# ANNUAL REPORT 2014

REGENT®

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Regent is an authorised financial services provider.

LIFE | TRAVEL | CAR & HOME | WARRANTIES | COMMERCIAL VEHICLES

# CONTENTS

## THE REGENT GROUP



## REGENT LIFE GROUP



## REGENT INSURANCE GROUP



## KEYS

**The Regent Group** – Regent Insurance Group and Regent Life Group
**Regent Life Group** – Regent Life Assurance Company Limited and its subsidiaries
**Regent Insurance Group** – Regent Insurance Company Limited and its subsidiaries
**Regent Life Company** – Regent Life Assurance Company Limited
**Regent Insurance Company** – Regent Insurance Company Limited
**ALM** – Asset Liability Management
**ANW** – Adjusted Net Worth
**ASI** – All Share Index
**ASSA** – Actuarial Society of South Africa
**BSR** – Bonus Smoothing Reserve
**BWP** – Botswana pula
**CAR** – Capital Adequacy Requirement
**CEO** – Chief Executive Officer
**CFO** – Chief Financial Officer
**CGU** – Cash Generating Unit
**CGT** – Capital Gains Taxation
**CRO** – Chief Risk Officer
**DAC** – Deferred Acquisition Costs
**ERM** – Enterprise Risk Management
**FSB** – Financial Services Board
**FSV** – Financial Soundness Valuation
**IAS** – International Accounting Standards
**IASB** – International Accounting Standards Board
**IBNR** – Incurred But Not Reported
**IFRIC** – International Financial Reporting Interpretations Committee
**IFRS** – International Financial Reporting Standards
**IT** – Information Technology
**IOCAR** – Intermediate Ordinary Capital Adequacy Requirement
**JSE** – Johannesburg Stock Exchange
**MCAR** – Minimum Capital Adequacy Requirement
**OCAR** – Ordinary Capital Adequacy Requirement
**PGN** – Professional Guidance Note
**PPFM** – Principles and Practices of Financial Management
**SAM** – Solvency Assessment and Management
**SAP** – Standard of Actuarial Practice
**ZAR** – South African Rand
**SCAR** – Statutory Capital Adequacy Requirement
**SIC** – Standing Interpretations Committee
**SPE** – Special Purpose Entity
**SVM** – Statutory Valuation Method
**STC** – Secondary Taxation on Companies
**TCAR** – Termination Capital Adequacy Requirement
**TCF** – Treating Customers Fairly

Regent Life Company and Regent Insurance Company are wholly owned subsidiaries of Imperial Holdings Limited.

## GO ON. YOU'RE COVERED

Who can you trust for the widest choice of innovative insurance solutions to provide financial security in these unpredictable times? Look no further than the Regent Group which:

– provides a wide range of motor insurance products

– is one of the top two commercial vehicle insurers in the country

– provides innovative and affordable life assurance products

– offers specialist resources and expertise across a range of insurance markets

## THE REGENT STORY

The Regent Group is part of the Imperial Group. Imperial is a diversified multinational mobility group with activities that include motor vehicles and related operations across all modes of transport for people and freight, both locally and abroad. As part of this diversified group, the Regent culture is based on entrepreneurship, innovation and an adherence to industry-specific best practices that characterise the way Imperial does business.

The Regent Group has become a well-known specialist and market leader in its chosen markets and an exceptional range of short-term insurance and and life assurance products are available to you under one Regent brand, offering you a one-stop-shop. Regent also operates in Botswana and Lesotho.

The following annual financial statements have been audited and have been approved by the board of directors. Bilal Adam CA(SA) (CFO) was responsible for the preparation of the annual financial statements.

# CORPORATE GOVERNANCE

# Corporate governance

*for the year ended 30 June 2014*

A common board is responsible for both statutory entities. Although the board meetings for both companies are held on the same day, the board allocates separate time slots to fulfil and apply its responsibility to each company, thus ensuring that all statutory and regulatory requirements are fully met by each company. The corporate governance statement that follows is a combined statement by the board of directors, having applied it to both entities.

## Principles of corporate governance

The board is committed to the principles of openness, integrity and accountability, and to providing timely, relevant and meaningful reporting to all stakeholders. The board ensures that the Regent Group's business is conducted to high standards of corporate governance, and in line with best practice. These standards are entrenched in the Regent Group's established systems of internal control, by its procedures and policies governing corporate conduct, with particular emphasis on the importance of qualitative aspects of corporate governance.

The Regent Group is committed to an open governance process such that all stakeholders may derive assurance that its directors and managers at all levels are managing the Regent Group responsibly. The board subscribes to the principles of the code of corporate practices and conduct as set out in the King III Report on corporate governance (King III). The board has assessed its governance practices and procedures against the King III report and adjustments have been made to comply with King III where appropriate. Where King III was not applied, explanations have been provided in the applicable section. No integrated report has been prepared as the Regent Group is wholly owned by Imperial Holdings Limited which produces a group integrated report.

The principles contained in King III are reflected in the Regent Group's corporate governance structures, which are reviewed from time to time to accommodate organisational changes and international developments in the field of corporate governance. It is the policy of the board and management to actively review and enhance the Regent Group's systems of control and governance continuously to ensure the Regent Group's business is managed ethically and within prudently determined risk parameters that conform to best practice.

## Board composition, appointment and responsibilities

All directors of the board, as at 30 June 2014, are appointed to both Regent Insurance Company and to Regent Life Company. In accordance with Imperial Holdings Group policy, MJ Lamberti (joined in 2014) serves as the non-executive chairman for both companies and although not independent, this is considered acceptable in view of the significant number of independent non-executive directors. Furthermore, in terms of the board charter, the chairman is required to hand over the chairmanship of the meeting to an independent director should a decision be required on a matter where the chairman is conflicted.

Directors are appointed on the basis of skill, experience and their level of contribution to, and their impact on, the activities of the Regent Group. The board decides on the appointment of directors based on recommendations from the remuneration and nomination committee of the holding company, Imperial Holdings Limited. Incoming directors are provided with formal induction material to facilitate their understanding of the Regent Group.

Currently the board consists of nine non-executive directors and three executive directors. Five of the non-executive directors are independent. No bloc of directors can dominate the board. All board members are kept abreast of current developments and required governance structures.

The board of directors is responsible for setting the direction of the Regent Group through the establishment of strategic objectives and key policies. Board meetings are held at least quarterly with additional meetings called when necessary. The quorum for meetings is a majority of directors.

The responsibilities of the board are clearly defined in terms of its board charter, which was updated during the current financial year. The board has also adopted, and regularly reviews, an authority policy governing the authority delegated to the management of the Regent Group and detailing matters retained for decision by the board.

The responsibilities of the board include issues of strategic direction, business plans and annual budgets, major acquisitions and disposals, changes to the board on recommendation from the remuneration and nomination committee's of Imperial Holdings Limited and other matters having a material effect on the Regent Group or required by statute.

Board members and executive management are required to regularly declare any interest they might have in transactions with the Regent Group.

All directors are given access to the information needed to carry out their duties and responsibilities fully and effectively. Furthermore, all directors are entitled to seek independent professional advice about the affairs of the Regent Group, at the expense of the company concerned.

## Board composition, appointment and responsibilities *(continued)*

The members of the board during the year were HR Brody (chairman), MJ Lamberti (chairman), JJ Strydom (group chief executive officer), AN Tennick (executive director), B Adam (group chief financial officer), M Akoojee, C Erasmus, BJ Francis, BR Mallinson, S Masinga, JPR Mbau, R Mumford and RJA Sparks.

Hubert Brody resigned from the board on 30 April 2014 and Mark Lamberti was appointed to the board on 17 June 2014. The board would like to thank Hubert Brody for his invaluable contribution to the Regent Group.

## Board committees and governance structures

The board has established a number of sub-committees, which operate within defined terms of reference laid down by the board in writing. Members of these committees are suitably qualified and experienced to meaningfully contribute to the workings of the committees on which they serve. All committees report to the board and operate in accordance with written terms of reference approved by the board.

## Audit committee

The audit committee comprises three independent non-executive members, namely C Erasmus, BR Mallinson and RJA Sparks, chaired by BR Mallinson.

The committee is constituted as a statutory committee in respect of its statutory duties in terms of the Companies Act, 2008, and a committee of the board in respect of all other duties assigned to it by the board. The committee operates in terms of a charter that has been approved by the board.

The chief executive officer, chief risk officer, chief financial officer, chief audit executive of Imperial Holdings, group risk executive of Imperial Holdings, representatives from the external auditors, the head of the internal audit service provider, other assurance providers, professional advisers and board members may be in attendance at committee meetings, but by invitation only and they may not vote.

The statutory and board delegated duties of the committee include, *inter alia,* the following:

- Monitoring the integrity of the annual report and reviewing the content thereof to ensure that the information is reliable as well as reviewing any information to be included in the Imperial Group interim and preliminary announcements, and any other financial information to be made public;
- Preparing a report to be included in the annual financial statements in terms of Section 94(7) of the Companies Act, which report appears on pages 32 and 33 of this report and provides further information on the activities of the committee;
- Monitoring and reviewing the effectiveness of the internal audit function;
- Recommending to the board the appointment of the external auditors, approving their remuneration and terms of engagement and monitoring their independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements;
- Reviewing the skills and experience of the chief financial officer and the expertise, resources and experience of the company's finance function;
- Determination of the nature and extent of any non-audit services which the external auditor may provide to the company and pre-approval of any proposed contract with the external auditor for the provision of those non-audit services;
- Receiving and dealing appropriately with any complaints (whether from within or outside the company) relating either to the accounting practices and internal audit of the company or to the content or auditing of its financial statements, or to any related matter.

The external and internal auditors have unrestricted access to the chairman of the committee and have attended all meetings during the period to report on their findings and to discuss accounting, auditing, internal control and financial reporting matters.

The audit committee has, in the past financial year, satisfied its responsibilities in compliance with the new Companies Act as well as its responsibilities in accordance with its terms of reference.

During the year under review, the performance of the audit committee was assessed. Individual questionnaires were completed by audit committee members and the results collated by the company secretary, which were reported to the board. The board concluded that the audit committee operates effectively and that it remains relevant to the business objectives of the company.

## Risk committee

The objective of the committee is to ensure that the Regent Group has implemented an effective policy and plan for risk management and IT governance that will enhance the group's ability to achieve its strategic objectives and that the disclosure regarding risk is comprehensive, timely and relevant. It also deals with other regulatory developments such as SAM and TCF, and compliance and legal matters.

The risk committee, which is chaired by S Masinga, an independent non-executive director of the Regent Group, meets at least quarterly.

During the year under review, the performance of the risk committee was assessed. Individual questionnaires were completed by risk committee members and the results collated by the company secretary, which were reported to the board. The board concluded that the risk committee operates effectively and that it remains relevant to the business objectives of the company.

## Actuarial committee

The primary objective of the actuarial committee is to ensure the integrity of the reported actuarial estimates, including reserves of the Regent Group and embedded value of the Regent Life Group. It also monitors the statutory solvency of Regent Life Company and Regent Insurance Company, and their insurance subsidiaries.

The actuarial committee, which is chaired by C Erasmus, an independent non-executive director of the Regent Group, meets at least quarterly.

## Investment committee

The objective of the investment committee is to ensure that appropriate decisions are taken with regard to the investments of the Regent Group. The committee recommends guidelines and principles to the board and takes advice where appropriate from external investment professionals.

The investment committee, chaired by W Reitsma who is the group treasurer of Imperial Holdings Limited, meets at least quarterly.

## Remuneration committee

The Regent Group does not have a formal remuneration committee but rather follows recommendations from its holding company's remuneration committee. The Regent Group subscribes to fair remuneration practices and benchmarks are used as considered necessary. A formal appraisal system is used to measure performance of all employees and ultimately guide remuneration and incentive awards. Executives and certain senior management participate in a share appreciation rights scheme that is subject to the fulfilment of pre-determined performance criteria over the vesting period.

The Imperial Holdings chief executive regularly discusses remuneration and incentive policies and procedures with the audit committee.

## Social and ethics committee

The holding company's social, ethics and sustainability committee fulfils the responsibilities required in terms of the Companies Act on behalf of the Regent Group.

The Imperial Holdings group risk executive reports to the board on the social, ethics and sustainability matters dealt with at the Imperial Holdings meeting.

## Statutory actuary

The independent statutory actuary, who is not in the employment of the Regent Group, assists the board in all actuarial matters and reviews the actuarial valuation of the policyholder liabilities of the Regent Life Group. The statutory actuary is represented at the year-end board meetings and all actuarial committee meetings.

## Company secretary

All directors have access to the advice and services of the company secretary who ensures compliance with applicable procedures and legislation.

## Meeting attendance

The table below details attendance by directors of board and committee meetings during the year.

| | Board | Audit committee | Risk committee | Investment committee | Actuarial committee |
|---|---|---|---|---|---|
| **Number of meetings during the year** | 4 | 4 | 4 | 4 | 4 |
| B Adam | 4 | 4 | 4 | 4 | 4 |
| M Akoojee | 3 | n/a | n/a | 3 | n/a |
| HR Brody | 2/3 | n/a | n/a | n/a | n/a |
| C Erasmus | 4 | 4 | 4 | 4 | 4 |
| BJ Francis | 4 | 3 | 3 | n/a | n/a |
| MJ Lamberti | 1/1 | n/a | n/a | n/a | n/a |
| BR Mallinson | 4 | 4 | 4 | 4 | 4 |
| S Masinga | 3 | n/a | 3 | n/a | n/a |
| JPR Mbau | 1 | n/a | n/a | n/a | n/a |
| R Mumford | 4 | n/a | n/a | n/a | n/a |
| RJA Sparks | 3 | 4 | n/a | 4 | n/a |
| JJ Strydom | 4 | 4 | 4 | 4 | 4 |
| AN Tennick | 4 | 4 | 4 | 4 | 4 |

n/a Not applicable

HR Brody resigned as director and chairman as at 30 April 2014

MJ Lamberti was appointed as director and chairman as at 17 June 2014

## Accountability and audit

### Going concern

The Regent Group audit committee considers the facts and assumptions used in the assessment of the Regent Group as a going concern at the financial year-end date. This provides assurance to the directors in confirming their assessment that the annual financial statements are properly prepared on the going concern basis.

### Internal financial controls

The directors acknowledge that they are responsible for instituting internal control systems that provide reasonable assurance on safeguarding of assets and prevention of their unauthorised use or disposal, as well as maintenance of proper accounting records that give reasonable assurance on the reliability of financial information produced.

Although there is room for improvement in the automated processes and controls, compensating controls are in place and the board is satisfied that these compensating controls provide reasonable assurance that significant associated risks are appropriately managed and that adequate internal controls are in place.

The improvement of processes and controls continues to receive the ongoing attention of the audit and risk committees and of the board and will continue to improve in accordance with established plans. The board is satisfied that there have been no material breakdowns of the internal controls.

### Internal audit

The internal audit function is outsourced to an external service provider, which is staffed by qualified and experienced individuals. The responsible partner has direct access to the Regent Group audit committee as well as to the group audit executive of Imperial Holdings. The responsibilities of the internal audit department are defined in a written charter approved by the audit committee and ratified by the board.

Internal audit is an independent, objective assurance and consulting activity established to add value and improve operations of the Regent Group. It helps the Regent Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of control and governance processes.

The internal audit function did not report any material breakdowns in internal control during the course of the financial year.

### Risk management

The Regent Group has invested significant effort in enhancing its risk management capability over the past two years. This investment has been driven by the board and senior management, underpinned by the desire to not only meet emerging regulatory requirements but also to support sound business decisions and meet strategic objectives. While there have been delays in regulatory reform under the SAM regime, Regent Group is confident of its ability to meet the requirements for risk management, ahead of stipulated implementation dates

The Regent Group began the year embedding the new ERM policy, framework and governance structure, which includes a stand-alone board risk committee and executive risk and governance committee to support the risk management process. In addition, the Regent Group revised its risk appetite statement for both companies at a risk type level, in conjunction with the Regent Group's business and capital management strategy. An internal controls framework was approved by the board and implementation commenced. The Regent Group implemented a combined assurance model in order to have a view of the assurance activities across the Regent Group and facilitate improved assurance planning going forward. Significant progress has been made towards the quantification of risks across the Regent Group and the ability to record and manage operational losses. A first draft own risk and solvency assessment (ORSA) report was compiled for the Regent Insurance Company business, whilst the Regent Life Company ORSA report is in development.

The allocation of roles and responsibilities for risk management within the Regent Group is consistent with the guidelines provided in the King III report on corporate governance as well as the new SAM interim measures published by the FSB.

While the board is ultimately responsible for the governance of risk and information technology, oversight of risk and compliance has been delegated to the board risk committee where the terms of reference set out the link between the board and management and where the committee considers the risk management policy and plan, IT governance, the efficiency of management in their risk management responsibilities as well as the effectiveness of internal controls. The actuarial committee considers capital adequacy and asset/liability matching risks and the investment committee considers investment risks. A member of the audit committee is represented on each of the aforementioned committees.

Executive management is accountable to the board for the design, implementation and monitoring of the process of risk management and integrating it into the day-to-day activities of the Regent Group. A CRO is appointed at executive committee level, reporting to the CEO, to independently oversee the Regent Group's risk management activities. Risk champions are appointed in each business division to ensure the cascading of risk processes into the business. The CRO assists all levels in the business in achieving the strategic objectives of the Regent Group by bringing a systematic approach to evaluating and improving the effectiveness of risk management and control, overseeing the implementation of the ERM framework and reporting the status to executive management, the audit committee, the risk committee and the board. The CRO has direct access to the chairpersons of the audit committee and the risk committee, but reports administratively to the CEO.

In all business areas, managers are trained in carrying out risk assessments of the risks within their division (while Regent risk management conducts independent risk assessments), recording the findings and taking appropriate management action in a timely fashion. The executive risk and governance committee, consisting of divisional executives and risk and compliance champions, meets monthly, under the chairmanship of the CEO, to review the Regent Group's risk profiles and ensure that cross-cutting risks are considered.

The Regent Group strives to achieve continuous improvement in the management of risk, through the revising and improving the effectiveness of its risk management processes and its three lines of defence through good reporting structures. The foundation for risk management has been laid and implementation and embedment has progressed satisfactorily. The Regent Group is well placed to further develop its risk management and assurance capabilities so as to ensure that not only the regulatory and business obligations and objectives are met but also to ensure that risk management is successfully embedded into the capital management process.

Since Imperial Holdings Limited is the sole shareholder of the Regent Group, with the approval of the directors, the transformation, remuneration and directors' affairs are dealt with by the relevant Imperial Holdings Limited committees. The CEO of the Regent Group is a member of the Imperial Group executive committee.

### Compliance

The governance and compliance function is responsible for the monitoring of regulatory and reputational risk and the setting of related policies. The Regent Group's governance strategy, objectives and structures have been designed to ensure that the group complies with legislation and all relevant codes.

Compliance risk is the risk to earnings, capital and reputation arising from violations of, or non-compliance with, laws, rules, regulations, supervisory requirements, prescribed practices or ethical standards.

The Regent Group is committed to the highest standards of integrity, professionalism and ethical behaviour and requires all its employees to comply with all relevant laws, rules, standards and policies when conducting the business of the Regent Group.

The Regent Group's compliance function is an independent function that identifies, evaluates, advises, monitors and reports on the Regent Group's compliance risk.

## Compliance *(continued)*

Compliance risk is managed within the organisation through the following key activities:

- Creating awareness through training employees on the impact and responsibilities related to legislative requirements;
- Monitoring and reporting on the level of compliance with regulatory requirements, including reporting specific incidents of non-compliance to senior management and the board;
- Provide assurance that the risks relating to regulatory requirements are identified, understood and effectively managed; and
- Consulting with the business units and providing compliance opinions with regard to new business ventures and processes.

## Information Technology

The IT strategy during this reporting cycle has focused on the theme of standardisation. This included the maturing of best practice IT governance frameworks, optimisation of the infrastructure layer (unified communications, wide area networking and our hosting centre environments) and the board approval and kick off of the Regent Insurance Company and Regent Life Company business transformation programmes, including the renewal of our policy administration and supporting application systems.

### Governance of IT strategy, risk and financial elements

IT strategy, risks, costs and benefits are made transparent through the board risk committee and assured through the enterprise risk management framework. All long-term transformational architecture changes are governed by the architecture review committee, which ensures that the design and implementation of applications, information and technology solutions is effectively employed to deliver on the shareholder requirements of good governance, data governance, customer focus, sustainability and total cost of ownership. IT initiatives and operations flowing from this, are managed via the IT strategic committee, enterprise project committee and specific programme steering committees.

### Customer

IT delivery is aligned to business unit strategies with a focus on the customer, which includes a compliance focus on treating customers fairly and protection of personal information. In addition, the re-design of our business processes around the customer is a stated intent of the enterprise transformation programmes for both short-term and life businesses, ensuring that IT architecture decisions are made with a priority focus on the customer experience throughout the value chain.

