480	1 635	1 635	3 270
Bonus and performance-related payments	6 472	6 472	12 944	10 151	10 151	20 302
Estimated monetary value of other benefits	137	137	274	171	171	342
Pension/provident fund contributions	252	252	504	236	236	472
	8 601	8 601	17 202	12 193	12 193	24 386
Director B						
Basic salary	2 451	–	2 451	1 158	579	1 737
Bonus and performance-related payments	14 867	–	14 867	7 190	3 595	10 785
Estimated monetary value of other benefits	504	–	504	242	121	363
Pension/provident fund contributions	408	–	408	193	97	290
	18 230	–	18 230	8 783	4 392	13 175
Director C						
Basic salary	1 662	1 662	3 324	742	742	1 484
Bonus and performance-related payments	4 663	4 663	9 326	–	–	–
Estimated monetary value of other benefits	79	79	158	37	37	74
Pension/provident fund contributions	189	189	378	96	96	192
	6 593	6 593	13 186	875	875	1 750
Non-executive Directors						
Directors' fees						
Director A	217	217	434	260	260	520
Director B	212	212	424	185	185	370
Director C	241	241	482	261	261	522
Director D	273	546	819	284	568	852
Director E	218	218	436	227	227	454
Director F	217	217	434	233	233	466
Director G	62	62	124	–	–	–
	1 440	1 713	3 153	1 450	1 734	3 184

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

21. Profit before taxation (continued)

	2017			2016		
	R'000 Company	R'000 Rest of Group	R'000 Total	R'000 Company	R'000 Rest of Group	R'000 Total
Prescribed officers						
Prescribed officer A						
Basic salary	252	2 270	2 522	230	2 070	2 300
Bonus and performance-related payments	429	3 861	4 290	430	3 877	4 307
Estimated monetary value of other benefits	19	175	194	19	171	190
Pension/provident fund contributions	38	341	379	35	313	348
	738	6 647	7 385	714	6 431	7 145
Prescribed officer B						
Basic salary	1 352	901	2 253	1 227	818	2 045
Bonus and performance-related payments	3 560	2 373	5 933	6 849	4 566	11 415
Estimated monetary value of other benefits	312	208	520	286	191	477
Pension/provident fund contributions	232	155	387	211	141	352
	5 456	3 637	9 093	8 573	5 716	14 289
Prescribed officer C						
Basic salary	427	1 708	2 135	402	1 607	2 009
Bonus and performance-related payments	1 079	4 315	5 394	1 692	6 767	8 459
Estimated monetary value of other benefits	54	216	270	50	199	249
Pension/provident fund contributions	67	269	336	63	252	315
	1 627	6 508	8 135	2 207	8 825	11 032
Prescribed officer D						
Basic salary	246	2 215	2 461	225	2 028	2 253
Bonus and performance-related payments	463	4 164	4 627	721	6 488	7 209
Estimated monetary value of other benefits	29	256	285	26	238	264
Pension/provident fund contributions	38	341	379	34	308	342
	776	6 976	7 752	1 006	9 062	10 068
Prescribed officer E						
Basic salary	2 553	284	2 837	2 397	266	2 663
Bonus and performance-related payments	4 855	540	5 395	5 084	565	5 649
Estimated monetary value of other benefits	60	7	67	56	6	62
Pension/provident fund contributions	282	31	313	265	29	294
	7 750	862	8 612	7 802	866	8 668
Prescribed officer G						
Basic salary	798	1 862	2 660	748	1 747	2 495
Bonus and performance-related payments	1 026	2 395	3 421	1 136	2 651	3 787
Estimated monetary value of other benefits	39	91	130	6	15	21
Pension/provident fund contributions	90	210	300	108	251	359
	1 953	4 558	6 511	1 998	4 664	6 662
Total Directors' and prescribed officers' emoluments	53 164	46 095	99 259	45 601	54 758	100 359

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
Auditors' remuneration				
– Audit fees	6 844	3 991	6 684	3 790
– Prior year underprovision	330	388	330	388
– Other services	644	851	638	851
	7 818	5 230	7 652	5 029
Depreciation				
– Office equipment	5 531	541	5 370	430
– Motor vehicles	54	37	54	37
– Furniture and fittings	9	41	–	–
– Leasehold improvements	11 351	–	11 351	–
	16 945	619	16 775	467
Amortisation				
Computer software	4 697	2 195	4 697	2 195
Other expenditure				
Administration fees paid	96 667	106 312	96 667	106 312
Operating leases - building	88 361	25 883	88 361	25 883
Professional fees	117 298	116 249	115 758	115 524
Research and development	667	793	667	793

22. Taxation

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
South African normal taxation – current year	341 385	343 014	340 734	342 927
Deferred taxation	(23 010)	3 125	(23 075)	3 109
Other indirect taxation	829	2 716	798	1 784
Dividend Witholding Tax	1 099	3 110	1 099	3 110
	320 303	351 965	319 556	350 930

All taxation is payable in respect of continuing operations.