### Learning and growth

The introduction of a strong corporate focus on people, leadership and learning and growth aligns to the IT leadership academy launched in 2013. This maintains the focus on leadership, financial and technical training ensuring that we continuously improve and mature within the IT governance frameworks adopted. Future plans include a focus on developing our base of technical skills including scholarships and bursaries, focused on previously disadvantaged individuals.

## Principles of conduct

### Business integrity and ethics

The Regent Group has a written code of ethics. The Regent Group supports free enterprise as the system best able to contribute to the economic welfare of society, and to promote individual liberty. Without satisfactory profits and a strong financial foundation, it would not be possible to fulfil the responsibilities to shareholders, employees, society and those with whom we do business. Our corporate actions are governed by economic criteria as well as social, environmental and political considerations.

The Regent Group is committed to the principles of sustainable development, striking a balance between economic, environmental and social development. We strive to innovate and adopt best practice wherever we operate, working in consultation with stakeholders.

Management and employees operate within a framework that requires compliance with all applicable laws and maintenance of the highest integrity in the conduct of the business of the Regent Group.

## Treating customers fairly

The Regent Group is committed to TCF. A group wide project, under the sponsorship of a member of executive management, is developing the Regent Group's approach to TCF. Monthly reports on TCF initiatives and delivery are tabled at the executive risk and governance committee.

## Employment and labour rights

The Regent Group subscribes to the principle of fair labour practices at our workplaces, and our conditions of service comply with applicable laws and industry standards.

## Board of directors

**Hubert Brody**
BAcc Honours CA(SA)
*Non-executive chairman*
Resigned in 2014

**Mark Lamberti**
BCom (Unisa) MBA (Wits)
*Non-executive Chairman*
Joined in 2014

**Jurie Strydom**
B Bus Sc FIA FASSA CFA
*Chief executive officer*
Joined in 2008

**Andrew Tennick**
BCom FCII
*Executive director*
Joined in 2007

**Mahommed Akoojee**
BCom Honours CA(SA) CFA
*Non-executive director*
Joined in 2012

**Bilal Adam**
BCom Honours CA(SA)
*Chief financial officer*
Joined in 2013

**Charles Erasmus**
BSc FIA
*Independent non-executive director*
Joined in 2011

**Berenice Francis**
BCompt Honours CIA
*Non-executive director*
Joined in 2008

**Brian Mallinson**
CA(SA)
*Independent non-executive director*
Joined in 2013

**Sibongile Masinga**
BCom
*Independent non-executive director*
Joined in 2008

**Jethro Mbau**
Executive Management Programme
*Independent non-executive director*
Joined in 1994

**Russell Mumford**
BCom BAcc Honours CA(SA)
*Non-executive director*
Joined in 1995

**Roddy Sparks**
BCom Honours CA(SA) MBA
*Independent non-executive director*
Joined in 2009

## Executive team

**Bilal Adam**
BCom Honours, CA(SA)
*Chief financial officer*
Joined in 2010

**Rob Barker**
BA Honours
*General manager: Commercial Lines*
Resigned in April 2014

**Werner Behrens**
B Juris LLB
*General manager: Legal and Forensics*
Joined in 2008

**Andre Cloete**
BCom Honours FIA FASSA
*General manager: Car and Home*
Joined 2010

**Kumeshnie Govender**
Gibbs Executive Leadership Course
*General manager: Central Operations*
Joined in 2010

**Heydon Hall**
BCom, MBA, DCom
*Chief information officer*
Joined in 2011

**Magdalena Janzen**
BSc Engineering, BA Honours HRD, MBA
*Chief operations officer*
Joined in 2013

**Masenyane Molefe**
BCom, MBA
*Executive head: Human Resources*
Joined in 2014

**Besa Ruele**
BSc Mathematics FIA (UK) FASSA
*General manager: Life*
Joined in 2010

**Jurie Strydom**
B Bus Sc FIA FASSA CFA
*Chief executive officer*
Joined in 2008

**John Tager**
EDP CIM IEP MBiA
*General manager: VAPS*
Joined in 2012

**Andrew Tennick**
BCom FCII
*Chief risk officer*
Joined in 2007

**Gcobisa Tyusha**
BCom, Post Graduate Dip: Business Management
*Company secretary*
Joined in 2014

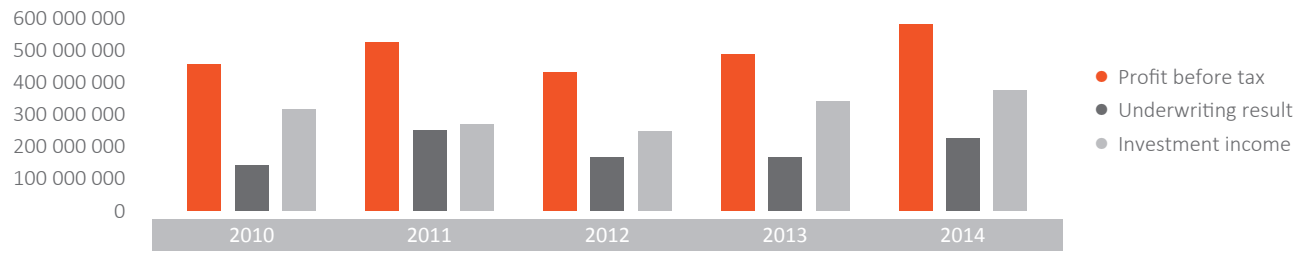
## Combined salient features

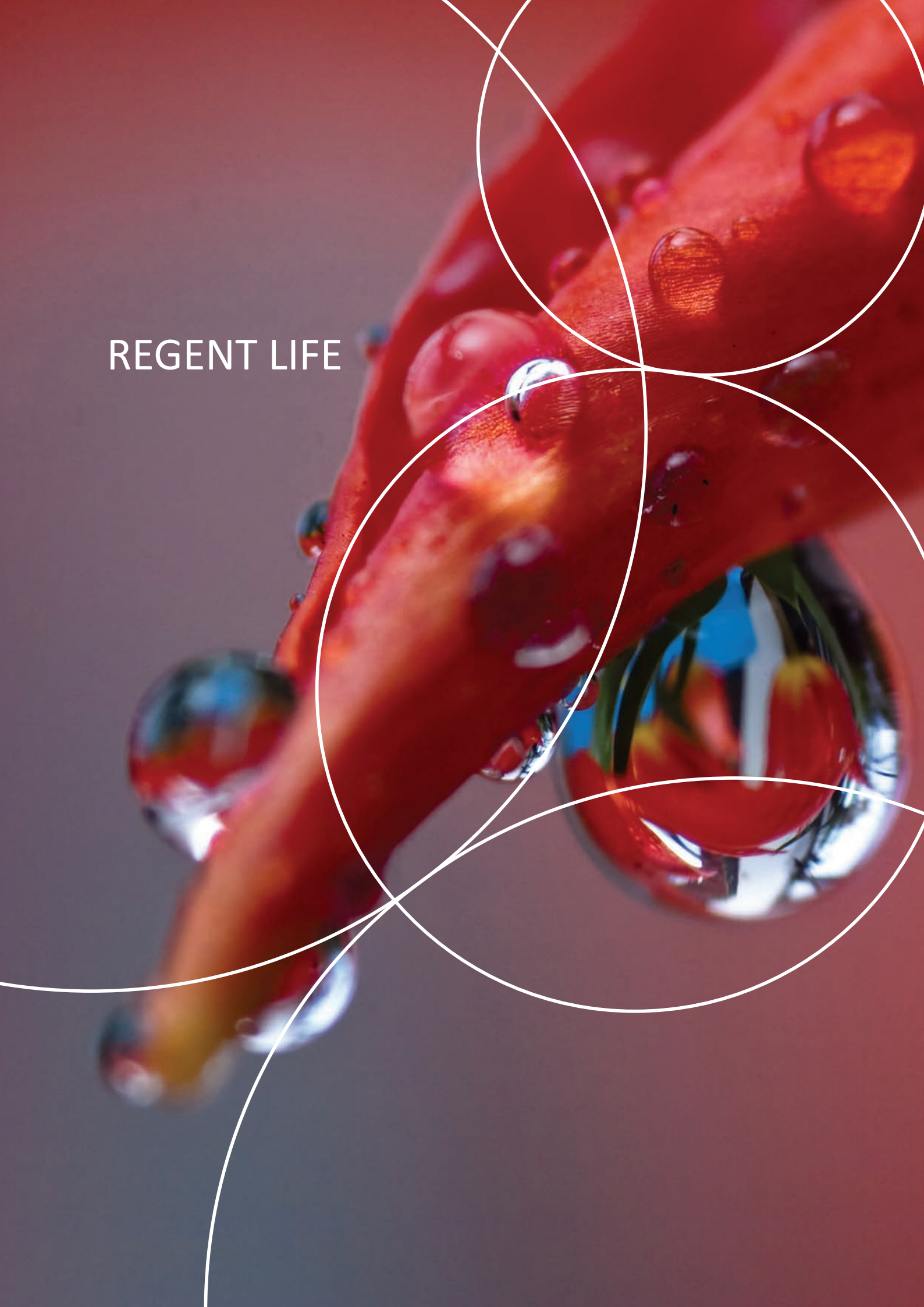
*for the year ended 30 June 2014*

| | Regent Life Group 2014 R'000 | Regent Insurance Group 2014 R'000 | Regent Group 2014 R'000 | Regent Life Group 2013 R'000 | Regent Insurance Group 2013 R'000 | Regent Group 2013 R'000 | Regent Group % change |
|---|---|---|---|---|---|---|---|
| **Statement of comprehensive income** | | | | | | | |
| Gross written premium income | **922 824** | **1 889 551** | **2 812 375** | 856 702 | 2 232 300 | 3 089 002 | (9) |
| Investment income, including investment gains | **143 939** | **233 102** | **377 041** | 130 707 | 211 444 | 342 151 | 10 |
| Net claims and benefits incurred | **313 905** | **901 707** | **1 215 612** | 264 098 | 1 207 354 | 1 471 452 | 17 |
| Underwriting result | **75 371** | **151 337** | **226 708** | 57 985 | 109 453 | 167 438 | 35 |
| Profit before taxation | **215 631** | **367 618** | **583 249** | 180 146 | 306 576 | 486 722 | 20 |
| **Statement of financial position** | | | | | | | |
| Total assets | **1 847 964** | **2 619 491** | **4 467 455** | 1 679 512 | 2 732 341 | 4 411 853 | 1 |
| Total cash and cash equivalents, including short-term financial instruments | **821 753** | **1 203 304** | **2 025 057** | 514 254 | 951 891 | 1 466 145 | 38 |
| **Total liabilities** | **1 237 923** | **1 507 490** | **2 745 413** | 1 092 702 | 1 566 350 | 2 659 052 | (3) |
| **Total equity** | **610 041** | **1 112 001** | **1 722 042** | 586 810 | 1 165 991 | 1 752 801 | (2) |

| 2014 | Insurance | Investment policy-holder funds and float | Investment shareholder funds | Total |
|---|---|---|---|---|
| Underwriting result | **226 708** | **—** | **—** | **226 708** |
| Investment income | **—** | **102 145** | **274 896** | **377 041** |
| Non-operating items | **(20 500)** | **—** | **—** | **(20 500)** |
| Profit before tax | **206 208** | **102 145** | **274 896** | **583 249** |
| **2013** | | | | |
| Underwriting result | 167 438 | — | — | 167 438 |
| Investment income | — | 91 168 | 250 983 | 342 151 |
| Non-operating items | (22 867) | — | — | (22 867) |
| Profit before tax | 144 571 | 91 168 | 250 983 | 486 722 |

**Five year review**





# REGENT LIFE

## Directors' approval and statement of responsibility

*for the year ended 30 June 2014*

The directors of the Regent Life Group are responsible for the maintenance of adequate accounting records and the integrity of the annual financial statements and group annual financial statements of Regent Life Company. The annual financial statements presented on pages 16 to 30 and pages 32 to 87 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. The Regent Insurance Group's external auditors, Deloitte & Touche have audited the annual financial statements and their audit report appears on page 31.

The directors are also responsible for the Regent Life Company and Regent Life Group's systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements and group annual financial statements, to adequately safeguard, verify and maintain accountability for assets and to prevent and detect material misstatement and loss.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the the Regent Life Company and Regent Life Group will not be a going concern in the foreseeable future based on forecasts and available cash resources. The viability of the Regent Life Company and Regent Life Group is supported by the annual financial statements.

Deloitte & Touche were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate.

The annual financial statements of the Regent Life Company and the Regent Life Group on pages 16 to 30 and pages 32 to 87 were approved by the board of directors on 30 October 2014 and are signed on its behalf by:

**MJ Lamberti**
*Chairman*

30 October 2014

**JJ Strydom**
*Chief executive officer*

30 October 2014

## Certificate by the company secretary

In accordance with section 88(e) of the Companies Act, it is hereby certified that to the best of my knowledge and belief the Regent Life Company has lodged with the commissioner, for the financial year ended 30 June 2014 all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

**WP Behrens**
*Company secretary*

30 October 2014

# Company statutory actuary's report

*Statement of assets and liabilities, excess assets and capital requirements at 30 June 2014*

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Published reporting basis** | | |
| Total value of assets as per statement of financial position | **1 287 630** | 1 190 320 |
| *Less:* Reinsurances | **(142 089)** | (123 451) |
| Statement of financial position assets net of reinsurances | **1 145 541** | 1 066 869 |
| Value of policy liabilities | **191 170** | 286 890 |
| *Less:* Reinsurances | **(142 089)** | (123 451) |
| Investment contract liabilities | **254 684** | 95 570 |
| Current and other liabilities as per statement of financial position | **353 970** | 332 157 |
| Total value of liabilities net of reinsurances | **657 735** | 591 166 |
| Excess assets | **487 806** | 475 703 |
| **Statutory basis** | | |
| Value of assets as per statutory basis | **1 128 743** | 1 051 614 |
| Value of policy liabilities | **443 378** | 527 218 |
| Investment contract liabilities | **254 684** | 95 570 |
| Current and other liabilities as per statement of financial position | **243 357** | 232 835 |
| Total value of liabilities net of reinsurances | **941 419** | 855 623 |
| Excess assets | **187 324** | 195 991 |
| CAR – refer to page 20 | **44 396** | 59 126 |
| Ratio of excess assets to CAR | **4.2** | 3.3 |
| **Analysis of change in excess assets on published reporting basis** | | |
| The excess of the value of assets over the value of liabilities has changed as follows over the reporting period: | | |
| Excess assets at the end of the year | **487 806** | 475 703 |
| Excess assets at the beginning of the year | **475 703** | 480 128 |
| Change in excess over the year | **12 103** | (4 425) |
| **The change in excess assets is due to the following factors:** | | |
| Investment income on excess assets | **22 442** | 22 798 |
| Capital gain on excess assets | **2 112** | (910) |
| Total investment return on excess assets | **24 554** | 21 888 |
| Operating profit | **104 107** | 119 362 |
| Dividends received from subsidiaries | **63 442** | 58 292 |
| Decrease in excess assets due to change in valuation methods or assumptions – refer page 17 | **(1 519)** | (32 394) |
| Taxation | **(45 859)** | (36 738) |
| Total earnings as per statement of comprehensive income | **144 725** | 130 410 |
| Dividends paid | **(98 198)** | (107 106) |
| Dividends paid to non-controlling interests | **(31 211)** | (21 686) |
| Change in share-based equity in respect of employee remuneration arrangements | **(3 213)** | (6 043) |
| Total change in excess assets | **12 103** | (4 425) |

# Company statutory actuary's report (continued)

*Statement of assets and liabilities, excess assets and capital requirements at 30 June 2014*

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Reconciliation of excess assets between published reporting basis and statutory basis** | | |
| Excess assets on published reporting basis | **487 806** | 475 703 |
| *Less:* Assets excluded in terms of schedule 3 of the Act | **(16 798)** | (15 255) |
| *Plus:* Deferred tax adjustment | **110 613** | 99 322 |
| *Less:* Excess of statutory liabilities over published reporting liabilities* | **(394 297)** | (363 779) |
| Excess assets on statutory basis | **187 324** | 195 991 |

**Net of reinsurances.*

## 1. Summary of impact of changes in published reporting valuation methods and assumptions

The following changes were made to the published reporting valuation basis:

- All economic assumptions were reviewed to reflect the movement in the yield curve and current economic environment.
- The approach to discounting the cashflows and the allowance for inflation was changed from point estimates based on the discounted mean term and notional asset mix, to using a yield and inflation curve.
- As a result of these economic changes, the actuarial liabilities increased by R6.9 million.
- The non-economic assumptions were also reviewed in the light of the most recent experience investigations. Most of the experience has been more or less in line with assumptions and no changes were needed with the exception of expenses and premium collection rates.
- The impact of these changes was that the actuarial liabilities decreased by R5.4 million.
- The combined impact of the economic and non-economic assumption changes was that the actuarial liabilities increased by R1.5 million on the published reporting basis (PRB).

## 2. Published reporting valuation methods and assumptions

The valuation was performed using the FSV method for insurance contracts as specified in SAP104. Investment contracts without discretionary features have been valued in terms of IAS 39. Assets and policy liabilities have been valued on methods and assumptions that are consistent with each other.

The effect of the valuation methods and assumptions used is that profits for insurance contracts and investment contracts without participation in profits on a discretionary basis are released appropriately over the term of each policy, in order to reduce the likelihood of losses in later years.

Policy liabilities net of reinsurance were determined by discounting the expected benefit payments, commission and expenses, less expected premium. For unitised insurance contracts, the market value of the unit account, as well as a non-unit reserve was held as the liability. The non-unit reserve is based on the expected benefit payments, commission and expenses less the expected charges.

In the calculation of actuarial liabilities, provision has been made for:

- the best estimate of the future experience, plus
- the compulsory margins prescribed by SAP104, plus
- discretionary margins as detailed below:
  - an additional 30% margin was incorporated for the credit life retrenchment benefit in view of the potential volatility of claims experience and uncertain economic environment;
  - a 10% margin was incorporated in the credit life decrement assumptions to ensure the prudent release of profits in line with the policy design;
  - an additional 5% margin was incorporated for the credit life critical illness assumptions.
  - a 7.5% margin was incorporated for the individual life dependants mortality in view of the observed volatility in claims experience;
  - an additional 20% margin for years one and two, and an additional 50% margin thereafter was incorporated for the individual life affinity business lapse assumptions given the limited experience and uncertainty associated with the lapse experience;
  - negative reserves were eliminated for all policies with premiums outstanding for three or more months. Negative reserves were also eliminated for the individual life affinity business until sufficient credible experience is built up; and
  - the combined effect of the discretionary margins on the published reporting basis amounts to R85.7 million.

The main assumptions (including compulsory and discretionary margins) used to calculate the liabilities are summarised below.

**Economic assumptions:**

Investment return

- Credit life – nominal South African government bond yield curve less 0.25% margin (2013: Point estimate of 4.86% per annum)
- Individual life – nominal South African government bond yield curve less 0.25% margin (2013: Point estimate of 6.58% per annum)
- Disabled annuity business – nominal South African government bond yield curve less 0.25% margin (2013: Point estimate of 7.58% per annum)

Expense inflation

- Credit life – inflation curve (2013: Point estimate of 5.39% per annum)
- Individual life – inflation curve (2013: Point estimate of 6.52% per annum)

Disability annuity increases

- 5.95% per annum (2013: 6.53% per annum)

Taxation was ignored as an "excess E" position exists and is expected to persist for the foreseeable future under the four funds taxation structure.

**Other assumptions:**

- Renewal expenses were based on the level of budgeted expenses for the 12 months following the valuation date, thereafter expenses were assumed to increase at the expenses inflation rate.
- Commission and premium collection costs was modelled as they are currently being paid.

The assumptions used for lapse, surrender, mortality, morbidity and retrenchment rates were based on the results of recent experience investigations. Provision has been made for mortality improvements (on annuities) or mortality deterioration (AIDS).

An IBNR reserve was established based on the results of a recent run-off investigation. For group business, an unexpired premium reserve was established where applicable. A check was made to ensure that the operating ratio was satisfactory. Where necessary, a deficiency reserve was established.

**Investment reserve for policies with investment guarantees**

For the policies with maturity guarantees, an investment reserve was established using stochastic modelling techniques in accordance with APN110.

- The model used is a risk-neutral model calibrated to market data for the appropriate time period. The calibration considers equity, bond and money market data provided by the JSE, the bond exchange of South Africa and various other sources. Several call and put options with varying terms together with a zero-coupon yield curve based on South African government bonds are used to calibrate the model.
- The products for which the APN110 reserves have been calculated are the immediate annuities which have embedded investment derivatives and some of the provider series savings products. The asset split used were as follows: 90% bonds and 10% cash for the immediate disability annuities, while the corresponding split for the provider series was: 70% equity, 25% bonds and 5% cash.
- The Monte Carlo simulation technique was used to quantify the liability and CAR requirement in respect of the embedded investment derivatives.