	GROUP 2017	GROUP 2016	COMPANY 2017	COMPANY 2016
Tax rate reconciliation	%	%	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0	28.0	28.0
Unrealised gains not taxable	(0.3)	1.4	(0.3)	1.4
Realised gains not taxable	0.1	(8.2)	0.1	(8.2)
Change in tax rate	–	1.3	–	1.3
Other indirect taxation	0.1	0.1	0.1	0.1
Dividend Withholding Tax	0.1	0.2	0.1	0.2
Non-taxable items and losses	(1.0)	(0.7)	(1.0)	(0.7)
Effective rate	27.0	22.1	27.0	22.1

23. Policyholder benefits

	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
Individual and group				
– Death and disability	2 285 756	2 076 012	2 285 756	2 076 012
– Maturity	2 100 194	1 243 597	2 100 194	1 243 597
– Policy surrenders	94 111	89 030	94 111	89 030
– Annuities	72 587	103 129	72 587	103 129
– Other	53 560	60 059	53 560	60 059
Gross policyholder benefits	4 606 208	3 571 827	4 606 208	3 571 827
Less: Reinsurance recoveries	(983 815)	(888 764)	(983 815)	(888 764)
– Death and disability	(983 815)	(888 764)	(983 815)	(888 764)
Net policyholder benefits	3 622 393	2 683 063	3 622 393	2 683 063

Policyholder benefits represent payments under insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 14 on page 125 of these financial statements for the movement in policyholder liabilities under investment contracts.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

	Notes	GROUP 2017 R'000	GROUP 2016 R'000	COMPANY 2017 R'000	COMPANY 2016 R'000
24. Reconciliation of profit before taxation to cash utilised by operations					
Profit before tax attributable to equity holders of the parent		1 175 755	1 616 149	1 175 318	1 582 412
Adjustments for:					
Depreciation	4	16 945	619	16 775	467
Intangible assets amortisation		4 697	2 195	4 697	2 195
Write-off of intangible assets		–	5 635	–	5 635
Transfer to policyholder liabilities under insurance contracts	14	(2 327 301)	(1 164 995)	(2 327 301)	(1 164 995)
Transfer to policyholder liabilities under investment contracts	14	830 811	350 837	830 811	350 837
Investment income		(476 682)	(1 101 846)	(523 097)	(1 057 704)
Realised profit on assets underlying investment contracts		(67 275)	(320 205)	(67 275)	(320 205)
Other income		(74 606)	(142 306)	(67 322)	(104 751)
Rental income		(19 579)	–	(19 556)	–
Share of profit in associates		(29 298)	(21 026)	–	–
Unrealised (profit)/loss on revaluation of investments	20	(84 555)	441 964	(68 435)	413 052
Unrealised loss on investment contracts		83 845	176 411	83 845	176 411
Interest paid		60 587	19 384	60 295	19 135
Increase/(decrease) in employee benefits		15 771	(3 827)	15 135	(3 827)
Net (increase)/decrease in accrued interest and dividends		(66 223)	11 924	(66 223)	11 924
Asset transfers		117 375	40 680	117 375	40 680
Operating cash flows before working capital changes		(839 733)	(88 407)	(834 958)	(48 734)
Working capital changes		(22 010)	(16 928)	(19 452)	(19 918)
(Increase)/decrease in insurance, loans and other receivables		(54 353)	8 959	(51 787)	(1 353)
Increase in reinsurance assets		(239 764)	–	(239 764)	–
Decrease in outstanding claims		(469)	(40 405)	(469)	(40 405)
Increase in reinsurance liabilities and trade and other payables		272 576	14 518	272 568	21 840
Cash utilised by operations		(861 743)	(105 335)	(854 410)	(68 652)
25. Dividends paid					
Amounts due at beginning of year		(227 314)	–	(227 314)	–
Amounts charged to statement of changes in equity		(1 290 444)	(1 692 400)	(1 290 444)	(1 692 400)
Amounts due at end of year		–	227 314	–	227 314
Cash amounts paid		(1 517 758)	(1 465 086)	(1 517 758)	(1 465 086)
26. Dividends received					
Amounts due at beginning of year		76 597	64 673	76 597	64 673
Dividends received per income statement		70 013	57 953	118 198	72 728
Amounts due at end of year		(10 374)	(76 597)	(10 374)	(76 597)
Cash amounts received		136 236	46 029	184 421	60 804
27. Taxation paid					
Amounts due at beginning of year		(516 012)	(635 957)	(516 014)	(636 887)
Amounts charged to income statement		(320 303)	(351 965)	(319 556)	(350 930)
Amounts due at end of year		480 099	516 012	479 678	516 014
Cash amounts paid		(356 216)	(471 910)	(355 892)	(471 803)
Amounts due at end of year comprised as follows:					
Deferred income tax asset		(168)	(64)	–	–
Deferred income tax liability		529 139	552 214	529 139	552 214
Taxation		(48 870)	(36 138)	(49 461)	(36 200)
		480 101	516 012	479 678	516 014