## Company statutory actuary's report (continued)

*Statement of assets and liabilities, excess assets and capital requirements at 30 June 2014*

The following disclosures are required by APN110 (Version 4):

| Maturity (years) | Strike | Price % | Implied volatility % |
|---|---|---|---|
| 1 | Spot | 6.8 | 21.7 |
| 1 | 0.8 times spot | 1.2 | 22.5 |
| 1 | Forward | 8.4 | 21.7 |
| 5 | Spot | 8.6 | 23.8 |
| 5 | 1.045 times spot | 16.2 | 24.1 |
| 5 | Forward | 18.5 | 24.1 |
| 20 | Spot | 2.0 | 26.2 |
| 20 | 1.042 times spot | 9.6 | 25.9 |
| 20 | Forward | 25.3 | 25.9 |

| Description of derivative contract | Calculated price (% of spot price) |
|---|---|
| A five year put option with a strike price equal to $(1.04)^5$ of spot price, on an underlying index constructed as 60% FTSE/JSE TOP40 and 40% ALBI, with rebalancing of the underlying index back to these | 5.0 |
| A twenty year put option based on an interest rate with a strike equal to the present five year forward rate as at maturity of the put option (based on the zero coupon yield curve), which pays out if the five year interest rate at the time of maturity (in twenty years) is lower than this strike | 0.01 |

The zero coupon yield curve used can be summarised as follows:

| Year | Rate % |
|---|---|
| 1 | 6.2 |
| 2 | 7.2 |
| 3 | 7.4 |
| 4 | 7.6 |
| 5 | 7.9 |
| 10 | 8.6 |
| 15 | 9.3 |
| 20 | 9.9 |
| 25 | 10.2 |
| 30 | 10.6 |

The date of calibration was as at 31 May 2014. The movement in the economic environment over the calibration date up to the valuation date as at 30 June 2014 was negligible and as a result, no adjustments were made to the APN110 reserves calculated as at 31 May 2014.

### Published reporting asset valuation methods and assumptions

All assets (including the excess assets over liabilities) have been valued at fair value (as described in the notes to the consolidated financial statements).

### 3. Statutory capital adequacy requirements (CAR)

The CAR has been calculated in accordance with SAP104. The asset allocation provided by management was used.

The minimum investment guarantee resilience value calculated in accordance with APN110 was included. Credit risk was allowed for based on the credit rating of the cash and bond assets, as well as that of the relevant reinsurers. Operational risk was allowed for based on the SA QIS3 formula, as per specifications of the SAM, adjusted as deemed appropriate.

No management actions were assumed in the calculation of OCAR.

The IOCAR was assumed to be invested in the available cash. A grossing up factor of 101.0% was applied to obtain the OCAR.

The CAR is based on the maximum of TCAR, the MCAR and OCAR. In the case of Regent Life Company, the maximum is OCAR.

### CERTIFICATION OF STATUTORY FINANCIAL POSITION

I hereby certify that:

- the valuation on the statutory basis of Regent Life Company Limited as at 30 June 2014, the results of which are summarised above, has been conducted in accordance with, and this statutory actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa's Advisory Practice Notes and Standards of Actuarial Practice;
- in terms of Section 31(c) of the Long-Term Insurance Act of 1998, some of Regent Life Company's assets exceed the maximum allowable level. However, after adjusting the assets for the asset spreading restrictions, Regent Life Company is still in a financially sound condition; and
- Regent Life Company was financially sound on the statutory basis as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

**PC Falconer**

*Statutory actuary*

30 October 2014

# Consolidated statutory actuary's report

*Statement of assets and liabilities, excess assets and capital requirements at 30 June 2014*

The Regent Life Group is made up of the following insurance companies:

- Regent Life Assurance Company Limited;
- Regent Life Botswana Limited; and
- Lesotho National Life Assurance Company.

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Published reporting basis** | | |
| Total value of assets as per statement of financial position | **1 847 964** | 1 679 512 |
| *Less:* Reinsurances | **(148 373)** | (127 904) |
| Statement of financial position assets net of reinsurances | **1 699 591** | 1 551 608 |
| Value of policy liabilities | **515 399** | 568 544 |
| *Less:* Reinsurances | **(148 373)** | (127 904) |
| Investment contract liabilities | **314 961** | 144 147 |
| Current and other liabilities as per statement of financial position | **407 563** | 380 011 |
| Total value of liabilities net of reinsurances | **1 089 550** | 964 798 |
| Excess assets | **610 041** | 586 810 |
| **Statutory basis** | | |
| Value of assets as per statutory basis | **1 828 390** | 1 659 651 |
| *Less:* Reinsurances | **(148 373)** | (127 904) |
| Net assets on the statutory basis | **1 680 017** | 1 531 747 |
| Value of policy liabilities | **929 274** | 970 235 |
| *Less:* Reinsurances | **(171 446)** | (163 528) |
| Investment contract liabilities | **314 961** | 144 147 |
| Current and other liabilities as per statement of financial position | **296 950** | 280 689 |
| Total value of liabilities net of reinsurances | **1 369 739** | 1 231 543 |
| Excess assets | **310 278** | 300 204* |
| CAR | **93 609** | 114 278 |
| Ratio of excess assets to CAR | **3.3** | 2.6 |
| **Change in excess assets on published reporting basis** | | |
| Excess assets at the end of the financial year | **610 041** | 586 810 |
| Excess assets at the beginning of the financial year | **586 810** | 589 279 |
| Change in excess over the financial year | **23 231** | (2 469) |

**The excess assets on the statutory basis for the prior year was restated from R303 million to R300 million to be in line with the current year treatment.*

# Consolidated statutory actuary's report (continued)

*Statement of assets and liabilities, excess assets and capital requirements at 30 June 2014*

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| **Analysis of change in excess assets on published reporting basis** | | |
| Investment income on excess assets | **28 291** | 29 876 |
| Capital gain on excess assets | **4 033** | 2 563 |
| Total investment return on excess assets | **32 324** | 32 439 |
| Operating profit | **186 976** | 179 333 |
| Decrease in excess assets due to change in valuation methods or assumptions | **(3 669)** | (31 626) |
| Taxation | **(62 738)** | (53 514) |
| **Total earnings as per statements of comprehensive income** | **152 893** | 126 632 |
| Dividends paid | **(131 193)** | (131 842) |
| Foreign currency translation reserve and exchange differences | **4 744** | 9 470 |
| Increase in interest in subsidiary | **—** | (686) |
| Change in share based equity in respect of employee remuneration arrangements | **(3 213)** | (6 043) |
| Total change in excess assets | **23 231** | (2 469) |
| **Reconciliation of excess assets between published reporting basis and statutory basis** | | |
| Excess assets on published reporting basis | **610 041** | 586 810 |
| Difference in statutory and published reporting asset values | **19 574** | 19 861 |
| Difference in statutory and published reporting liabilities | **280 189** | 266 745 |
| Excess assets on statutory basis | **310 278** | 300 204 |

## CERTIFICATION OF STATUTORY FINANCIAL POSITION

I hereby certify that:

- the valuation on the statutory basis of Regent Life Group as at 30 June 2014, the results of which are summarised above, has been conducted in accordance with, and this statutory actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance Notes and;
- the Regent Life Group was financially sound on the statutory basis as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

**PC Falconer**

*Statutory actuary*

30 October 2014

# Consolidated embedded value report

*as at 30 June 2014*

The embedded value of the covered business of Regent Life Group at 2014 is shown below. The corresponding prior year figures have been provided as a comparative. The Regent Life Group is made up of the following insurance companies, and for purposes of the consolidated embedded value report, excludes non-controlling interests:

- Regent Life Assurance Company Limited;
- Regent Life Botswana Limited; and
- Lesotho National Life Assurance Company.

Covered business is defined as all in-force long-term insurance business and incorporates all expected cash flows generated within the Regent Life Group on that business. Covered business includes:

- Funeral;
- Term assurance;
- Savings;
- Group life; and
- Annuity products.

Profits accruing to non-controlling interests have been included but their impact was also shown separately. The corresponding prior year figures have been provided as a comparative.

The embedded value consists of the following components:

- the ANW;
- *plus*: the value of in-force of future shareholder cash flows from covered business;
- *less*: the cost of required capital.

The ANW is the excess of all assets (including any disallowed assets) at fair value attributed to the covered business over the corresponding liabilities on the SVM. The assets disallowed under the SVM solvency calculation are added back (apart from any DAC). Deferred tax assets/liabilities arising due to the difference in the timing of corporation taxation on the SVM basis and what is recognised in the financial statements, is excluded for ANW. The ANW comprises:

- the free surplus;
- plus the required capital to support the in-force business.

The required capital is the risk capital required to be held in addition to the covered business liabilities. It is the greater of the SCAR and the amount required to meet internal objectives, which in the Regent Life Group's case is twice the SCAR for Regent Life Company and Regent Life Botswana. Lesotho National Life Assurance Company's required CAR was set at two times the OCAR as at 30 June 2014. The required capital is not available for distribution to shareholders.

The cost of required capital is the opportunity cost of having to hold this capital aside instead of investing it in future business development or paying it out as dividends. The cost is calculated as the present value of the difference between the shareholders' required return (the risk discount rate) and the expected return on the actual underlying assets, over the expected lifetime of the covered business.

The value of in-force is the present value of future shareholder cash flows from the in-force covered business. It is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate. The shareholder cash flows represent the value of the release of margins included in the liabilities under the SVM basis. Allowance was made for allocations to with-profits policyholders where applicable.

The embedded value of new business was calculated at point of sale using the closing embedded value assumptions and investment yields as at year end. New business includes all policies written over the year where at least one premium is received.

The embedded value of the Regent Life Group is calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note 107: Embedded Value Reporting (Version 7).

# Consolidated embedded value report (continued)

*as at 30 June 2014*

**Table 1: Embedded value of covered business**

| R'000 | 2014 | 2013 |
|---|---|---|
| Free surplus | **145 498** | 108 224 |
| Required capital | **184 532** | 212 199 |
| **Adjusted net worth** | **330 030** | 320 423 |
| Attributable to non-controlling interests | **38 070** | 46 787 |
| Attributable to the Regent Life Group | **291 960** | 273 636 |
| **Value of in-force business** | **577 174** | 491 521 |
| Attributable to non-controlling interests | **69 768** | 63 696 |
| Attributable to the Regent Life Group | **507 406** | 427 825 |
| **Cost of required capital** | **(59 144)** | (85 428) |
| Attributable to non-controlling interests | **(2 366)** | (3 302) |
| Attributable to the Regent Life Group | **(56 778)** | (82 126) |
| **Embedded value of covered business** | **848 060** | 726 517 |
| Attributable to non-controlling interests | **105 473** | 107 182 |
| Attributable to the Regent Life Group | **742 587** | 619 335 |
| **Return on embedded value on covered business (1)** | **34.9%** | 21.3% |
| **Return on embedded value attributable to the Regent Life Group (1)** | **35.8%** | 18.3% |

1. Return on embedded value is defined as embedded value earnings (see table below) divided by the embedded value at the start of the financial period. The increase in the RoEV reflects certain once-off items including the review of the risk discount rate gap, the reduction in cost of required capital due to the modelling corrections and the sale of a with-profits annuity portfolio.

**Embedded value earnings for the reporting period**

The embedded value earnings are defined as the change in embedded value over the period plus any dividends paid less any capital issued, during the period. The change in embedded value split between the ANW, cost of required capital and value of in-force is shown in the table below:

**Table 2: Embedded value earnings attributable to all covered business**

| EV component (R'000) | EV 2014 | Plus dividends paid out | Less EV 2013 | EV earnings 2014 |
|---|---|---|---|---|
| Adjusted net worth | **330 030** | 131 842 | 320 423 | **141 449** |
| Cost of required capital | **(59 144)** | — | (85 428) | **26 284** |
| Present value of in-force | **577 174** | — | 491 521 | **85 653** |
| **Embedded value** | **848 060** | 131 842 | 726 516 | **253 386** |

# Consolidated embedded value report (continued)

*as at 30 June 2014*

**Table 3: Embedded value earnings attributable to the Regent Life Group**

| (R'000) | EV 2014 | Plus dividends paid out | EV 2013 | EV earnings 2014 |
|---|---|---|---|---|
| Adjusted net worth | **291 960** | 98 198 | 273 636 | **116 522** |
| Cost of required capital | **(56 778)** | — | (82 126) | **25 348** |
| Present value of in-force | **507 406** | — | 427 825 | **79 581** |
| **Embedded value** | **742 588** | 98 198 | 619 335 | **221 451** |

**Table 4: Analysis by source of embedded value earnings**

The embedded value earnings defined in the previous table are analysed by source in the table below. The impact of each item on the ANW, cost of required capital and value of in-force have been shown separately.

| Source (R'000) | Increase/ (decrease) in adjusted net worth | (Increase)/ decrease in cost of required capital | Increase/ (decrease) in value of in-force | Increase/ (decrease) in EV |
|---|---|---|---|---|
| Embedded value of new business (1) | (75 500) | (22 461) | 175 700 | 77 739 |
| Expected return on covered business (2) | — | 19 906 | 61 733 | 81 639 |
| Expected profit transfer (3) | 141 613 | — | (141 613) | — |
| Operating experience variances (4) | 88 683 | 20 733 | (18 705) | 90 711 |
| Operating assumption and methodology changes (5) | 2 517 | 1 343 | (7 221) | (3 361) |
| **Embedded value operating return** | 157 313 | 19 521 | 69 894 | 246 728 |
| Investment return variances (6) | (9 674) | (254) | 1 207 | (8 721) |
| Effect of economic assumption changes (5) | 1 258 | 7 017 | 14 551 | 22 826 |
| Tax variance (7) | (7 449) | — | — | (7 449) |
| **Embedded value earnings on covered business** | 141 448 | 26 284 | 85 652 | 253 384 |
| Earnings attributable to non-controlling interests | 24 926 | 936 | 6 071 | 31 933 |
| **Embedded value earnings attributable to the Regent Life Group** | 116 522 | 25 348 | 79 581 | 221 451 |

1. The new business contribution for the covered business is calculated at point of sale on the closing embedded value basis. The adjusted net worth component reflects the losses expected to be incurred from the point of sale to 30 June 2014 due to new business costs such as upfront commission, initial expenses and reserving strain.
2. This represents the unwinding of the risk discount rate (last year's basis) on in-force and new business.
3. This is the after tax profit expected from business in-force at the beginning of the year on last year's embedded value basis.
4. An analysis of the variation in operating experience relative to that expected on last year's embedded value basis is provided in table 6 below. This also includes variances in new business experience relative to the closing embedded value basis.
5. An analysis of the effect of changes in assumptions and methodology is provided in table 5 below.
6. This item reflects investment earnings on assets being less than expectations as well as the investment returns earned on excess assets and the impact of exchange rate variances.
7. The tax variance reflects the difference between the expected and actual taxation.

**Table 5 : Assumption and methodology changes**

The table below reflects the net of expected taxation impact of the assumption and methodology changes on renewal business as at 30 June 2014. All figures are net of expected tax.

| Source R'000 | Increase/ (decrease) in adjusted net worth | (Increase)/ decrease in cost of required capital | Increase/ (decrease) in value of in-force | Increase/ (decrease) in EV |
|---|---|---|---|---|
| Modelling and other technical changes (1) | (2 383) | 1 343 | (7 587) | (8 627) |
| Lapse and surrenders (2) | 659 | — | (126) | 533 |
| Mortality and morbidity (2) | — | — | — | — |
| Expenses (2) | 4 241 | — | 492 | 4 733 |
| **Operating assumption and methodology changes** | 2 517 | 1 343 | (7 221) | (3 361) |
| Risk discount rate gap (3) | — | 7 835 | 23 729 | 31 564 |
| Other economic assumptions (3) | 1 258 | (818) | (9 178) | (8 738) |
| **Economic assumption changes** | 1 258 | 7 017 | 14 551 | 22 826 |
| **Total** | 3 775 | 8 360 | 7 330 | 19 465 |

1. The modelling changes relate to the assumptions for expenses, annual benefit increases and surrender value scales.
2. These assumption changes reflect the latest investigations and expected future experience.
3. These two items represent the total effect of economic assumption changes. The gap between the risk discount rate and risk free rate has reduced to be more in line with the market resulting in a increase in embedded value. The change in economic assumptions follows the changes in the economic environment and more specifically movements in the government bond zero coupon yield curve.

**Table 6: Operating experience variations**

The operating experience variances are summarised below. The variances related to new business and in-force business.

| R'000 | Increase/ (decrease) in adjusted net worth | (Increase)/ decrease in cost of required capital | Increase/ (decrease) in value of in-force | Increase/ (decrease) in EV |
|---|---|---|---|---|
| Expenses (1) | 4 013 | (145) | (241) | 3 627 |
| Lapses and surrenders (2) | 5 682 | 16 877 | (16 657) | 5 902 |
| Mortality and morbidity (3) | 56 733 | 1 494 | 1 265 | 59 492 |
| Earnings on group business (4) | 24 520 | (1 360) | (3 648) | 19 512 |
| Uncaptured business and other income earned (5) | (2 265) | 3 867 | 576 | 2 178 |
| **Total** | 88 683 | 20 733 | (18 705) | 90 711 |

1. The expense experience was more favourable than expected.
2. Overall the withdrawal experience variation had a positive impact on the embedded value.
3. The mortality and morbidity experience was favourable.
4. This refers to the earnings attributable to group business and disabled annuitants as well as the impact of the with-profits annuities (that were disposed of).
5. This is the impact of business where premiums are booked but the policies could not be valued prospectively as the data was captured after the valuation date. Changes in the CAR due to changes in credit ratings and other miscellaneous items and provisions were also included here. The impact of experience variances on the shareholder profits arising from Lesotho National Life Assurance Company's with-profit fund has been shown in aggregate and not analysed by source. Note that shareholders receive 10% of the surplus arising.

# Consolidated embedded value report (continued)

*as at 30 June 2014*

**Table 7: Embedded value of new business**

| R'000 | 2014 | 2013 |
|---|---|---|
| **Value of future profits from new business at point-of-sale** | **100 201** | 71 885 |
| Attributable to non-controlling interests | **26 465** | 27 489 |
| Attributable to the Regent Life Group | **73 736** | 44 396 |
| **Cost of required capital (1)** | **(22 461)** | (16 025) |
| Attributable to non-controlling interests | **(79)** | (681) |
| Attributable to the Regent Life Group | **(22 382)** | (15 344) |
| **Embedded value of new business (a)** | **77 740** | 55 858 |
| Attributable to non-controlling interests | **26 386** | 26 807 |
| Attributable to the Regent Life Group | **51 354** | 29 051 |
| Value of premiums from new business at point-of-sale (b) | **846 716** | 913 658 |
| **Profit margin (a/b)** | **9.2%** | 6.1% |
| Attributable to the Regent Life Group | **6.1%** | 3.2% |
| New business annualised premium income (c) | **274 784** | 285 346 |
| **Annualised profit margin (a/c)** | **28.3%** | 19.6% |
| Attributable to the Regent Life Group | **18.7%** | 10.2% |

1. The cost of required capital for new business was split between the Regent Life Group and non-controlling interests on an approximate basis.

## Assumptions

The following table summarises the economic assumptions used in the embedded value calculations.

**Table 8: Embedded value economic assumptions: South Africa**

| | 2014 % | 2013 % |
|---|---|---|
| Risk free rate (Individual life business) | **7.70** | 6.98 |
| Risk free rate (Credit life business) | **7.32** | 5.76 |
| Beta coefficient | **150.00** | 217.12 |
| Equity risk premium (non-annuity business) | **3.00** | 3.00 |
| Equity risk premium (annuity business) | **3.00** | 3.00 |
| Risk discount rate (all business) | **12.19** | 13.45 |
| Expense inflation | **Inflation yield curve (point estimate of 6.54%)** | 5.93 |
| Individual life: | | |
| Pre-tax investment returns (%) – cash | **Nominal yield curve (point estimate of 6.70%)** | 5.98 |
| Pre-tax investment returns (%) – bonds | **Nominal yield curve (point estimate of 7.70%)** | 6.98 |
| Pre-tax investment returns (%) – equity | **Nominal yield curve (point estimate of 9.20%)** | 8.48 |
| Credit life: | | |
| Pre-tax investment returns (%) – cash | **Nominal yield curve (point estimate of 6.32%)** | 4.76 |
| Pre-tax investment returns (%) – bonds | **Nominal yield curve (point estimate of 7.32%)** | 5.76 |
| Pre-tax investment returns (%) – equity | **Nominal yield curve (point estimate of 8.82%)** | 7.26 |
| Profit tax rate | **28.00** | 28.00 |

**Table 9: Embedded value economic assumptions: Botswana**

| | 2014 % | 2013 % |
|---|---|---|
| Risk free rate | **4.12** | 4.93 |
| Beta coefficient | **150.00** | 233.78 |
| Equity risk premium | **3.00** | 3.00 |
| Risk discount rate | **8.62** | 11.94 |
| Expense inflation | **3.50** | 4.19 |
| Pre-tax investment returns: | | |
| – Cash | **3.12** | 3.93 |
| – Bonds | **4.12** | 4.93 |
| – Equity | **7.12** | 7.93 |
| Dividend allowance | **10.00** | 10.00 |
| Dividend payout rate | **100.00** | 100.00 |
| Profit tax rate | **22.00** | 22.00 |

The exchange rate for conversion from the Botswana pula into South African rand applicable at 30 June 2014 is 1.20627 (1.16266 last year).

**Table 10: Embedded value economic assumptions: Lesotho**

| | 2014 % | 2013 % |
|---|---|---|
| Risk free rate | **8.25** | 7.63 |
| Beta coefficient | **150.00** | 233.78 |
| Equity risk premium | **3.00** | 3.00 |
| Risk discount rate | **12.75** | 14.65 |
| Expense inflation | **Inflation curve (point estimate of 5.80%)** | 6.49 |
| Pre-tax investment returns: | | |
| – Cash | **Nominal yield curve less 2% (point estimate of 6.25%)** | 5.63 |
| – Bonds | **Nominal yield curve (point estimate of 8.25%)** | 7.63 |
| – Equity | **Nominal yield curve plus 3% (point estimate of 11.25%)** | 10.63 |
| Profit tax rate (1) | **25.00** | 25.00 |

1. The profit tax rate of 25% applies to group business. The remaining life business is not subject to tax on profits.

The exchange rate for conversion into rand is maintained at 1.

The investment return assumptions were based on the nominal risk yield curve for all asset classes in South Africa and Lesotho. The inflation curve was derived as the difference between the nominal and real yield curves. Point estimates were assumed for Botswana based on the underlying asset classes and the expected returns on each asset class.

The risk discount rate in each case has been determined using a top-down weighted average cost of capital approach. It has been set equal to the risk-free rate increased by a risk premium determined as a market equity risk premium multiplied by the company's beta coefficient. The risk free rate is a point estimate on the yield curve based on the discounted mean term of the liabilities. Previously, the beta coefficient was based on empirical company earnings data relative to the market. This year, the beta was based on published beta values for the insurance industry but adjusted based on the board's view of the additional risks involved.

The approach to calculating the beta coefficient contains an implicit allowance for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for the non-financial risks, which have not been modelled explicitly. The sensitivities of the value of in-force covered business and the value of new business to changes in the risk discount rate are shown below, along with other sensitivity tests.

## Non-economic assumptions

Mortality, morbidity and lapse assumptions were derived from internal experience investigations, taking into account prior year assumptions and the outlook for future economic environment (particularly for lapses and retrenchments).

Maintenance expense assumptions were based on the results of the latest expense and budget information. No explicit allowance has been made for productivity gains in the future expense basis.

It is assumed for the purposes of calculating the cost of required capital, that the required capital amount will be backed by surplus assets consisting of cash. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.

## Future bonus on with-profits business

Future bonuses were allowed for where applicable, consistently with the long-term economic assumptions. The accumulated effect of past over- and under- distributions was held as a BSR.

**Table 11: Embedded value sensitivities attributable to the Regent Life Group**

For all the sensitivities the reserving basis was left unchanged, leaving ANW mainly unaffected.

| R'000 | Adjusted net worth | Value of in-force | Cost of required capital | Embedded value | % change from standard |
|---|---|---|---|---|---|
| Standard | 291 960 | 507 406 | (56 778) | 742 588 | — |
| Risk discount rate +1% | 291 960 | 491 084 | (61 735) | 721 309 | (2.9) |
| Inflation, expected return, risk discount rate -1% | 291 960 | 525 324 | (58 590) | 758 694 | 2.16 |
| Equity/property capital values -10% | 259 726 | 507 159 | (56 778) | 710 107 | (4.4) |
| Equity/property returns + 1% | 291 960 | 491 919 | (61 735) | 722 144 | (2.7) |
| Renewal expenses -10% | 291 960 | 532 388 | (56 656) | 767 692 | 3.37 |
| Withdrawals -10% | 291 960 | 530 090 | (60 501) | 761 549 | 2.55 |
| Claims -5% | 291 960 | 553 138 | (55 761) | 789 337 | 6.28 |

**Table 12: Value of new business sensitivities attributable to the Regent Life Group**

For all the sensitivities the reserving basis was left unchanged. The value of new business attributable to non-controlling interests has been excluded.

| R'000 | Value of in-force | Cost of required capital | Embedded value | % change from standard |
|---|---|---|---|---|
| Standard | 73 736 | (22 382) | 51 354 | — |
| Risk discount rate +1% | 68 435 | (24 040) | 44 395 | (13.6) |
| Inflation, expected return, risk discount rate -1% | 79 377 | (23 559) | 55 818 | 8.69 |
| Equity/property capital values -10% | 73 221 | (22 382) | 50 839 | (1.0) |
| Equity/property returns + 1% | 67 970 | (24 040) | 43 930 | (14.5) |
| Renew al expenses -10% | 79 980 | (22 338) | 57 642 | 12.24 |
| Acquisition expenses -10% (1) | 78 955 | (22 382) | 56 573 | 10.16 |
| Withdrawals -10% | 83 744 | (22 677) | 61 067 | 18.91 |
| Claims -5% | 79 260 | (22 183) | 57 077 | 11.14 |

1. This shows the impact of reducing the non-commission acquisition expenses by 10%.

# Independent auditors' report

*to the shareholder of Regent Life Assurance Company Limited*

## Report on the financial statements

We have audited the consolidated and separate financial statements of Regent Life Assurance Company Limited, set out on pages 37 to 87, which comprise the statements of financial position as at 30 June 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the financial statements

The Regent Life Assurance Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal controls as the directors' determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

## Auditors' responsibility

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

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

## Opinion

In our opinion, these consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Regent Life Assurance Company Limited as at 30 June 2014, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

## Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2014, we have read the directors' report, the audit committee's report, the company and consolidated statutory actuary's reports, the consolidated embedded value report and the company's secretary certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**Deloitte & Touche**
*Registered auditor*

*Per:* **D Jorge**
*Partner*

30 October 2014

Building 8, Deloitte Place
The Woodlands
Woodlands Drive
Sandton

**National Executive:**

LL Bam (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Risk Advisory), NB Kader (Tax), TP Pillay (Consulting), K Black (Clients and Industries), JK Mazzocco (Talent and Transformation), CR Beukman (Finance), M Jordan (Strategy), S Gwala (Managed Services), TJ Brown (Chairman of the Board), MJ Comber (Deputy Chairman of the Board).

A full list of partners and directors is available on request.

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

Member of Deloitte Touche Tohmatsu Limited.

# Audit committee report

*for the year ended 30 June 2014*

## Audit committee report

The audit committee presents its report for the year ended 30 June 2014. The audit committee is an independent statutory committee, as well as a committee of the board in respect of other duties assigned to it by the board. The committee has conducted its affairs in compliance with the board approved terms of reference and has discharged its responsibilities contained herein.

## Objectives and scope

The overall objective of the committee is to assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems and internal financial controls processes, the reviewing of financial information and the preparation of the annual financial statements.

In terms of its charter, which was updated during the current financial year, the main responsibilities of the audit committee include:

- carrying out all the functions as required in terms of legislation;
- performing all the functions of an audit committee for those operating subsidiaries that do not have their own audit committee;
- overseeing the integrity of the annual report and reviewing content thereof to ensure that the information is reliable;
- nominating to the shareholder a registered external auditor who, in the opinion of the committee, is independent of the company, for appointment as external auditor of the company, as well as nominating for appointment the designated individual auditor;
- consideration and recommendation to the board of the appointment, removal or replacement of the internal auditors of the Regent Life Group;
- consideration of the accounting treatment of significant or unusual transactions and areas of judgement that have a significant impact on the annual financial statements;
- determination of the nature and extent of any non-audit services which the external auditor may provide to the company and pre-approval of any proposed contract with the external auditor for the provision of those non-audit services;
- review and approval of the annual internal audit operational plan;
- monitoring the compliance of the Regent Life Group with legal requirements, statutes, regulations and the Regent Life Group's code of ethics;
- consideration of the reports by the internal and external auditors on their findings and recommendations;
- consideration of the annual financial statements and of any information to be included in the Imperial Group interim and preliminary announcements, and any other financial information to be made public, prior to submission and approval by the board;
- review of the effectiveness of the Regent Life Group's systems of internal control, including internal financial control and business risk management;
- review of the relationship between management, the internal auditors and the external auditors; and
- oversight of risk management.

## Committee performance

The committee discharged its statutory and board responsibilities by meeting at least quarterly and during the period under review met four times. For the period under review, the committee underwent a process of self-assessment in order to ensure that it functioned effectively in accordance with its terms of reference and is satisfied that it has done so. The record of attendance by each committee member was as follows:

| | 6 August 2013 | 23 October 2013 | 12 February 2014 | 11 June 2014 |
|---|---|---|---|---|
| BR Mallinson (Chairman) | √ | √ | √ | √ |
| RJA Sparks | √ | √ | √ | √ |
| C Erasmus | √ | √ | √ | √ |

**Legend:**

√ Present

# Audit committee report (continued)

*for the year ended 30 June 2014*

During the period under review the committee:

- received and reviewed reports from both the internal and external auditors concerning the effectiveness of the internal control environment, systems and processes;
- reviewed the reports of both the internal and external audit findings and management's responses thereto;
- considered the independence and objectivity of the external auditors and ensured that the scope of their additional services did not impair their independence;
- received and dealt with concerns and complaints through the "whistle blowing" service provided by the Imperial Group and ensured that such concerns and complaints were dealt with appropriately by management;
- reviewed the documented going concern assumptions prepared by management and made recommendations to the board;
- reviewed and recommended for adoption by the board the annual report of the Regent Life Group and of the annual financial statements of Regent Life Company for the year ended 30 June 2014;
- considered the effectiveness of internal audit, and approved their annual plan and the rolling three-year internal audit plan;
- received and reviewed reports from the chief risk officer on the enterprise risk management process; and
- satisfied itself that the chief financial officer of the company possesses the appropriate expertise and experience to meet the responsibilities of that position and that the company's finance function is staffed with adequately experienced and qualified people.

The committee is satisfied that it has fulfilled its obligations in respect of the scope of its responsibilities.

## Membership and constitution

The membership of the committee during the year under review comprised solely of independent non-executive directors. The chief executive officer, chief risk officer, chief financial officer, chief audit executive of Imperial Holdings, group risk executive of Imperial Holdings, representatives from the external auditors, the head of the internal audit service provider, other assurance providers, professional advisers and invited board members also attend the meetings as permanent invitees.

The audit committee is constituted as a statutory committee in respect of its statutory duties in terms of the Companies Act, 2008 and the Long-Term Insurance Act, and a committee of the board in respect of all other duties assigned to it by the board. The committee operates in terms of a charter that has been approved by the board. As required by the Companies Act, the committee is to be elected by the shareholder at the forthcoming annual general meeting of Regent Life Company.

## External audit

The committee has satisfied itself, through enquiry, that the auditor of Regent Life Company is independent as defined by the Companies Act.

Non-audit services were provided by the external auditors during the year under review and this was appropriately authorised.

The committee has nominated, for approval at the annual general meeting, Deloitte & Touche as the external auditor for the 2015 financial year for Regent Life Company. Mrs D Jorge is the designated auditor for Regent Life Company. In terms of the rotation requirements of the Companies Act, this will be Mrs Jorge's fifth year as designated auditor.

## Annual report

Having considered the annual report of the Regent Life Group, incorporating the annual financial statements, for the year ended 30 June 2014, the committee recommends the annual report for approval to the board

## Complaints

No complaints relating either to the accounting practices and internal audit of the company or to the contents or auditing of its financial statements, or to any related matter were received by the committee.

**BR Mallinson**

*Chairman of the audit committee*

30 October 2014

# Directors' report

*for the year ended 30 June 2014*

The directors present their annual report which forms part of the audited financial statements of the Regent Life Group and Regent Life Company for the financial year ended 30 June 2014.

## Nature of business

Regent Life Company is incorporated in the Republic of South Africa and is involved predominately in the credit and individual life markets. The Regent Life Group operates in South Africa, Botswana and Lesotho.

## Holding company

The holding company is Imperial Holdings Limited, a company incorporated in the Republic of South Africa.

| | Percentage holding | Country of incorporation |
|---|---|---|
| **Subsidiaries** | | |
| Regent Life Botswana Limited | 100 | Botswana |
| Bridge Works Finance Proprietary Limited | 100 | South Africa |
| Struland Office Park Properties Proprietary Limited | 100 | South Africa |
| Lesotho National Life Assurance Company Limited | 76 | Lesotho |
| Cedar Employee Benefits Proprietary Limited | 100 | South Africa |
| I'SURE Risk Solutions Proprietary Limited | 100 | South Africa |
| **Associates** | | |
| Boland Cavaliers Financial Services (Proprietary) Limited | 25 | South Africa |

Regent Life Company's interest in the aggregate profit after tax in subsidiaries amounted to R69.4 million (2013: R56.8 million) and in the losses amounted to R0.4 million (2013: R0.3 million).

## Dividends

Regent Life Group declared and paid dividends of R131.2 million (2013: R131.8 million) and Regent Life Company declared and paid dividends of R129.4 million (2013: R128.8 million).

## Share capital

Details of share capital are provided in note 18 to the annual financial statements.

## Special resolutions

The Regent Life Company and subsidiaries passed the following special resolutions:

- Approved the fees in respect of the independent non-executive directors; and
- Authorised the company to provide any direct, or indirect financial assistance to any related or inter-related company, subject to the provisions of the Companies Act.

None of the subsidiaries passed any special resolutions, which might be significant to members in their appreciation of the state of affairs of the Regent Life Group.

## Events after reporting period

On 10 August 2014, The South African Reserve Bank announced the restructuring of African Bank Investments Limited (ABIL) and placed it under curatorship. The Regent Life Company had an exposure of approximately R12.8 million with an anticipated R1.8 million loss. No other material facts or circumstances have arisen between the reporting date and the date of this report which affect the financial position of the Regent Life Group as reflected in these annual financial statements.

## Financial performance

Operating profit before taxation and the underwriting result increased by R31 million and R17 million respectively as compared to the previous financial year. This was achieved mainly due to the growth in premium income compared to the previous financial year. Investment returns also increased by R13 million over the same period.

## Board of directors to the date of this report

HR Brody (Chairman, non-executive director) (resigned 30 April 2014)

MJ Lamberti (Chairman, non-executive director) (appointed 17 June 2014)

### Executive directors

B Adam (Chief financial officer) (appointed 1 July 2013)

JJ Strydom (Chief executive officer)

AN Tennick (Executive director)

### Non-executive directors

M Akoojee

C Erasmus

BJ Francis

BR Mallinson

S Masinga

JPR Mbau

R Mumford

RJA Sparks

## Audit committee

### Independent non-executive directors

BR Mallinson (Chairman)

C Erasmus

RJA Sparks

## Investment committee

### Executive directors

B Adam (appointed 1 July 2013)

JJ Strydom

AN Tennick

### Non-executive directors

M Akoojee

### Independent non-executive directors

C Erasmus

RJA Sparks

### External

W Reitsma (Chairman)

## Actuarial committee

### Executive directors

B Adam (appointed 1 July 2013)

JJ Strydom

AN Tennick

### Independent non-executive directors

C Erasmus (Chairman)

### External

PC Falconer (Statutory actuary)

## Risk committee

### Executive directors

B Adam (appointed 1 July 2013)

JJ Strydom

AN Tennick

### Non-executive directors

BJ Francis

### Independent non-executive directors

S Masinga (Chairman)

C Erasmus

BR Mallinson

## Board meetings

Attendance of directors at board meetings for the year was as follows:

| | 13 August 2013 | 30 October 2013 | 20 February 2014 | 17 June 2014 |
|---|---|---|---|---|
| **Independent non-executive directors** | | | | |
| S Masinga | √ | ap | √ | √ |
| JPR Mbau | √ | ap | ap | ap |
| RJA Sparks | √ | √ | ap | √ |
| C Erasmus | √ | √ | √ | √ |
| BR Mallinson | √ | √ | √ | √ |
| **Non-executive directors** | | | | |
| HR Brody | √ | √ | ap | n/a |
| MJ Lamberti | n/a | n/a | n/a | √ |
| BJ Francis | √ | √ | √ | √ |
| R Mumford | √ | √ | √ | √ |
| M Akoojee | √ | √ | √ | ap |
| **Executive directors** | | | | |
| JJ Strydom | √ | √ | √ | √ |
| AN Tennick | √ | √ | √ | √ |
| B Adam | √ | √ | √ | √ |

**Legend:**

√ Present ap Absent with apology n/a Not applicable

## Company secretary

WP Behrens

### The addresses of the secretary of the Regent Insurance Company are:

**Business address**

146 Boeing Road East
Elma Park
Edenvale
1609

**Postal address**

PO Box 674
Edenvale
1610

## Auditors

Deloitte & Touche will continue in office in accordance with section 90(2) of the Companies Act subject to the shareholder making such appointment.

# Statements of financial position

*as at 30 June 2014*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property and equipment | 3 | **14 865** | 22 523 | **12 960** | 13 476 |
| Intangible assets | 4 | **8 379** | 4 181 | **5 538** | 2 458 |
| Investments in subsidiaries | 5 | **—** | — | **46 335** | 46 335 |
| Investment in associate | 6 | **(238)** | (128) | **—*** | —* |
| Reinsurers' share of policyholder liabilities under insurance contracts | 7 | **148 373** | 127 904 | **142 089** | 123 451 |
| Financial assets | 8 | **941 656** | 1 100 345 | **598 500** | 825 706 |
| Deferred taxation | 14 | **1 641** | 1 964 | **—** | — |
| Current taxation | | **2 667** | 44 263 | **—** | 39 915 |
| Receivables including insurance receivables | 9 | **91 439** | 71 980 | **51 243** | 39 583 |
| Due from group companies | 10 | **8** | 756 | **12 364** | 21 051 |
| Cash and cash equivalents | 11 | **639 174** | 305 724 | **418 601** | 78 345 |
| **Total assets** | | **1 847 964** | 1 679 512 | **1 287 630** | 1 190 320 |
| **LIABILITIES** | | | | | |
| Policyholders' liabilities | | **830 360** | 712 691 | **445 854** | 382 460 |
| > Insurance contracts | 12 | **515 399** | 568 544 | **191 170** | 286 890 |
| > Investment contracts | 13 | **314 961** | 144 147 | **254 684** | 95 570 |
| Deferred taxation | 14 | **112 560** | 100 961 | **112 560** | 100 961 |
| Provisions | 15 | **50 515** | 42 068 | **37 118** | 27 527 |
| Current taxation | | **642** | 52 172 | **558** | 46 371 |
| Due to group companies | 10 | **6 534** | 7 021 | **6 534** | 6 836 |
| Insurance and other payables | 17 | **237 312** | 177 789 | **197 200** | 150 462 |
| **Total liabilities** | | **1 237 923** | 1 092 702 | **799 824** | 714 617 |
| **EQUITY** | | | | | |
| Share capital | 18 | **21** | 21 | **21** | 21 |
| Share premium | 18 | **144 667** | 144 667 | **144 667** | 144 667 |
| Statutory reserve** | | **81 268** | 72 059 | **—** | — |
| Share-based equity reserve | 25 | **(7 565)** | (4 352) | **(7 565)** | (4 352) |
| Foreign currency translation reserve | | **8 038** | 2 419 | **—** | — |
| Retained earnings | | **333 780** | 311 541 | **308 648** | 282 172 |
| Equity attributable to the equityholders of the parent | | **560 209** | 526 355 | **445 771** | 422 508 |
| Non-controlling interests | | **49 832** | 60 455 | **42 035** | 53 195 |
| **Total equity** | | **610 041** | 586 810 | **487 806** | 475 703 |
| **Total equity and liabilities** | | **1 847 964** | 1 679 512 | **1 287 630** | 1 190 320 |