28. Business combinations

28.1 Summary of Business Combinations – 2017

28.1.1 Acquisition of 100% shareholding in Richton Employee Benefit Consultants (Pty) Ltd:

On 1 March 2017, the Company acquired a 100% shareholding in Richton Employee Benefits Consultants (Pty) Ltd for a consideration payment of R1 000 000 for the year under review. This transaction was accounted for using the purchase method of accounting.

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

	Acquisition of investment in subsidiary R'000
Net assets acquired in the transaction were as follows:	
Fair value at date of acquisition	1 132
Gain on bargain purchase	(132)
Total consideration	1 000
Net cash outflow arising on acquisition:	
– Cash consideration paid	(1 000)
– Cash and cash equivalents acquired	653
Net cash and cash equivalents acquired	(347)

28.1.2 Disposal of subsidiaries:

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

29. Investments in associates

The Group acquired and disposed of investments in associates in the 2017 and 2016 financial years. Refer details below:

29.1 Summary of acquisitions and disposals of the Group's investments in associates – 2017

29.1.1 Acquisition of investments in associates – 2017

The Group did not acquire any investments in associates in the 2017 financial year.

29.1.2 Disposals of investments in associates – 2017

	% of shareholding disposed R'000	Proceeds on disposal R'000	Carrying value R'000	Loss on sale of investments R'000
Ducome Brokers (Pty) Ltd	25%	–	3 524	3 524
Fiscal Tree Investments (Pty) Ltd	25%	–	3 116	3 116
Precept Wealth Solutions (Pty) Ltd	10%	–	9 579	9 579
Portman Wealth Solutions (Pty) Ltd	25%	–	2 620	2 620

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

29.2.1 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 Rnil.

29.2.2 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 Rnil.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

30. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund, with 362 (2016: 323) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year were R19 835 350 (2016: R13 264 316).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund, with 770 (2016: 1 529) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R43 257 455 (2016: R48 700 578).

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

31. Operating lease arrangements

The company entered into a ten-year lease agreement with Taropark Properties (Pty) Ltd to lease the Arcadia premises with effect from 1 July 2016. The lease ends on 30 June 2026.

The total amount of the lease payments over the remaining period of the lease will be R769 273 665.

	GROUP		COMPANY	
	2017 R'000	2016 R'000	2017 R'000	2016 R'000
The future minimum lease payments under operating lease agreements are as follows:				
Not later than one year	61 603	–	61 603	–
Later than one year and not later than five years	215 988	–	215 988	–
Later than five years	491 683	–	491 683	–
	769 274	–	769 274	–
Payments recognised as an expense:				
Minimum lease payments	88 361	25 883	88 361	25 883
	88 361	25 883	88 361	25 883

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

32. Related party transactions

Transactions between Group companies

Hollard Life Assurance Company Limited's immediate holding company is Hollard Fundco (RF) (Pty) Ltd (100%) and the ultimate holding company is Pickent Investments Limited (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 35 on page 134 of the financial statements.

	COMPANY	
	2017 R'000	2016 R'000
Loans to related parties		
Loans to subsidiaries	5 633	5 332
Loans to associates	102	–
Loans to Hollard Holdings (Pty) Ltd	62 434	48 898
Loans to Wealth Associates SA (Pty) Ltd	–	79
Loans to Newshelf 76 (Pty) Ltd	19 363	17 343
Loans to Syringa Tree Investments (Pty) Ltd	20 224	18 217
Loans to Pico Ruivo Investments (Pty) Ltd	2 493	2 493
Loans from related parties		
Loans from Fundco (RF) (Pty) Ltd	400 104	–
Loans to directors and prescribed officers		
Details of individual loans to directors and prescribed officers:		
M Shezi	2 945	3 176
NG Kohler	5 313	5 339
B Wyborn	9 203	8 498

No new advance was made during the year (2016: Rnil).