**Denotes an amount less than R1 000.*
***Relates to Regent Life Botswana Limited and is a statutory requirement.*

# Statements of comprehensive income

*for the year ended 30 June 2014*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| Gross written premiums | | **922 824** | 856 702 | **706 810** | 654 591 |
| Outward reinsurance premium | | **(102 045)** | (94 211) | **(83 884)** | (77 402) |
| **Net written premiums** | 19 | **820 779** | 762 491 | **622 926** | 577 189 |
| Investment income | 20 | **73 089** | 63 882 | **112 477** | 103 958 |
| Investment gains | 21 | **68 520** | 64 825 | **52 765** | 48 010 |
| Other operating income | 22 | **115 912** | 105 077 | **47 248** | 34 993 |
| **Net income** | | **1 078 300** | 996 275 | **835 416** | 764 150 |
| **Net claims and benefits incurred** | 23 | **(313 905)** | (264 098) | **(248 387)** | (201 360) |
| > Claims and benefits incurred | | **(373 599)** | (308 807) | **(294 780)** | (243 650) |
| > Claims handling costs | | **(2 297)** | (2 149) | **(2 297)** | (2 149) |
| > Reinsurers' share of claims and benefits incurred | | **61 991** | 46 858 | **48 690** | 44 439 |
| **Change in policyholder liabilities under insurance and investment contracts** | | **(90 632)** | (95 001) | **(52 890)** | (56 057) |
| > Transfer to life fund – insurance contracts | 12 | **(77 579)** | (99 224) | **(38 006)** | (61 805) |
| > Life fund – economic assumption | 12 | **(7 034)** | — | **(7 034 )** | — |
| > Reinsurers' share | 7 | **20 469** | 18 604 | **18 638** | 20 129 |
| > Transfer to investment contracts | | **(26 488)** | (14 381) | **(26 488)** | (14 381) |
| Finance income/(cost) | | **171** | (164) | **282** | (144) |
| Commission and acquisition expenses | | **(224 330)** | (212 122) | **(181 217)** | (180 471) |
| General marketing and administration expenses | | **(237 328)** | (236 198) | **(162 685)** | (158 970) |
| Goodwill impairment | | **—** | (8 418) | **—** | — |
| Exceptional items* | | **3 465** | — | **65** | — |
| Share on loss from associate | | **(110)** | (128) | **—** | — |
| **Profit before taxation** | 24 | **215 631** | 180 146 | **190 584** | 167 148 |
| Taxation | 26 | **(62 738)** | (53 514) | **(45 859)** | (36 738) |
| **Profit after taxation** | | **152 893** | 126 632 | **144 725** | 130 410 |
| **Other comprehensive income** | | | | | |
| Currency translation differences | | **5 619** | 9 613 | **—** | — |
| **Total comprehensive income for the year** | | **158 512** | 136 245 | **144 725** | 130 410 |
| **Profit attributable to:** | | | | | |
| Equity owners of the company | | **130 520** | 104 257 | **124 674** | 110 520 |
| Non-controlling interests | | **22 373** | 22 375 | **20 051** | 19 890 |
| | | **152 893** | 126 632 | **144 725** | 130 410 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity owners of the company | | **136 139** | 113 870 | **124 674** | 110 520 |
| Non-controlling interests | | **22 373** | 22 375 | **20 051** | 19 890 |
| | | **158 512** | 136 245 | **144 725** | 130 410 |

**Exceptional items includes profit on sale of property of R3.4 million and raising fee of R0.065 million.*

# Statements of changes in equity

*for the year ended 30 June 2014*

| Group | Share capital* and share premium R'000 | Statutory reserve R'000 | Share-based equity reserve R'000 | Foreign currency translation reserve R'000 | Retained earnings R'000 | Non-controlling interests R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2012** | 144 688 | 62 801 | (1 998) | (7 194) | 327 711 | 63 270 | 589 278 |
| Net profit for the year | — | — | — | — | 104 257 | 22 375 | 126 632 |
| **Other comprehensive income** | | | | | | | |
| Arising from translation of foreign entity | — | — | — | 9 613 | — | — | 9 613 |
| **Total comprehensive income for the year ended 30 June 2013** | — | — | — | 9 613 | 104 257 | 22 375 | 136 245 |
| Transfer to statutory reserve | — | 9 258 | — | — | (9 400) | — | (142) |
| Movement in interest in subsidiary | — | — | — | — | (232) | (454) | (686) |
| Share-based equity reserve transferred to retained earnings on vesting | — | — | 3 689 | — | (3 689) | — | — |
| Share-based equity | — | — | (6 043) | — | — | — | (6 043) |
| Dividends paid | — | — | — | — | (107 106) | (24 736) | (131 842) |
| **Balance at 30 June 2013** | **144 688** | **72 059** | **(4 352)** | **2 419** | **311 541** | **60 455** | **586 810** |
| Net profit for the year | **—** | **—** | **—** | **—** | **130 520** | **22 373** | **152 893** |
| **Other comprehensive income** | | | | | | | |
| Arising from translation of foreign entity | **—** | **—** | **—** | **5 619** | **—** | **—** | **5 619** |
| **Total comprehensive income for the year ended 30 June 2014** | **—** | **—** | **—** | **5 619** | **130 520** | **22 373** | **158 512** |
| Transfer to statutory reserve | **—** | **9 209** | **—** | **—** | **(10 083)** | **—** | **(874)** |
| Share-based equity | **—** | **—** | **(3 213)** | **—** | **—** | **—** | **(3 213)** |
| Dividends paid | **—** | **—** | **—** | **—** | **(98 198)** | **(32 996)** | **(131 194)** |
| **Balance at 30 June 2014** | **144 688** | **81 268** | **(7 565)** | **8 038** | **333 780** | **49 832** | **610 041** |
| **Company** | | | | | | | |
| **Balance at 1 July 2012** | 144 688 | — | (1 998) | — | 282 447 | 54 991 | 480 128 |
| Net profit for the year | — | — | — | — | 110 520 | 19 890 | 130 410 |
| **Total comprehensive income for the year ended 30 June 2013** | — | — | — | — | 110 520 | 19 890 | 130 410 |
| Share-based equity reserve transferred to retained earnings on vesting | — | — | 3 689 | — | (3 689) | — | — |
| Share-based equity | — | — | (6 043) | — | | — | (6 043) |
| Dividends paid | — | — | — | — | (107 106) | (21 686) | (128 792) |
| **Balance at 30 June 2013** | **144 688** | **—** | **(4 352)** | **—** | **282 172** | **53 195** | **475 703** |
| Net profit for the year | **—** | **—** | **—** | **—** | **124 674** | **20 051** | **144 725** |
| **Total comprehensive income for the year ended 30 June 2014** | **—** | **—** | **—** | **—** | **124 674** | **20 051** | **144 725** |
| Share-based equity | **—** | **—** | **(3 213)** | **—** | **—** | **—** | **(3 213)** |
| Dividends paid | **—** | **—** | **—** | **—** | **(98 198)** | **(31 211)** | **(129 409)** |
| **Balance at 30 June 2014** | **144 688** | **—** | **(7 565)** | **—** | **308 648** | **42 035** | **487 806** |

**Included in share capital and share premium are eight preference shares issued at a value of R0.01.*

# Statements of cash flows

*for the year ended 30 June 2014*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Cash generated from operations | 27.1 | **216 006** | 122 018 | **131 162** | 36 710 |
| Interest received | 27.2 | **59 583** | 55 182 | **38 512** | 37 921 |
| Interest received/(paid) | | **171** | (164) | **282** | (144) |
| Share-based equity movement | | **(3 794)** | (8 179) | **(3 794)** | (8 179) |
| Taxation paid | 27.3 | **(60 170)** | (15 109) | **(39 575)** | (2 869) |
| **Net cash inflow from operating activities** | | **211 796** | 153 748 | **126 587** | 63 439 |
| **Cash flow from investing activities** | | | | | |
| Acquisition of property and equipment | 3 | **(880)** | (864) | **(393)** | — |
| Acquisition of intangible assets | 4 | **(6 260)** | (2 320) | **(4 668)** | (555) |
| Proceeds on sale of property and equipment | | **9 582** | 352 | **285** | 350 |
| Proceeds on sale of investments | 8.1 | **931 560** | 504 909 | **879 851** | 404 649 |
| Acquisition of investments | 8.1 | **(697 591)** | (604 983) | **(599 880)** | (479 702) |
| Net cash outflow on acquisition of subsidiaries | 27.5 | **—** | (3 041) | **—** | — |
| Movement in investment contracts | | **5 618** | 7 382 | **(2 440)** | 3 513 |
| Dividends received | 27.2 | **13 486** | 11 929 | **76 928** | 67 732 |
| Net cash outflow on books of business | 27.6 | **(6 605)** | — | **(6 605)** | — |
| **Net cash inflow/(outflow) from investing activities** | | **248 910** | (86 636) | **343 078** | (4 013) |
| **Cash flow from financing activities** | | | | | |
| Dividends paid | 27.4 | **(131 194)** | (131 842) | **(129 409)** | (128 792) |
| **Net cash outflow from financing activities** | | **(131 194)** | (131 842) | **(129 409)** | (128 792) |
| **Net increase/(decrease) in cash and cash equivalents** | | **329 512** | (64 730) | **340 256** | (69 366) |
| Foreign currency translation differences on cash balances | | **3 938** | 7 020 | **—** | — |
| Cash and cash equivalents at the beginning of the year | | **305 724** | 363 434 | **78 345** | 147 711 |
| **Cash and cash equivalents at the end of the year** | | **639 174** | 305 724 | **418 601** | 78 345 |

# Notes to the consolidated annual financial statements

*for the year ended 30 June 2014*

## 1. Summary of significant accounting policies

### Statement of compliance

The consolidated annual financial statements are stated in South African rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations, adopted by the International Accounting Standards Board (IASB), in issue and effective for the group at 30 June 2014 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

### Accounting policies

The principal accounting policies adopted and the methods of computation used in the preparation of these consolidated annual financial statements are set out below and are consistent in all material respects with those applied during the previous year except for the adoption of new and amended statements and interpretations as disclosed in note 1.1.

### 1.1 Basis of preparation

IFRS comprise IAS and interpretations originated by the IFRIC or the former SIC. The standards referred to are set by the IASB.

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or before 1 July 2013 and in compliance with the Companies Act, No 71 of 2008.

The consolidated and separate annual financial statements have been prepared on an historical cost basis, except for:

Carried at fair value:

- Financial instruments, (which includes derivative financial instruments) which are designated at fair value through profit and loss;
- Policyholder investment contract liabilities;
- Liabilities for cash-settled share-based payment arrangements.

Carried at different measurement basis:

- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the FSV basis as set out in note 1.22 to the accounting policies.

*Changes in accounting policies and disclosures*

The Regent Life Group has adopted the following new and amended accounting standards:

- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures in Other Entities*
- *IFRS 13 Fair Value Measurement*

None of these have had a significant impact on the Regent Life Group's accounting policies and methods of computation.

*Standards, interpretations and amendments to published standards that are not yet effective*

The following new or revised IFRS standards and IFRICs have been issued with effective dates applicable to future annual financial statements of the group:

*IFRS 9 – Financial Instruments*

IFRS 9 introduced new requirements for the classification and measurement of financial assets and liabilities.

The Regent Life Group anticipates that the application of IFRS 9 may have a significant impact on amounts reported in respect of the Regent Life Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. The standard is expected to first become applicable for the financial year ending 30 June 2016.

*IFRS 14 – Regulatory Deferral Accounts*

IFRS 14 regulatory deferral accounts permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous generally accepted accounting practises, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of comprehensive income, and specific disclosures are required.

The Regent Life Group anticipates that this standard will have no significant effect on the consolidated financial statements. The standard is expected to first become applicable for the financial year ending 30 June 2017.

*IFRS 15 – Revenue From Contracts With Customers*

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Regent Life Group is in the process of assessing the impact of IFRS 15 on its consolidated financial statements. The standard is expected to first become applicable for the financial year ending 30 June 2018.

*IAS 16 – Property, plant and equipment*

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The Regent Life Group anticipates that the amendments to IAS 16 will not have a significant effect on the consolidated financial statements. The standard is expected to first become applicable for the financial year ending 30 June 2015.

*Standards, interpretations and amendments to published standards that are not yet effective (continued)*

*IAS 32 – Financial Instruments: Presentation*

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income taxes.

The Regent Life Group anticipates that the amendments to IAS 32 will have no effect on the Regent Life Group's consolidated financial statements as the this treatment has already been adopted. The standard is expected to first become applicable for the financial year ending 30 June 2015.

## 1.2 Consolidation

The consolidated annual financial statements incorporate the financial statements of the Regent Life Company and entities controlled by the company (its subsidiaries).

### Subsidiaries

Subsidiary undertakings, which are those companies in which the Regent Life Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Control is achieved where the Regent Life Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities and when the Regent Life Group has the majority of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Regent Life Group and are no longer included from the date on which control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in the statement of comprehensive income. In the Company's financial statements, interests in subsidiary companies are shown at cost less any required impairment (which is assessed annually as set out in note 1.12 to the accounting policies).

The Regent Life Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the cost of acquisition over the fair value of the Regent Life Group's share of the identifiable net assets acquired is recorded as goodwill. If after the reassessment, the Regent Life Group's interest in the fair value of the net assets of the subsidiary acquired exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income.

At the acquisition date, the identifiable assets acquired and liabilities assumed are measured at fair values except deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements which are recognised and measured in accordance with IAS 12 – Income taxes and IAS 19 – Employee benefits respectively.

The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the Regent Life Group. Inter-group transactions, balances and unrealised gains and losses are eliminated on consolidation.

The Regent Life Group consolidates a SPE when the substance of the relationship between the Regent Life Group and the SPE indicates that the Regent Life Group controls the SPE. The Regent Life Group operates cell captives on behalf of entities that wish to participate in the insurance result of a particular category of insured risk. Preference shares are issued to those participants giving them the rights to share in profits on an agreed basis. To reflect the substance of the transaction it is consolidated and the participants' share of profits is treated as a non-controlling interest.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Regent Life Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest's share in the subsidiary's equity are allocated against the interests of the Regent Life Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

### Associates

Associates are all entities over which the Regent Life Group has significant influence that are neither a subsidiary nor an interest in a joint venture. Significant influence is presumed to exist when the Regent Life Group holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Regent Life Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Regent Life Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. When the Regent Life Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Regent Life Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Regent Life Group and an associate are eliminated to the extent of the Regent Life Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Regent Life Group.

### 1.3 Foreign currencies

#### Foreign currency translation

The Regent Life Group's presentation currency is the ZAR. The functional currency of the Regent Life Group's operations is the currency of the primary economic environment where each operation physically has its main activities.

#### 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. Monetary assets and liabilities denominated in foreign currencies different to the functional currency at the statement of financial position date are translated into the functional currency at the ruling rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction, and those measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. Foreign exchange gains or losses are recognised as part of fair value adjustments on financial instruments in the statement of comprehensive income.

#### Group foreign companies

Assets and liabilities of companies whose functional currency is different to the presentation currency are translated from their respective functional currency to the Regent Life Group's presentation currency at closing rates ruling at statement of financial position date. The income and expenditure and equity movements are translated into the Regent Life Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of the various transactions. All resulting translation differences arising from the consolidation and translation of foreign companies are recognised in other comprehensive income as a foreign currency translation reserve and accumulated in equity. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

### 1.4 Property and equipment

Property and equipment comprises owner-occupied properties, which are held for use in the supply of services or for administrative purposes, computer equipment, office equipment, furniture and fittings and motor vehicles. These assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Regent Life Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Depreciation on property and equipment is calculated using the straight-line method after allocating their cost to their residual values over their estimated useful lives. The assets residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. The expected useful lives are as follows:

| | |
|---|---|
| Office equipment | 5 years |
| Computer equipment | 2 – 3 years |
| Motor vehicles | 2 – 5 years |
| Furniture and fittings | 6 years |
| Leasehold improvements | Over the period of the lease |
| Land | Not depreciated |
| Buildings | 20 years |

There has been no change to the useful lives from those applied in the previous financial year. The residual values and useful lives are reassessed on an annual basis.

Where the carrying amount of the asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount. Gains and losses on disposal are determined by reference to the carrying amount of the asset and the net profit is recorded in the statement of comprehensive income on disposal.

Where the residual value is greater than or equal to the carrying value, no depreciation is provided for.

### 1.5 Intangible assets

#### Computer software

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs clearly associated with an identifiable and unique system, which will be controlled by the Regent Life Group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of material and supplier services used or consumed in generating the intangible asset. Expenditure that enhances and extends the benefits of computer software beyond their original specifications and lives is recognised as a capital improvement and capitalised to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives,between three to five years. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

#### Amortisation of intangibles

Amortisation of intangibles is charged to the statement of comprehensive income. The expected useful lives are as follows:

- Computer software development 3-5 years

Amortisation commences from the date the software is applied to day-to-day business processing. As the software is proprietary and specific to the Regent Life Group's operations, no residual value is estimated.

### Goodwill

Goodwill represents the excess of the purchase price consideration of an acquisition over the fair value attributable to the net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets and goodwill on acquisitions of associates is included in interests in associates.

For the purpose of impairment testing, goodwill is allocated to each of the Regent Life Group's cash-generating units expected to benefit from the synergies of the combination. 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 recognised for goodwill is not reversed in a subsequent period.

## 1.6 Investment properties

Investment property is property held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Regent Life Group as an owner-occupied property becomes an investment property, the Regent Life Group accounts for such property in accordance with the policy stated under property and equipment up to the end of change in use. When the Regent Life Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of comprehensive income.

## 1.7 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Regent Life Group as lessor

*Operating leases*

Rental income is recognised in the statement of comprehensive income over the period of the lease term on the straight-line basis. Assets leased under operating leases are included under the appropriate category of assets in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets.

### The Regent Life Group as lessee

*Finance leases*

Assets held under finance leases are recognised as assets of the Regent Life Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease.

The interest element of the finance cost is charged to the statement of comprehensive income over the lease period according to the effective interest rate method. The assets acquired under the finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Leased assets under finance leases are treated in the same manner as owned fixed assets.

*Operating leases*

Operating lease costs are recognised in the statement of comprehensive income over the lease term on the straight-line basis. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 1.8 Acquisition costs associated with insurance contracts

Acquisition costs for insurance contracts represent commission payments and other costs that relate to the securing of new contracts and the renewing of existing contracts.

## 1.9 Operating and administrative expenditure

Operating expenses include administration expenditure, marketing and development expenditure, indirect taxes and levies other than life insurance taxes as well as all other non-commission related expenditure, and are expensed as incurred.

### 1.10 Impairment of tangible and intangible assets

At each statement of financial position date, the Regent Life Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Regent Life Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and the value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, in which case the impairment loss is taken to profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

### 1.11 Financial assets

The Regent Life Group classifies its investments at initial recognition into financial assets held at fair value through profit and loss, held-to-maturity financial assets, loans and other receivables and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit and loss, as the Regent Life Group's strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities. In addition shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed and/or carried at amortised cost.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the Regent Life Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit and loss have two sub categories namely financial assets held for trading and those designated at fair value through profit and loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit and loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets or liabilities are part of a Regent Life Group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and losses are recognised in the statement of comprehensive income.

Financial assets at fair value through profit and loss include derivative financial instruments.

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Regent Life Group has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are expensed when incurred. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate method. The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are expensed when incurred. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. At derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the statement of comprehensive income.

### 1.12 Impairment of financial assets

The Regent Life Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

The Regent Life Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics which are collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each statement of financial position date.

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. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are reversed through the statement of comprehensive income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of comprehensive income.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value can not be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

For held-to-maturity financial assets and loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Regent Life Group may measure impairment on the basis of an instrument's fair value using an observable market price.

### 1.13 Derecognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired,
- the Regent Life Group retains the right to receive cash flows from the asset, but assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or
- the Regent Life Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Regent Life Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Regent Life Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Regent Life Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including cash-settled option or similar provision) on the transferred asset, the extent of the Regent Life Group's continuing involvement is the amount of the transferred asset that the Regent Life Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Regent Life Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### 1.14 Derivative financial instruments

Derivative financial instruments are designated at fair value through profit and loss. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the statement of comprehensive income. Embedded derivatives that meet the definition of insurance contracts are treated and measured as insurance contracts.

### 1.15 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

### 1.16 Reinsurer's share of policyholder liabilities under insurance contracts

The Regent Life Group cedes insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the Regent Life Group with reinsurers under which the Regent Life Group is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the Regent Life Group.

Reinsurance assets represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of the expected claims and benefits arising, net of expected premiums payable under the related reinsurance contracts. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Regent Life Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Regent Life Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of comprehensive income.

Reinsurance arrangements do not relieve the Regent Life Group from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

### 1.17 Cash and cash equivalents

Cash and cash equivalents comprise balances with bankers, highly liquid short-term funds on deposit and cash on hand, but do not include money market securities held for investment.

### 1.18 Share capital

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

### 1.19 Classification of contracts

Insurance contracts are those contracts where the Regent Life Group (the insurer) has accepted significant insurance risk (mortality/morbidity risk) from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Regent Life Group determines whether it has significant mortality or morbidity risk by comparing the possibility of having to pay benefits that are higher than expected. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant 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, security price, commodity price, foreign exchange rate, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception, if insurance risk becomes significant.

### 1.20 Income recognition

#### Insurance contracts

Premiums and annuity considerations on insurance contracts are recognised when due in terms of the contract, other than in respect of group schemes. Premiums receivable in respect of group schemes that are due after the year end date are ignored. However where the operating ratio exceeds 100%, a deficiency reserve would be established to offset any expected losses up until the next renewal date. Premium income on insurance contracts is shown gross of reinsurance. Premiums are shown before deduction of commission. Premium income received in advance is included in insurance and other payables.

#### Reinsurance contracts

Reinsurance premiums are recognised when due for payment in accordance with the terms of each reinsurance contract.

#### Investment contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities.

#### Investment income

Investment return comprises interest, dividends, rental income and realised and unrealised gains or losses. Dividend income from investments is recognised when the Regent Life Group's rights to receive payment have been established.

### Investment income *(continued)*

Interest income is recognised using the effective interest method by reference to the principal debt outstanding and the interest rate. Rental income is recognised on a straight-line basis over the term of the relevant lease. Other investment returns are accounted for on an accrual basis.

### Policy fee income

The Regent Life Group recognises policy fees on investment management contracts on an accrual basis when the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Regent Life Group actively manages the considerations received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract.

## 1.21 Benefits and claims recognition

Gross benefits and claims consist of benefits and claims accrued to policyholders, which include changes in the gross valuation of insurance and investment contract liabilities. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

### Insurance contracts

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are charged to income when notified of a claim based on the estimated liability for compensation owed to policyholders. They also include allowance for claims that arise from death and disability events that have occurred up to the statement of financial position date even if they have not been reported to the Regent Life Group. Unpaid disability claims are estimated using the input of assessors for individual cases reported to the Regent Life Group and statistical analyses for the claims incurred but not reported. Outstanding claims are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

### Investment contracts

Claims incurred are recorded as deductions from investment contract liabilities.

### Reinsurance contracts

Contracts entered into with reinsurers, under which the Regent Life Group is compensated for losses on one or more contracts, and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

Premiums payable on assumed reinsurance are recognised when due. Reinsurance recoveries are accounted for in the same period as the related claim.

The benefits to which the Regent Life Group is entitled under their reinsurance contracts held are recognised as reinsurance assets, consisting of long-term balances due from reinsurers that are dependent on the expected claims and benefits. Reinsurance liabilities are primarily premiums payable and are recognised as an expense when due. Reinsurance assets are assessed for impairment on an annual basis, reducing the carrying amount of the reinsurance asset to its recoverable amount through the statement of comprehensive income.

## 1.22 Policyholder insurance and investment contracts

### SAPs issued by the ASSA

In terms of IFRS 4, defined insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4. The Regent Life Group has, prior to the adoption of IFRS 4, adopted the SAPs to determine the liability in respect of insurance contracts issued in South Africa.

The SAPs are available on the ASSA website (www.assa.org.za).

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

### Insurance and investment contract valuation

The Regent Life Group issues contracts that transfer insurance risk or financial risk or, in some cases, both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts are classified into individual credit life contracts, individual life contracts, group funeral, group life and group credit life contracts.

All policyholder contracts that transfer significant insurance risk are classified as insurance contracts. Insurance contracts are valued in terms of the FSV basis contained in SAP 104 issued by the ASSA and are reflected as “Policyholder liabilities under insurance contracts” on the statement of financial position.

The Regent Life Group’s statutory actuary calculates the Regent Life Group’s liabilities under insurance contracts and investment contracts annually at the statement of financial position date in accordance with prevailing legislation and IFRS as appropriate. The transfers to or from policyholder liabilities reflected in the notes to the financial statements represent the increase or decrease in liabilities, including provisions for policyholders’ bonuses, net adjustments to policyholders’ bonus stabilisation reserves, and net adjustments to margins held within the policyholder liabilities.

### Fair value adjustments to policyholder liabilities under investment contracts

The operating profits or losses are determined in accordance with the guidance note on FSVs, SAP 104 issued by the Actuarial Society of South Africa. The profits or losses are arrived at after taking into account the changes over the period in values of actuarial liabilities under unmatured policies, corresponding assets, provisions for policyholder bonuses and adjustments to other margins within policyholder liabilities.

### IBNR – Insurance contracts

Provision is made in the policyholders liabilities under insurance contracts for the estimated cost at the end of the year for claims IBNR at that date. IBNR provisions are calculated as a multiple, based on the average historical reporting delay, of the claims reported in the three weeks following the valuation date but where the claims event occurred prior to valuation date. These liabilities are not discounted due to the short-term nature of outstanding claims.

### Liability adequacy test – Insurance contracts

At each reporting date the adequacy of the insurance liabilities is assessed, using current estimates of future cash flows under the insurance contracts. If that assessment shows that the carrying amount of the insurance liabilities (less related deferred acquisition costs) is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit and loss.

## 1.23 Financial liabilities

### Financial liabilities comprise policyholders' liabilities under investment contracts.

Financial liabilities are initially measured at fair value, net of transaction costs that are directly attributable to the raising of the funds. The measurement of policyholder liabilities under investment contracts is described in note 1.22 to the accounting policies.

Policyholder contracts that do not transfer significant insurance risk are classified in the financial statements as financial liabilities held at fair value through profit and loss, with changes in fair value being accounted for in the statement of comprehensive income. The premiums and benefit payments relating to these investment contracts have been excluded from the statement of comprehensive income and accounted for directly as a liability. Fees earned from these contracts are disclosed separately through profit and loss. These liabilities have been designated as financial liabilities held at fair value through income by management at inception.

Financial liabilities are initially recognised at fair value. Thereafter, financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities at fair value through profit and loss, which are measured at fair value.

Fair value is measured by taking into consideration the time value of money, credit risk, commodity and equity prices, volatility and servicing costs.

### Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

## 1.24 Provisions

Provisions are recognised when the Regent Life Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Regent Life Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain and the amount can be measured reliably. The expense relating to any provision is presented in the statement of comprehensive income. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rates that reflect current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

### Leave pay provision

Leave pay provision is calculated based on the outstanding number of days' leave due to employees, applied to the total cost of their employment.

### Employee bonus provision

Within the Regent Life Group there are various formulas to calculate bonuses payable to employees. Provisions are raised based on the estimates of the total amount due.

## 1.25 Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

### Current taxation

The charge for current tax is based on the results for the year as adjusted for items that are non-taxable or are disallowed. It is calculated using the tax rates that have been enacted or substantively enacted on the statement of financial position date, in each particular jurisdiction in which the Regent Life Group operates.

### Deferred taxation

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Deferred taxation *(continued)*

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Regent Life Group intends to settle its current tax assets and liabilities on a net basis.

### Dividends tax

A dividends tax became effective on 1 April 2012 and this tax is levied on non-exempt shareholders. The Regent Life Group is responsible for the collection of the dividends tax and payment of the amounts collected to the South African Revenue Service. As this tax is levied on the shareholders and not the company, it does not form part of the tax expense recognised in the statement of other comprehensive income. Dividends are reflected gross of tax.

### 1.26 Employee retirement benefits

The policy of the Regent Life Group is to provide retirement benefits for its employees. The contributions paid by the Regent Life Group to fund obligations for the payment of retirement benefits are charged to the statement of comprehensive income in the year to which they relate. The Regent Life Group's employees are members of a defined contribution plan, which is governed by the Pension Funds Act 24 of 1956.

For defined contribution plans, the Regent Life Group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Regent Life Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### 1.27 Share-based payments transactions

The Imperial Holdings Group operates equity-settled share-based compensation plans for senior employees and executives of the Regent Life Group which bears the cost thereof.

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 25.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Regent Life Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Regent Life Group revises its estimates of the number of equity instruments that are expected to vest.

The impact of the revision of original estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share-based payment reserve in equity.

### 1.28 Exceptional items

Exceptional items include income and expense items which are not considered to be of a trading nature and include items such as impairments of goodwill and profit on sale of property.

### 1.29 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and where there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.30 Dividend distribution

Dividend distribution to the Regent Life Group's shareholders is recognised as a liability in the Regent Life Group's financial statements in the period in which the dividends are approved by the Regent Life Group's board of directors.

### 1.31 Events after statement of financial position date

The financial statements are adjusted to reflect events that occurred between the statement of financial position date and the date when the financial statements are authorised for issue, provided they provide evidence of conditions that existed at the statement of financial position date. Events that are indicative of conditions that arose after the statement of financial position date are disclosed (if material), but do not result in an adjustment of the financial statements themselves.

### 1.32 Transactions with related parties

Transactions with related parties are subject to terms and conditions that are no less favourable than those arranged with third parties.

### 1.33 Key assumptions in applying accounting policies

Key assumptions are those used to derive estimates, which require management judgement.

The Regent Life Group's management decides on assumptions that can materially affect the reported amounts of assets and liabilities within the next financial year. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant assets and liabilities, which typically require such assumptions, are the following:

-Policyholders' liabilities under insurance contracts are derived from estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received (net of expected service costs). The key assumptions have been detailed in note 1.22 of the accounting policies.

### 1.33 Key assumptions in applying accounting policies *(continued)*

- The Regent Life Group holds a number of financial assets that are designated at fair value through profit/loss. These are valued at quoted market prices as far as possible. However, if such prices are unavailable, fair value is based either on internal valuations or management's best estimates of realisable amounts.
- Impairment tests are conducted on all assets included in the statement of financial position. In determining the value in use, various estimates are used by management including deriving future cash flows and applicable discount rates. These estimates are most applicable to the impairment tests on reinsurance assets, intangible assets (including goodwill), deferred acquisition costs and receivables. Further details are contained in note 1.10 and 1.12 of the accounting policies.

## 2. Accounting estimates and judgements

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

Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. In terms of IAS 8, (Accounting policies, changes in accounting estimates and errors), changes in accounting estimates do not necessitate a prior period adjustment.

| | Notes | Property R'000 | Computer and office equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **3. Property and equipment** | | | | | | |
| **Group** | | | | | | |
| **2014** | | | | | | |
| Balance at the beginning of the year | | **19 933** | **947** | **1 332** | **311** | **22 523** |
| Additions | | **67** | **521** | **292** | **—** | **880** |
| Disposals | | **(7 885)** | **(125)** | **(3 700)** | **(776)** | **(12 486)** |
| Depreciation charge for the year | 24 | **(1 334)** | **(511)** | **(444)** | **(204)** | **(2 493)** |
| Accumulated depreciation on disposals | | **2 075** | **125** | **3 454** | **776** | **6 430** |
| Arising from translation of foreign assets | | **3** | **1** | **4** | **3** | **11** |
| **Balance at the end of the year** | | **12 859** | **958** | **938** | **110** | **14 865** |
| Cost | | **17 130** | **8 304** | **2 462** | **1 009** | **28 905** |
| Accumulated depreciation | | **(4 271)** | **(7 346)** | **(1 524)** | **(899)** | **(14 040)** |
| **Balance at the end of the year** | | **12 859** | **958** | **938** | **110** | **14 865** |
| **2013** | | | | | | |
| Balance at the beginning of the year | | 21 329 | 810 | 1 577 | 650 | 24 366 |
| Additions | | — | 582 | 282 | — | 864 |
| Disposals | | — | (29) | — | (950) | (979) |
| Depreciation charge for the year | 24 | (1 404) | (447) | (538) | (254) | (2 643) |
| Accumulated depreciation on disposals | | — | 23 | — | 857 | 880 |
| Arising from translation of foreign assets | | 8 | 8 | 11 | 8 | 35 |
| **Balance at the end of the year** | | 19 933 | 947 | 1 332 | 311 | 22 523 |
| Cost | | 24 946 | 7 884 | 5 852 | 1 778 | 40 460 |
| Accumulated depreciation | | (5 013) | (6 937) | (4 520) | (1 467) | (17 937) |
| **Balance at the end of the year** | | 19 933 | 947 | 1 332 | 311 | 22 523 |

| | Notes | Property R'000 | Computer and office equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **3. Property and equipment** *(continued)* | | | | | | |
| **Company** | | | | | | |
| **2014** | | | | | | |
| Balance at the beginning of the year | | **13 149** | **5** | **322** | **—** | **13 476** |
| Additions | | **67** | **38** | **288** | **—** | **393** |
| Disposals | | **—** | **—** | **(3 560)** | **—** | **(3 560)** |
| Depreciation charge for the year | 24 | **(566)** | **(3)** | **(180)** | **—** | **(749)** |
| Accumulated depreciation on disposals | | **—** | **—** | **3 400** | **—** | **3 400** |
| **Balance at the end of the year** | | **12 650** | **40** | **270** | **—** | **12 960** |
| Cost | | **14 306** | **4 121** | **288** | **—** | **18 866** |
| Accumulated depreciation | | **(1 656)** | **(4 081)** | **(18)** | **—** | **(5 906)** |
| **Balance at the end of the year** | | **12 650** | **40** | **270** | **—** | **12 960** |
| **2013** | | | | | | |
| Balance at the beginning of the year | | 13 706 | 8 | 587 | 145 | 14 446 |
| Additions | | — | — | — | — | — |
| Disposals | | — | — | — | (950) | (950) |
| Depreciation charge for the year | 24 | (557) | (3) | (265) | (52) | (877) |
| Accumulated depreciation on disposals | | — | — | — | 857 | 857 |
| **Balance at the end of the year** | | 13 149 | 5 | 322 | — | 13 476 |
| Cost | | 14 239 | 4 083 | 3 560 | 927 | 22 809 |
| Accumulated depreciation | | (1 090) | (4 078) | (3 238) | (927) | (9 333) |
| **Balance at the end of the year** | | 13 149 | 5 | 322 | — | 13 476 |

**Property comprises the following:**

- Property situated on Erf 35326 and 35327, situated in Bellville, Cape Town. The cost of the property is R6.4 million (2013: R6.4 million) and market value at 30 June 2014 is R6.5 million (2013: R5.7 million).
- Property situated on Erf 1346, situated in Die Wilgers, Pretoria. The cost of the property is R7.9 million (2013: R15.7 million) and market value at 30 June 2014 is R9.5 million (2013: R19 million).
- An amount of R2.8 million (2013: R2.8 million) relates to capitalised leasehold improvements.
- All valuations were performed by independent valuators and facilitated by an Imperial Group division, Imperial Properties Proprietary Limited which deals with property related matters.

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **4. Intangible assets** | | | | | |
| **Application software** | | | | | |
| Balance at the beginning of the year | | **4 181** | 9 300 | **2 458** | 7 777 |
| Development costs capitalised during the year | | **6 260** | 2 320 | **4 668** | 555 |
| Amortisation for the year | 24 | **(2 062)** | (7 440) | **(1 588)** | (5 874) |
| Arising from translation of foreign assets | | **—** | 1 | **—** | — |
| Balance at the end of the year | | **8 379** | 4 181 | **5 538** | 2 458 |
| Cost | | **45 048** | 38 712 | **39 038** | 34 370 |
| Accumulated amortisation | | **(36 669)** | (34 531) | **(33 500)** | (31 912) |
| **Balance at the end of the year** | | **8 379** | 4 181 | **5 538** | 2 458 |
| **Goodwill** | | | | | |
| Balance at the beginning of the year | | **—** | 6 113 | **—** | — |
| Net movement on acquisition of subsidiaries | | **—** | 2 305 | **—** | — |
| Amortisation and impairment | | **—** | (8 418) | **—** | — |
| Balance at the end of the year | | **—** | — | **—** | — |
| **Total** | | **8 379** | 4 181 | **5 538** | 2 458 |

Goodwill represents the excess of the cost of an acquisition over the fair value of the Regent Life Group's share of the net assets of the acquired subsidiaries at the initial date of acquisition. Intangible assets were assessed for impairment at year end and were found not to be impaired.

*Goodwill impairment testing*

Goodwill is allocated to cash generating units (CGUs) that are measured individually for the purposes of impairment testing. A CGU represents the business operation from which goodwill was originally generated. The recoverable amount of a CGU is determined being the higher of value in use, or the fair value less costs to sell.

| | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|
| **5. Investments in subsidiaries** | | |
| Balance at the beginning of the year | **46 335** | 46 335 |
| | **46 335** | 46 335 |

Regent Life Company's interest in the aggregate profit after tax in subsidiaries amounted to R69.4 million (2013: R56.8 million) and in the losses was R0.4 million (2013: R0.3 million).

Details of subsidiaries have been provided in note 32.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **6. Investment in associate** | | | | |
| Balance at the beginning of the year | **(128)** | —* | —* | —* |
| Share of loss in associate | **(110)** | (128) | — | — |
| **Balance at the end of the year** | **(238)** | (128) | —* | —* |

**Denotes an amount less than R1 000.*

Details of the Regent Life Group's investment in the associate is as follows:

| | % holding | Country of incorporation | Principle activity | Reporting date |
|---|---|---|---|---|
| Boland Cavaliers Financial Services Proprietary Limited | 25 | South Africa | Financial services | 30 June 2014 |

The directors' value of the associate approximates its carrying value.

The summarised financial information in respect of the Regent Life Group's 25% share in the associate is set out below:

| | Note | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| Total assets attributable | | **90** | 117 | **—** | — |
| Total liabilities attributable | | **293** | 210 | **—** | — |
| Net assets attributable | | **(203)** | (93) | **—** | — |
| Revenue attributable | | **99** | 65 | **—** | — |
| **7. Reinsurers' share of policyholder liabilities under insurance contracts** | | | | | |
| Movements in the reinsurers' share of insurance contract liabilities for the year were as follows: | | | | | |
| Balance at the beginning of the year | | **127 904** | 109 300 | **123 451** | 103 322 |
| Transfer to statement of comprehensive income | | **20 469** | 18 604 | **18 638** | 20 129 |
| **Balance at the end of the year** | | **148 373** | 127 904 | **142 089** | 123 451 |
| **8. Financial assets** | | | | | |
| The Regent Life Group's financial assets designated at fair value through profit and loss | | | | | |
| Fixed interest debt securities: | | **180 697** | 176 814 | **171 198** | 167 717 |
| Government bonds | | **23 164** | 22 249 | **13 665** | 13 152 |
| Corporate bonds: listed | | **157 533** | 154 565 | **157 533** | 154 565 |
| Equity securities: listed | | **304 251** | 211 108 | **293 766** | 202 108 |
| Preference shares: listed | | **20 000** | 20 889 | **20 000** | 20 889 |
| Preference shares: unlisted | | **18 500** | 50 000 | **18 500** | 50 000 |
| Collective investment schemes | | **235 629** | 433 004 | **85 036** | 334 992 |
| Short-term cash deposits less than one year | | **182 579** | 208 530 | **10 000** | 50 000 |
| **Total** | 8.1 | **941 656** | 1 100 345 | **598 500** | 825 706 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **8. Financial assets** *(continued)* | | | | |
| **8.1 Total financial assets** | | | | |
| Balance at the beginning of the year | **1 100 345** | 925 935 | **825 706** | 702 612 |
| Additions | **697 591** | 604 983 | **599 880** | 479 702 |
| Disposals | **(931 560)** | (504 909) | **(879 851)** | (404 649) |
| Fair value adjustment | **68 522** | 64 856 | **52 765** | 48 041 |
| Arising from translation of foreign assets | **6 758** | 9 480 | **—** | — |
| **Balance at the end of the year** | **941 656** | 1 100 345 | **598 500** | 825 706 |

The collective investment schemes comprise balanced equity portfolios on behalf of policyholders and yield enhanced money market funds.

## 9. Receivables including insurance receivables

| | | | | |
|---|---|---|---|---|
| Premium debtors – insurance contracts | **50 931** | 41 015 | **49 967** | 40 647 |
| Accrued interest | **8 163** | 4 961 | **3 660** | 3 441 |
| Other receivables | **48 479** | 42 541 | **12 428** | 9 576 |
| Reinsurance recoveries on intimated claims | **8 546** | 3 476 | **6 824** | 2 887 |
| | **116 119** | 91 993 | **72 879** | 56 551 |
| *Less:* Provision for impairment of receivables | **(24 680)** | (20 013) | **(21 636)** | (16 968) |
| **Total** | **91 439** | 71 980 | **51 243** | 39 583 |

All receivables are classified as current as all economic benefits are expected to occur within one year. These receivables include all prepayments, insurance and other receivables and dividends receivable.

### Insurance premium receivables

Insurance premium receivables are aged according to the terms and conditions of the underlying agreements. Past due policies are reviewed for recoverability and either lapsed or provided for where necessary. No interest is charged on the outstanding insurance premium receivables. If a claim is payable the outstanding amount receivable will be recovered from the amount payable to the client.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **9. Receivables including insurance receivables** *(continued)* | | | | |
| **Movement in the provision for impairment of receivables** | | | | |
| Balance at the beginning of the year | **20 013** | 26 343 | **16 968** | 23 299 |
| Increase in allowance recognised in profit or loss | **6 176** | 4 916 | **6 176** | 4 916 |
| Amounts written off during the year | **(1 509)** | (11 246) | **(1 508)** | (11 247) |
| **Balance at the end of the year** | **24 680** | 20 013 | **21 636** | 16 968 |

In determining the recoverability of a receivable, the Regent Life Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

| | | | | |
|---|---|---|---|---|
| **9.1 Age analysis** | | | | |
| **Ageing of total loans and other receivables (net)** | | | | |
| Not past due | **77 602** | 53 999 | **47 673** | 26 405 |
| Past due 0 – 90 days | **19 211** | 19 152 | **8 987** | 14 557 |
| Past due 91 – 360 days | **8 171** | 6 982 | **8 114** | 6 759 |
| Past due more than 1 year | **11 135** | 11 860 | **8 105** | 8 830 |
| **Total** | **116 119** | 91 993 | **72 879** | 56 551 |

| | | | | |
|---|---|---|---|---|
| **10. Due from/(to) group companies** | | | | |
| **Due from group companies** | | | | |
| Due from Regent Life Group subsidiaries | **—** | 756 | **12 356** | 21 051 |
| Due from Imperial Holdings Limited and fellow subsidiaries | **8** | — | **8** | — |
| **Due from group companies** | **8** | 756 | **12 364** | 21 051 |
| **Due to group companies** | | | | |
| Due to Imperial Holdings Limited and fellow subsidiaries | **(6 534)** | (7 021) | **(6 534)** | (6 836) |
| **Due to group companies** | **(6 534)** | (7 021) | **(6 534)** | (6 836) |
| **Due (to)/from group companies** | **(6 526)** | (6 265) | **5 830** | 14 215 |

These are call loans payable on demand.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **11. Cash and cash equivalents** | | | | |
| Cash at bank and on hand | **410 657** | 36 132 | **214 880** | 19 774 |
| Cash deposits* | **228 517** | 269 592 | **203 721** | 58 571 |
| **Total** | **639 174** | 305 724 | **418 601** | 78 345 |

**Call and cash deposits maturing within three months or less.*

The average call rate on short-term bank deposits was 4.84% (2013: 4.5%).

| | | | | |
|---|---|---|---|---|
| **12. Policyholder liabilities under insurance contracts** | | | | |
| Movements in the insurance contract liabilities for the year were as follows: | | | | |
| Balance at the beginning of the year | **568 544** | 464 700 | **286 890** | 225 686 |
| Transfer to statement of comprehensive income | **77 579** | 99 224 | **38 006** | 61 805 |
| Life fund – economic assumption* | **7 034** | — | **7 034** | — |
| Arising from translation of foreign liabilities | **3 002** | 4 620 | **—** | (601) |
| Sale of book of business** | **(140 760)** | — | **(140 760)** | — |
| **Balance at the end of the year** | **515 399** | 568 544 | **191 170** | 286 890 |

**This is the impact on the policyholders' liabilities as a result of changes in the economic assumptions such as the inflation rate, interest rate and loan interest rate as well as any derivation methodology changes. This has been disclosed separately from the 2014 financial year.*

*** Regent Life Company sold an annuitants book during the current financial year.*

*Process used to decide on long-term insurance assumptions*

The business was divided up into homogeneous groupings and each grouping was analysed. Best estimate assumptions were then derived based on these experience investigations. Where data was limited, industry information was used. Recent trends evident in the data were allowed for.