The following repayments were made during the year:
NG Kohler R500 000 (2016: R1 900 000)
B Wyborn R462 000 (2016: Rnil)

The loans are given on commercial terms and conditions. The related interest income in 2017 was R1 410 138 (2016: R1 339 355).

Interest on loans to M Shezi and B Wyborn is charged at the SARS rate and as at 30 June 2017, the rate was 8.00%.

Interest on loans to NG Kohler is charged at prime less 1.36% and at 30 June 2017, the prime rate was 10.50%.

	COMPANY	
	2017 R'000	2016 R'000
Endowment policies		
Endowment policies have been taken up by directors and key management. All policies are issued in the names of the individuals concerned on standard commercial terms. The value of policies in-force at the reporting date is as follows:		
Directors and their family members	**5 556**	13 619
Key management compensation		
Salaries, bonuses and other short-term employee benefits	**22 138**	22 523
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	**262 603**	255 219
Administration fees		
Administration fees are paid to a number of companies in which the Group holds an interest. All fees are paid on standard commercial terms.		
Rent paid		
Vividend Income Fund Limited	**5 730**	5 747
Taropark	**82 631**	20 136
Investment Policy with		
The Hollard Insurance Company Limited	**927 236**	894 761

Refer to notes 6, 7 and 10 of these annual financial statements for details of loans with Group companies and other related parties.

33. Commitments for expenditure

The Group's and Company's principal expenditure commitment is to its policyholders, the nature and quantum of which is governed by the terms of the specific insurance contracts that are issued to them. The Group and Company do not expect to incur significant non-insurance related expenditure during the financial year ended 30 June 2018 and hence have not provided for a capital expenditure budget for this period (2017: Rnil). Any unanticipated capital or operating expenditure will be funded from internal sources.

34. Contingent liabilities

The Group and Company, in the ordinary course of business, enter into transactions which expose it to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise and which can be quantified with reasonable accuracy. Possible obligations and known liabilities where no reliable estimate can be made, or where it is considered improbable that an outflow will result, are not provided for but instead are noted as a contingent liability, in accordance with 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.

Notes to the annual financial statements (continued)

for the year ended 30 June 2017

35. Subsidiaries, associates and joint ventures

	Nature of business	Place of business	Issued share capital (Rands)	2017 Proportion held %	2016 Proportion held %	Carrying value of interest in subsidiaries, associates and joint ventures: 2017 Shares R'000	2017 Indebtedness R'000	2016 Shares R'000	2016 Indebtedness R'000
Directly held subsidiaries									
Hollard Life Properties (Pty) Ltd	A	RSA	2	100.00	100.00	4 369	–	4 263	–
The Best Funeral Society (Pty) Ltd	B	RSA	8 000	55.00	55.00	1 129	5 625	1 102	5 332
Hollard Wealth Management Services (Pty) Ltd	C	RSA	1	100.00	100.00	396	–	378	–
Hollard Management Company (Pty) Ltd	D	RSA	1	100.00	100.00	–	–	–	–
Richton Employee Benefit Consultants (Pty) Ltd	E	RSA	100	100.00	–	1 000	–	–	–
Altrisk (Pty) Ltd	E	RSA	1 075	100.00	100.00	–	–	–	–
Hollard Investment Managers (Pty) Ltd	D	RSA	2	100.00	100.00	8 390	8	8 543	–
Finningley (Pty) Ltd	E	RSA	100	100.00	100.00	–	–	–	–
						15 284	5 633	14 286	5 332
Directly held associates									
Amsure Insurance Agency Ltd	E	India	302 255	49.99	49.99	–	–	–	–
Amserve Consultants Private Ltd	F	India	100 752	49.99	49.99	–	–	–	–
Prorisk Pooling Administrators (Pty) Ltd	E	RSA	120	40.00	40.00	–	102	–	–
Fiscal Tree Investments (Pty) Ltd	E	RSA	100	–	25.00	–	–	777	–
Ooba (Pty) Ltd	E	RSA	160	25.00	25.00	67 693	–	59 689	–
Ducome Brokers (Pty) Ltd	C	RSA	100	–	25.00	–	–	2 185	–
IFANet Independent Distribution Services (Pty) Ltd	C	RSA	100	24.00	24.00	–	–	–	–
Precept Wealth Solutions (Pty) Ltd	C	RSA	1 000	–	10.00	–	–	1 770	–
Portman Wealth Solutions (Pty) Ltd	C	RSA	160	–	25.00	–	–	1 016	–
						67 693	102	65 437	–

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.

36. Subsequent events

The Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

37. 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	WT Lategan
Executive Director	TBT Mparutsa
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
Independent Non-Executive Director	AS Nkosi (appointed March 2017)

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