The value of insurance liabilities is based on best estimate assumptions of future experience plus compulsory margins as required in terms of SAP 104, plus additional discretionary margins determined by the statutory actuary.

The compulsory margins are summarised as follows:

| Assumption | Compulsory margin |
|---|---|
| Investment earnings | Investment earnings assumption was increased or decreased by 0.25% depending on which gives the higher liability. |
| Expense inflation | 10% loading on the expense inflation assumption. |
| Mortality | Assumption was decreased by 7.5% for annuities and increased for all other classes. |
| Morbidity | Assumption was increased by 10%. |
| Retrenchment | Assumption was increased by 20%. |
| Lapses | Lapse rate assumptions were increased or decreased by 25% depending on which gives the higher liability. |
| Surrenders | Surrender rate assumptions were increased or decreased by 10% depending on which gives the higher liability. |
| Expenses | 10% loading on the expense assumption. |

In addition to the above compulsory margins, the following additional discretionary margins were incorporated:

| | |
|---|---|
| Retrenchment | For credit life, an additional 30% margin was added. |
| Dread disease | For credit life, an additional 15% margin was added. |
| Extended lives mortality | An additional 7.5% margin was added. |
| Lapses | 20% margin in year one and two and 50% thereafter in respect of the Clicks portfolio. |
| All other decrements | For credit life, an additional 10% margin was added. |

Negative reserves arise when the present value of future estimated benefits is less than the present value of future valuation net premiums. Negative reserves are eliminated on a policy by policy basis for all policies that have three or more premiums in arrears. For some of the cell captive arrangements as well as for business written via new distribution channels where limited experience has been observed, all negative reserves are eliminated.

## 12. Policyholder liabilities under insurance contracts *(continued)*

**The assumptions used for insurance contracts are as follows:**

All the assumptions below are based on the most recent experience investigations in each country modified for expected trends. Generally experience investigations are carried out for all assumptions every year:

*a) Mortality*

Adjusted standard assured lives and annuity tables were used to reflect the Regent Life Group's recent claims experience. The adjustments allow for the expected increase in AIDS related claims. The allowance for AIDS is based on the relevant actuarial guidance notes as provided by the Actuarial Society of South Africa.

*b) Morbidity*

Disability and dread disease rates are based on standard morbidity tables and critical illness tables and where appropriate, adjusted to reflect the Regent Life Group's recent claims experience.

*c) Medical and retrenchment*

The incidence of medical and retrenchment claims is derived from the risk premium rates determined from annual investigations. The adjusted rates are intended to reflect future expected experience.

*d) Withdrawal*

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal rates are calculated every year for each company/country, and by class and policy duration. Typically the rates are higher at early durations.

*e) Investment returns*

The investment return derivation was changed this year to be more in line with the FSB requirements under the SAM basis. For Lesotho and South Africa, the same approach was followed across all product lines, i.e. the calculation of the liabilities was based on the risk free interest rate term structure or the nominal South African government bonds curve.

For Botswana, the investment return derivation has remained unchanged as it still depends on the discounted mean term of the underlying policies. The returns on the actual and matching portfolios were taken into account and the portfolio giving the lower investment return was used. A margin of 0.5% was applied to reflect any mismatch risk. The same assumption was applied across all product lines.

The long-term investment returns (before compulsory margins) are as follows:

| | 2014 % | 2013 % |
|---|---|---|
| **South Africa** | | |
| Credit life: nominal South African government bond yield curve | — | 4.86 |
| Individual life: nominal South African government bond yield curve | — | 6.58 |
| Disabled annuity business: nominal South African government bond yield curve | — | 7.58 |
| **Botswana** | **2.75** | 4.32 |
| **Lesotho:** nominal South African government bond yield curve | — | 6. 81 |
| **Lesotho:** future reversionary bonus | **5** | 5 |

*f) Renewal expenses and inflation*

A detailed expense investigation for each company /country was undertaken and the expenses were split by line of business and between new business and maintenance expenses.

The maintenance expenses were adjusted for expected inflation in the future and spread over the anticipated volumes of business over the next year to derive a per policy expense for each class. The expenses allocated to new business are expected to be covered by future new business written.

*g) Taxation*

The interest and expense assumptions are net of any taxation payable based on the tax environment for each country and the tax position of the company.

## 12. Policyholder liabilities under insurance contracts *(continued)*

### Change in assumptions

The following changes were made to the valuation basis for Regent Life South Africa. All assumptions include compulsory margins.

The economic assumptions were reviewed in the light of the anticipated regulatory changes with respect to the calculation of the actuarial liabilities and the setting of reserving basis. The investment return is now based on the nominal government bond yield curve and an implied inflation curve as opposed to a fixed investment and inflation assumption which was previously dependent on the discounted mean term of the underlying policies.

As a result of these economic changes, the actuarial liabilities increased by R6.9 million.

### The non-economic assumptions were also reviewed as follows:

Per policy expenses were amended to reflect the current and expected future experience.

As a result of these non-economic changes, the actuarial liabilities decreased by R5.4 million.

The overall impact of all the above changes was an increase in the actuarial liabilities of R1.5 million.

Regarding Botswana, the value of liabilities as at 30 June 2014 reduced by P2 million as a result of changes to valuation assumptions.

The main assumptions changes causing this increase were as follows:

- The economic assumptions were amended to reflect the current economic environment. This resulted in an increase in reserves of P1.7 million.
- Per policy expenses and lapse assumptions were amended to reflect the current and expected future experience. This resulted in an increase in reserves of P0.3 million.

Regarding Lesotho, the changes detailed below were made to the valuation assumptions. As a result of these changes, the BSR of the with-profits business decreased by approximately M17.5 million and the without-profit reserves decreased by M0.1 million.

- The economic assumptions were amended to reflect the current economic environment. This resulted in an decrease in reserves of M10.6 million.
- Per policy expenses were amended to reflect the current and expected future experience. This resulted in a decrease in reserves of M7.0 million.

### Sensitivity analysis: Life operations

The following table presents the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities.

| | Increase in variable | Increase in liability 2014 R'million | Increase in liability 2013 R'million |
|---|---|---|---|
| **Variable** | | | |
| Worsening of mortality | 10% worse claims | **44.2** | 42.3 |
| Lowering of investment returns | 15% lower returns | **(1.6)** | (0.9) |
| Worsening of base renewal expense level | 10% higher expenses | **26.9** | 25.8 |
| Worsening of expense inflation | 10% higher expense inflation | **6.1** | 4.9 |
| Worsening of lapse rate | 25% higher withdrawals | **38.4** | 38.8 |

The 2014 sensitivities are in line with the prior year. There has been a marginal increase in the sensitivity of the insurance liabilities across each scenario reflecting the growth in the overall policy count of in force policies.

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and the changes in some assumptions may be correlated – e.g. change in interest rate and inflation.

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **13. Financial liabilities under investment contracts – long-term operations** | | | | | |
| Balance at the beginning of the year | | **144 147** | 120 543 | **95 570** | 78 149 |
| Deposits | | **17 756** | 10 880 | **8 563** | 5 625 |
| Payments | | **(7 938)** | (3 498) | **(6 803)** | (2 112) |
| Fair value adjustment | | **26 841** | 16 222 | **23 199** | 13 908 |
| Purchase of book of business* | | **134 155** | — | **134 155** | — |
| **Balance at the end of the year** | | **314 961** | 144 147 | **254 684** | 95 570 |

**Regent Life Company purchased a living annuity book during the current financial year.*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **14. Deferred taxation** | | | | | |
| Balance at the beginning of the year | | **(98 997)** | (92 913) | **(100 961)** | (94 366) |
| Statutory reserves and provisions | 26 | **(11 846)** | (6 909) | **(11 523)** | (7 208) |
| Capital gains taxation (CGT) deferred liability | 26 | **(76)** | 613 | **(76)** | 613 |
| Prior year over/under provision | 26 | **—** | 212 | **—** | — |
| **Balance at the end of the year** | | **(110 919)** | (98 997) | **(112 560)** | (100 961) |
| *The deferred taxation comprises:* | | | | | |
| Bonus scheme | | **(2 179)** | (1 954) | **(2 179)** | (1 954) |
| Provisions – current year | | **1 686** | 2 016 | **45** | 52 |
| CGT deferred liability | | **187** | 263 | **187** | 263 |
| Negative reserves | | **(110 613)** | (99 322) | **(110 613)** | (99 322) |
| **Balance at the end of the year** | | **(110 919)** | (98 997) | **(112 560)** | (100 961) |
| Reflected in the statement of financial position* | | | | | |
| Deferred taxation asset | | **1 641** | 1 964 | **—** | — |
| Deferred taxation liability | | **(112 560)** | (100 961) | **(112 560)** | (100 961) |
| **Balance at the end of the year** | | **(110 919)** | (98 997) | **(112 560)** | (100 961) |

**In terms of IAS 12, the deferred tax asset and liability cannot be offset against one another, as they have arisen in different legal entities.*

No deferred tax asset has been raised for losses in the policyholder funds, as these losses are not likely to be utilised in the foreseeable future.

## 15. Provisions

### 15.1 Leave pay

In terms of the Regent Life Group's policy, employees are entitled to accumulate a maximum of 30 days leave. Minimum leave of 15 days has to be taken within 12 months of earning it.

### 15.2 Bonus

In terms of the Regent Life Group's policy, selected employees at the discretion of directors receive an incentive bonus. The incentive bonus relates to employee, corporate and divisional performance and it is approved by the remuneration committee of Imperial Holdings Limited.

### 15.3 Other

Other provisions include amongst others, provisions for internal audit, actuarial and investment management fees and provision for reserves.

| | Leave pay R'000 | Bonus R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2014** | | | | |
| Balance at the beginning of the year | **4 822** | **18 943** | **18 303** | **42 068** |
| Charge to statement of comprehensive income | **1 228** | **15 656** | **18 028** | **34 912** |
| Provisions utilised | **(1 493)** | **(14 027)** | **(11 020)** | **(26 540)** |
| Arising from translation of foreign provisions | **11** | **34** | **30** | **75** |
| **Balance at the end of the year** | **4 568** | **20 606** | **25 341** | **50 515** |
| **2013** | | | | |
| Balance at the beginning of the year | 4 731 | 21 858 | 26 181 | 52 770 |
| Charge to statement of comprehensive income | 1 659 | 13 182 | (17 410) | (2 569) |
| Provisions utilised | (1 587) | (16 176) | (9 464) | (27 227) |
| Reclassification* | — | — | 18 960 | 18 960 |
| Arising from translation of foreign provisions | 19 | 79 | 36 | 134 |
| Balance at the end of the year | 4 822 | 18 943 | 18 303 | 42 068 |
| **Company** | | | | |
| **2014** | | | | |
| Balance at the beginning of the year | **3 225** | **9 334** | **14 968** | **27 527** |
| Charge to statement of comprehensive income | **1 043** | **11 931** | **16 952** | **29 926** |
| Provisions utilised | **(987)** | **(8 797)** | **(10 551)** | **(20 335)** |
| **Balance at the end of the year** | **3 281** | **12 468** | **21 369** | **37 118** |
| **2013** | | | | |
| Balance at the beginning of the year | 3 257 | 13 054 | 23 139 | 39 450 |
| Charge to statement of comprehensive income | 409 | 4 772 | (18 525) | (13 344) |
| Provisions utilised | (441) | (8 492) | (8 606) | (17 539) |
| Reclassification* | — | — | 18 960 | 18 960 |
| **Balance at the end of the year** | 3 225 | 9 334 | 14 968 | 27 527 |

**The reclassification for the prior year relates to amounts that were previously reflected in other payables.*

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **16. Commitments** | | | | |
| Operating lease liabilities | | | | |
| The Regent Life Group leases various offices under non-cancellable operating lease agreements. | | | | |
| The leases have varying terms, escalation clauses and renewal rights. | | | | |
| The future minimum lease payments are as follows: | | | | |
| Not later than one year | **3 685** | 1 061 | **608** | 136 |
| Later than one year and not later than five years | **1 913** | 1 337 | **1 129** | 161 |
| **Balance at the end of the year** | **5 598** | 2 398 | **1 737** | 297 |
| The above mentioned commitments will be funded from cash generated by operations. | | | | |
| **17. Insurance and other payables** | | | | |
| Accrued benefit payments on insurance contracts | **74 377** | 53 879 | **65 522** | 41 988 |
| Trade payables | **162 935** | 123 910 | **131 678** | 108 474 |
| **Balance at the end of the year** | **237 312** | 177 789 | **197 200** | 150 462 |
| All trade and other payables are current liabilities. The carrying amounts approximate the fair value given the demand feature of the financial instruments. Refer to note 31.3.3 for age analysis. | | | | |
| **18. Share capital and share premium** | | | | |
| Authorised share capital | | | | |
| 3 000 000 ordinary shares of 1 cent each | **30** | 30 | **30** | 30 |
| 1 000 preference shares of 1 cent each | **—*** | —* | **—*** | —* |
| Issued share capital | | | | |
| 2 125 000 ordinary shares of 1 cent each | **21** | 21 | **21** | 21 |
| 8 preference shares of 1 cent each | **—*** | —* | **—*** | —* |
| Share premium | **144 667** | 144 667 | **144 667** | 144 667 |

**Denotes an amount less than R1 000.*

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 but subject to the provisions of the Companies Act, No 71 of 2008 and the Company's memorandum of incorporation.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **19. Net written premiums** | | | | |
| Individual and credit life premium income | | | | |
| > Single premiums | **97 036** | 105 967 | **—** | — |
| | **97 036** | 105 967 | **—** | — |
| > Recurring premiums | **610 626** | 550 150 | **548 730** | 500 519 |
| > Reinsurance | **(28 631)** | (26 287) | **(27 055)** | (25 119) |
| | **581 995** | 523 863 | **521 675** | 475 400 |
| Group life premium income | | | | |
| > Recurring premiums | **215 162** | 200 585 | **158 080** | 154 072 |
| > Reinsurance | **(73 414)** | (67 924) | **(56 829)** | (52 283) |
| | **141 748** | 132 661 | **101 251** | 101 789 |
| **Total** | **820 779** | 762 491 | **622 926** | 577 189 |
| **20. Investment income** | | | | |
| Dividend income – subsidiaries | **—** | — | **63 442** | 58 157 |
| Dividend income – other | **13 486** | 11 929 | **13 486** | 9 575 |
| Interest income from investments designated at fair value through profit and loss | **40 234** | 32 901 | **28 346** | 28 479 |
| Interest income from cash and cash equivalents | **22 551** | 21 271 | **10 385** | 9 966 |
| Investment management expenses | **(3 182)** | (2 219) | **(3 182)** | (2 219) |
| **Total** | **73 089** | 63 882 | **112 477** | 103 958 |
| **21. Investment gains** | | | | |
| Realised gains – listed instruments | **39 529** | 9 450 | **39 529** | 9 450 |
| Unrealised gains – listed instruments | **28 991** | 55 375 | **13 236** | 38 560 |
| **Total** | **68 520** | 64 825 | **52 765** | 48 010 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **22. Other operating income** | | | | |
| Commission | **3 005** | 12 110 | **—** | — |
| Training income* | **2 204** | 3 576 | **—** | — |
| Administration fees** | **104 932** | 87 390 | **45 947** | 33 589 |
| Rent received | **1 771** | 2 001 | **1 301** | 1 404 |
| Sundry income*** | **4 000** | — | **—** | — |
| **Total** | **115 912** | 105 077 | **47 248** | 34 993 |

**Training income comprises revenue earned by Cedar Employee Benefits Proprietary Limited for courses provided.*
***The majority of this figure relates to non-insurance related activities, specifically the administration fee received by Cedar Employee Benefits Proprietary Limited.*
****Sundry income comprises profit on sale of operation.*

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **23. Net claims and benefits incurred** | | | | |
| Individual life benefits: | | | | |
| > Death and disability benefits | **118 723** | 96 860 | **112 717** | 85 666 |
| > Retrenchment and surrenders | **80 507** | 66 699 | **62 672** | 51 280 |
| > Annuities | **10 214** | 12 745 | **10 157** | 12 692 |
| > Maturities and endowments | **27 303** | 27 552 | **3 394** | 4 511 |
| > Reinsurance recoveries | **(5 972)** | (5 708) | **(4 782)** | (4 115) |
| **Total** | **230 775** | 198 148 | **184 158** | 150 034 |
| Group benefits: | | | | |
| > Death, disability and retrenchment benefits | **136 852** | 104 951 | **105 840** | 89 501 |
| > Reinsurance recoveries | **(56 019)** | (41 150) | **(43 908)** | (40 324) |
| | **80 833** | 63 801 | **61 932** | 49 177 |
| Other | | | | |
| > Claims handling costs | **2 297** | 2 149 | **2 297** | 2 149 |
| **Total** | **313 905** | 264 098 | **248 387** | 201 360 |

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **24. Profit before taxation** | | | | | |
| Profit before taxation is determined after taking the following into account: | | | | | |
| Property and equipment – depreciation | 3, 27.1 | **2 493** | 2 643 | **749** | 877 |
| > Property | | **881** | 951 | **566** | 557 |
| > Computer and office equipment | | **511** | 447 | **3** | 3 |
| > Furniture and fittings | | **444** | 538 | **180** | 265 |
| > Motor vehicles | | **204** | 254 | **—** | 52 |
| > Leasehold improvements | | **453** | 453 | **—** | — |
| Impairment losses on financial assets | | **6 176** | 4 916 | **6 176** | 4 916 |
| Amortisation of intangible assets – computer software | 4, 27.1 | **2 062** | 7 440 | **1 588** | 5 874 |
| Investment management expenses | | **3 182** | 2 219 | **3 182** | 2 219 |
| Rentals under operating leases | | **7 604** | 6 524 | **3 024** | 2 290 |
| Foreign exchange gains | | **12** | 2 | **12** | 2 |
| Auditors' remuneration | | **3 773** | 5 061 | **2 654** | 3 611 |
| Consultancy fees | | **15 736** | 6 278 | **11 032** | 2 849 |
| > Actuarial | | **3 732** | 2 892 | **2 386** | 2 130 |
| > Other | | **12 004** | 3 386 | **8 646** | 719 |
| Legal fees | | **668** | 562 | **647** | 199 |
| Staff costs | | **111 360** | 107 742 | **66 498** | 59 572 |
| > Pension contributions* | | **3 826** | 3 702 | **2 917** | 2 578 |
| > Share-based payments | 25 | **3 995** | 5 317 | **3 995** | 5 317 |
| > Salaries and wages | | **103 539** | 98 723 | **59 586** | 51 677 |
| Profit on disposal of property and equipment | 27.1 | **3 526** | 253 | **125** | 257 |
| **Number of employees** | | **316** | 351 | **182** | 205 |

**Post-employment benefits.*

The Regent Life Group provides retirement benefits through independent funds under the control of trustees and all contributions to those funds are charged to the statement of comprehensive income. The large majority of employees are members of the Imperial Group Pension Fund and the Imperial Group Provident Fund which are governed by the Pensions Funds Act, 1956.

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **25. Share-based equity reserve** | | | | | |
| Reconciliation of share-based payment reserve: | | | | | |
| Opening balance | | **4 352** | 1 998 | **4 352** | 1 998 |
| Hedge premium paid | | **7 789** | 13 496 | **7 789** | 13 496 |
| Direct transfer to equity | | **—** | (3 689) | **—** | (3 689) |
| Share-based equity reserve raised | | | | | |
| > Direct cost | 24 | **(3 995)** | (5 317) | **(3 995)** | (5 317) |
| > Tax effect | | **(581)** | (2 136) | **(581)** | (2 136) |
| **Total share-based payments equity reserve** | | **7 565** | 4 352 | **7 565** | 4 352 |

The Imperial Holdings share appreciation rights scheme was set up to provide executives and senior management of the Regent Life Group with an opportunity to own shares in the ultimate holding company of the Regent Life Group, Imperial Holdings Limited, through the grant of rights to the appreciation in Imperial Holdings Limited share price. Share appreciation rights are rights to receive shares equal in value to the appreciation of the Imperial Holdings Limited shares between the grant date and the vesting date, subject to the fulfilment of pre-determined performance criteria over the vesting period.

The fair values for the share-based payment reserves were calculated using a Black-Scholes pricing model.

The inputs into the model are set out below.

### Share Appreciation Rights Scheme

| | | |
|---|---|---|
| > Volatility (%) | **28.41** | 29.50 |
| > Weighted average share price (rand) | **193.77** | 195.20 |
| > Weighted average exercise price (rand) | **193.77** | 195.20 |
| > Weighted average fair value (rand) | **46.67** | 47.02 |
| > Expected life (years) | **4.28** | 4.32 |
| > Average risk-free rate (%) | **7.75** | 6.50 |
| > Expected dividend yield (%) | **4.34** | 3.89 |

### Deferred Bonus Plan

| | | |
|---|---|---|
| > Volatility (%) | **28.41** | 29.50 |
| > Weighted average share price (rand) | **193.77** | 195.20 |
| > Weighted average fair value (rand) | **168.45** | 171.89 |
| > Expected life (years) | **3.23** | 3.27 |
| > Average risk-free rate (%) | **7.75** | 6.50 |
| > Expected dividend yield (%) | **4.34** | 3.89 |

The volatilities were determined by calculating the historical volatility of the Imperial Holdings Limited's share price over the previous five years. The expected life is determined by the rules of the schemes which dictate the expiry date.

| | Notes | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|---|
| **26. Taxation** | | | | | |
| Current taxation | | | | | |
| > Current year | | **38 751** | 46 921 | **25 132** | 29 191 |
| > CGT | | **402** | (4 361) | **137** | (4 361) |
| > Prior year under provision | | **2 580** | 93 | **3 506** | 536 |
| > Withholding taxation and STC | | **9 083** | 4 777 | **5 485** | 4 777 |
| | | **50 816** | 47 430 | **34 260** | 30 143 |
| Deferred taxation | | | | | |
| > Statutory reserves and provisions | 14 | **11 846** | 6 909 | **11 523** | 7 208 |
| > CGT | 14 | **76** | (613) | **76** | (613) |
| > Prior year under provision | 14 | **—** | (212) | **—** | — |
| | | **11 922** | 6 084 | **11 599** | 6 595 |
| | | **62 738** | 53 514 | **45 859** | 36 738 |

| | Group 2014 % | Group 2013 % | Company 2014 % | Company 2013 % |
|---|---|---|---|---|
| **Taxation rate reconciliation** | | | | |
| South African normal taxation rate | **28.00** | 28.00 | **28.00** | 28.00 |
| Non-allowable expenditure/(income) | **2.78** | 3.83 | **(5.85)** | (6.27) |
| Capital gains taxation | **(2.76)** | (2.42) | **(2.58)** | (2.61) |
| Withholding taxation and STC | **2.34** | 2.65 | **2.66** | 2.86 |
| Losses in subsidiaries | **0.01** | (0.59) | **—** | — |
| Rate differential | **(1.56)** | (2.25) | **—** | — |
| Prior year under provision | **0.29** | 0.48 | **1.84** | — |
| **Taxation charge in statement of comprehensive income** | **29.10** | 29.70 | **24.07** | 21.98 |

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **27. Notes to the statements of cash flows** | | | | | |
| **27.1 Cash generated from operations** | | | | | |
| **Profit before taxation** | | **215 631** | 180 146 | **190 584** | 167 148 |
| Adjustments made for non-cash flow items: | | | | | |
| Depreciation | 3, 24 | **2 493** | 2 643 | **749** | 877 |
| Amortisation of intangible assets – computer software | 4, 24 | **2 062** | 7 440 | **1 588** | 5 874 |
| Goodwill impairment | | **—** | 8 418 | **—** | — |
| Fair value adjustments | | **(68 520)** | (64 825) | **(52 765)** | (48 010) |
| Change in policyholder liabilities under insurance contracts | | **90 632** | 95 001 | **52 890** | 56 057 |
| Profit on disposal of property and equipment | 24 | **(3 526)** | (253) | **(125)** | (257) |
| Interest income | | **(62 785)** | (54 172) | **(38 731)** | (38 445) |
| Interest expense | | **(171)** | 164 | **(282)** | 144 |
| Dividends received | | **(13 486)** | (11 929) | **(76 928)** | (67 732) |
| Share of loss from associate | | **110** | 128 | **—** | — |
| | | **162 440** | 162 761 | **76 980** | 75 656 |
| **Changes in working capital** | | | | | |
| (Increase)/decrease in trade and other receivables | | **(15 509)** | 35 047 | **(2 754)** | 38 257 |
| Increase/(decrease) in trade and other payables | | **60 628** | (65 057) | **47 345** | (65 280) |
| Increase/(decrease) in provisions | | **8 447** | (10 733) | **9 591** | (11 923) |
| | | **53 566** | (40 743) | **54 182** | (38 946) |
| **Cash generated from operations** | | **216 006** | 122 018 | **131 162** | 36 710 |
| **27.2 Investment income** | | | | | |
| **Dividends received** | | | | | |
| Dividends received per statements of comprehensive income | | **13 486** | 11 929 | **76 928** | 67 732 |
| **Dividends received** | | **13 486** | 11 929 | **76 928** | 67 732 |
| **Interest received** | | | | | |
| Accrued interest income at the beginning of the year | | **4 961** | 5 971 | **3 441** | 2 917 |
| Interest income per statements of comprehensive income | | **62 785** | 54 172 | **38 731** | 38 445 |
| Accrued interest income at the end of the year | | **(8 163)** | (4 961) | **(3 660)** | (3 441) |
| **Interest received** | | **59 583** | 55 182 | **38 512** | 37 921 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **27. Notes to the statements of cash flows** *(continued)* | | | | |
| **27.3 Taxation paid** | | | | |
| Amount (payable)/receivable at the beginning of the year | **(7 912)** | 22 273 | **(6 456)** | 18 682 |
| Amount charged to the statement of comprehensive income | **(62 738)** | (53 514) | **(45 859)** | (36 738) |
| Movement in share-based equity reserve | **582** | 2 136 | **582** | 2 136 |
| Movement in deferred tax | **11 923** | 6 084 | **11 600** | 6 595 |
| | **(58 145)** | (23 021) | **(40 133)** | (9 325) |
| Amount (receivable)/payable at the end of the year | **(2 025)** | 7 912 | **558** | 6 456 |
| **Taxation paid** | **(60 170)** | (15 109) | **(39 575)** | (2 869) |
| **27.4 Dividends paid** | | | | |
| Dividends per statement of changes in equity | **(131 194)** | (131 842) | **(129 409)** | (128 792) |
| **Dividends paid** | **(131 194)** | (131 842) | **(129 409)** | (128 792) |
| **27.5 Acquisition of subsidiaries** | | | | |
| During the prior financial year Cedar Employee Benefits Proprietary Limited increased its shareholding in its two subsidiaries, Cedar Healthcare Proprietary Limited and Medi Call Proprietary Limited, from 84% to 100%. The fair values of the assets and liabilities at transaction date was as follows: | | | | |
| Property and equipment | — | 29 | — | — |
| Other receivables | — | 1 099 | — | — |
| Cash and cash equivalents | — | 4 978 | — | — |
| Deferred tax asset | — | 69 | — | — |
| Provisions | — | (195) | — | — |
| Insurance and other payables | — | (1 167) | — | — |
| | — | 4 813 | — | — |
| **Net cash outflow** | — | (1 212) | — | — |
| Cedar Employee Benefits Proprietary Limited also purchased 100% of Verso Health Proprietary Limited during the prior financial year. Verso Health Proprietary Limited then sold its business to Cedar Healthcare Proprietary Limited. The fair value of the assets and liabilities assumed at the transaction date was as follows: | | | | |
| Property and equipment | — | 25 | — | — |
| Other receivables | — | 325 | — | — |
| Cash and cash equivalents | — | 38 | — | — |
| Deferred tax asset | — | 9 | — | — |
| Provisions | — | (30) | — | — |
| Current taxation | — | 44 | — | — |
| Insurance and other payables | — | (323) | — | — |
| | — | 88 | — | — |
| Cash paid on purchase of interest | — | (1 867) | — | — |
| *Less:* cash and cash equivalent in subsidiary | — | 38 | — | — |
| **Net cash outflow** | — | (1 829) | — | — |
| **Total cash outflow** | — | (3 041) | — | — |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **27. Notes to the statements of cash flows** *(continued)* | | | | |
| **27.6 Movement on books of business** | | | | |
| During the current financial year, Regent Life Company purchased a book of business while at the same time also sold a book of business. | | | | |
| Sale of book of business | **(140 760)** | — | **(140 760)** | — |
| Purchase of book of business | **134 155** | — | **134 155** | — |
| **Net cash outflow on books of business** | **(6 605)** | — | **(6 605)** | — |

## 28. Related party transactions

### 28.1 Identity of related parties

The Regent Life Assurance Company has a related party relationship with its holding company, subsidiaries and fellow subsidiaries and with its directors and key management personnel.

### 28.2 Other related party transactions and balances

The company has balances receivable with subsidiary companies. These balances are disclosed below in note 28.2.2. Transactions between the Regent Life Assurance Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

During the year, the Regent Life Assurance Company and its subsidiaries, in the ordinary course of business, entered into various transactions with fellow subsidiary companies in the greater Imperial Group of companies. These transactions occurred under terms that are no less favourable than those arranged with third parties.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **28.2.1 Transactions with related parties** | | | | |
| Fees paid to holding company | **13 109** | 10 867 | **13 109** | 10 867 |
| Internal audit fee paid to holding company | **170** | 162 | **170** | 162 |
| Interest paid to holding company | **5** | 31 | **5** | 31 |
| Vehicle operating lease costs paid to group company | **2 390** | 1 425 | **2 390** | 1 425 |
| Administration fee paid to subsidiary | **—** | — | **615** | 816 |
| Management fee received from subsidiary | **—** | — | **294** | 337 |
| **28.2.2 Year-end balances with related parties** | | | | |
| **Receivable from related parties** | **8** | 756 | **12 364** | 21 051 |
| > Imperial Holdings Limited and subsidiaries | **8** | — | **8** | — |
| > Regent Life Group subsidiaries and associates | **—** | 756 | **12 356** | 21 051 |
| **Payable to related parties** | **6 534** | 7 021 | **6 534** | 6 836 |
| > Imperial Holdings Limited and subsidiaries | **6 534** | 7 021 | **6 534** | 6 836 |

| | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|
| **29. Remuneration** | | |
| **29.1 Directors' emoluments** | | |
| Directors' emoluments comprise: | | |
| Executive directors' remuneration | **22 100** | 29 039 |
| > Basic remuneration | **7 373** | 7 034 |
| > Retirement and medical benefits | **701** | 490 |
| > Other incentives and benefits | **14 026** | 21 515 |
| **Non-executive directors' fees** | **1 425** | 1 303 |
| > RG Cottrell | **—** | 144 |
| > C Erasmus | **445** | 416 |
| > S Masinga | **226** | 211 |
| > JPR Mbau | **107** | 100 |
| > BR Mallinson | **369** | 142 |
| > RJA Sparks | **278** | 290 |

Fees for services as director for the year ended 30 June 2014 were approved by the shareholder at the annual general meeting. The remuneration of directors is determined by the remuneration committee of Imperial Holdings Limited based on the performance of the individual and market trends. All executive directors are eligible for annual performance related bonus payments. The remuneration of directors and prescribed officers reflects a total remuneration paid by both Regent Life Company and Regent Insurance Company.

## 29. Remuneration *(continued)*

### 29.2 Executive directors and prescribed officers' remuneration

| | Salary R'000 | Bonus R'000 | Retirement and medical contributions R'000 | Other benefits R'000 | 2014 Total R'000 | 2013 Total R'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| B Adam | 1 644 | 1 431 | 175 | 62 | 3 312 | — |
| PCW Hibbit | — | — | — | — | — | 2 940 |
| AN Tennick | 2 414 | 2 340 | 229 | 3 657 | 8 640 | 10 333 |
| JJ Strydom | 3 315 | 2 650 | 297 | 3 886 | 10 148 | 15 766 |
| | 7 373 | 6 421 | 701 | 7 605 | 22 100 | 29 039 |

| | Commencement date | Price on commencement date (R) | Number of rights | Exercised | Number of rights remaining | Vesting date |
|---|---|---|---|---|---|---|
| **Participation in Imperial Holdings Limited Share Appreciation Rights Scheme** | | | | | | |
| AN Tennick | 2 June 2010 | 96.71 | 26 979 | 26 485 | — | 15 September 2013 |
| | 14 June 2011 | 116.59 | 10 283 | — | 10 283 | 15 September 2014 |
| | 14 June 2012 | 170.57 | 23 979 | — | 23 979 | 26 August 2015 |
| | 11 June 2013 | 195.20 | 29 513 | — | 29 513 | 15 September 2016 |
| | 24 June 2014 | 193.77 | 30 417 | — | 30 417 | 15 September 2017 |
| JJ Strydom | 2 June 2010 | 96.71 | 25 264 | 24 802 | — | 15 September 2013 |
| | 14 June 2011 | 116.59 | 9 384 | — | 9 384 | 15 September 2014 |
| | 14 June 2012 | 170.57 | 29 342 | — | 29 342 | 26 August 2015 |
| | 11 June 2013 | 195.20 | 50 000 | — | 50 000 | 15 September 2016 |
| B Adam | 2 June 2010 | 96.71 | 15 186 | — | 14 908 | 15 September 2013 |
| | 14 June 2011 | 116.59 | 6 500 | — | 6 500 | 15 September 2014 |
| | 14 June 2012 | 170.57 | 16 421 | — | 16 421 | 26 August 2015 |
| | 11 June 2013 | 195.20 | 25 000 | — | 25 000 | 15 September 2016 |
| | 24 June 2014 | 193.77 | 23 466 | — | 23 466 | 15 September 2017 |

## 29. Remuneration *(continued)*

### 29.2 Executive directors and prescribed officers' remuneration *(continued)*

| | Allocation date | Number of rights allocated | Number of shares committed to the plan | Forfeited | Balance available to be taken up | Vested during the year | Balance remaining | Vesting date |
|---|---|---|---|---|---|---|---|---|
| **Participation in Imperial Holdings Limited Deferred Bonus Plan** | | | | | | | | |
| AN Tennick | 18 June 2010 | 2 778 | 1 982 | — | — | 1 982 | — | 15 September 2013 |
| | 14 June 2011 | 4 425 | 1 530 | — | — | — | 1 530 | 7 September 2014 |
| | 13 June 2012 | 3 326 | 2 836 | — | — | — | 2 836 | 26 August 2015 |
| | 11 June 2013 | 2 567 | 2 567 | — | — | — | 2 567 | 15 September 2016 |
| | 24 June 2014 | 2 742 | — | — | 2 742 | — | — | 15 September 2017 |
| JJ Strydom | 18 June 2010 | 2 602 | 2 602 | — | — | 2 602 | — | 15 September 2013 |
| | 14 June 2011 | 4 039 | 4 039 | — | — | — | 4 039 | 7 September 2014 |
| | 13 June 2012 | 5 931 | 3 957 | — | — | — | 3 957 | 26 August 2015 |
| | 11 June 2013 | 3 689 | 3 689 | — | — | — | 3 689 | 15 September 2016 |
| | 24 June 2014 | 21 159 | — | — | 21 159 | — | — | 15 September 2017 |
| B Adam | 11 June 2013 | 1 458 | 1 458 | — | — | — | 1 458 | 15 September 2016 |
| | 24 June 2014 | 2 115 | — | — | 2 115 | — | — | 15 September 2017 |

## 30. Critical accounting estimates and judgements in applying accounting policies

The Regent Life Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 30.1 The ultimate liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from claims under insurance contracts is the Regent Life Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Regent Life Group will ultimately pay for such claims.

Claim amounts are generally fixed or relatively easy to estimate. There is therefore limited uncertainty as to the expected claim amount on a particular policy. The reinsurance terms are also known in advance and the allowance for reinsurance recoveries is readily determinable. However it is necessary to estimate the timing of the claim payments. This 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. For each policy the present value of the expected claims is estimated based on age and calendar-year based standard tables modified to reflect the recent claims experience of the Regent Life Group and incorporating an allowance for trends.

The assumptions used are generally best estimate assumptions with compulsory margins and in certain instances discretionary margins have been included for additional prudence. The discount rate used to capitalise the claim values is also based on current economic conditions but reflects the Regent Life Group's asset mix with an allowance for mismatching risk.

## 30. Critical accounting estimates and judgements in applying accounting policies *(continued)*

### 30.2 Estimate of future benefit payments and premiums arising from long-term insurance contracts and related deferred acquisition costs

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

Where future premiums are payable, they have also been valued based on the current premium being paid. Future premiums are projected over the lifetime 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 Regent Life Group and allows for mismatching risk.

Margins in premium rates to recoup up-front commission costs which have been capitalised as negative reserves have been recognised in full.

### 30.3 Fair value of investment contracts

The Regent Life Group issues investment contracts that are designated at fair value through profit or loss.

The liability held under these contracts is based on the account balance which represents the accumulated value of the allocated premiums less charges at the interest rate credited to the policies based on the investment performance of the underlying assets. The liability is set equal to a minimum of the surrender value payable on each policy. In most cases the liability held exceeds the minimum surrender value.

## 31. Management of insurance and financial risk

### 31.1 Capital risk

The Regent Life Group manages capital risk to ensure that entities in the Regent Life Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Regent Life Group's overall strategy remains unchanged.

The capital structure of the Regent Life Group consisted of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

### 31.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies.

## 31. Management of insurance and financial risk *(continued)*

### 31.3 Financial risk management objectives

The Regent Life Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. An investment committee sets policies and receives monthly and quarterly reports on compliance with investment policies.

The Regent Life Group manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principle technique of the Regent Life Group'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.

The Regent Life Group's activities expose it primarily to the financial risks of changes in equity prices, interest rates and foreign currency rates. There has been no change to the Regent Life Group's exposure to market risks or the manner in which it manages and measures the risk.

### 31.3.1 Market risk

This can be described as the risk of a change in fair value or future cash flows of a financial instrument brought about by changes in interest rates, equity prices or foreign exchange rates.

*Equity market risk*

The Regent Life Group invests in equity investments on behalf of policyholders and shareholders. The investments in equities are reflected in the statement of financial position at fair values, which are susceptible to fluctuations in value. Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets. Equity investments are held for long-term investment rather than trading purposes. The Regent Life Group does not actively trade these investments.

*Equity market price sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. A hypothetical 1% decrease in the all share index of the JSE, based on similar sensitivities used in the industry and on market conditions, would result in an estimated reduction in profit before tax of R0.2 million (2013: R1.9 million).

## 31. Management of insurance and financial risk *(continued)*

### 31.3.1 Market risk *(continued)*

### Fair value hierarchy disclosures

The table below shows the Regent Life Group's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification is based on the lowest level input that is significant to the fair value measurement in its entirety.

| | Valuations with reference to quoted prices in an active market Level 1 R'000 | Valuations based on observable inputs Level 2 R'000 | Total carried at fair value R'000 |
|---|---|---|---|
| **Financial assets held as at fair value through profit and loss** | | | |
| **2014** | | | |
| **Group** | | | |
| Listed preference shares | **20 000** | **—** | **20 000** |
| Unlisted preference shares | **—** | **18 500** | **18 500** |
| Short-term deposits less than one year | **—** | **182 579** | **182 579** |
| Government bonds | **23 164** | **—** | **23 164** |
| Corporate bonds | **157 533** | **—** | **157 533** |
| Listed equities | **304 251** | **—** | **304 251** |
| Collective investment schemes | **235 629** | **—** | **235 629** |
| **Total financial assets** | **740 577** | **201 079** | **941 656** |
| **Company** | | | |
| Listed preference shares | **20 000** | **—** | **20 000** |
| Unlisted preference shares | **—** | **18 500** | **18 500** |
| Short-term deposits less than one year | **—** | **10 000** | **10 000** |
| Government bonds | **13 665** | **—** | **13 665** |
| Corporate bonds | **157 533** | **—** | **157 533** |
| Listed equities | **293 766** | **—** | **293 766** |
| Collective investment schemes | **85 036** | **—** | **85 036** |
| **Total financial assets** | **570 000** | **28 500** | **598 500** |
| **2013** | | | |
| **Group** | | | |
| Listed preference shares | 20 889 | — | 20 889 |
| Unlisted preference shares | — | 50 000 | 50 000 |
| Short-term deposits more than one year | — | 158 529 | 158 529 |
| Short-term deposits less than one year | — | 50 000 | 50 000 |
| Government bonds | 22 249 | — | 22 249 |
| Corporate bonds | 154 565 | — | 154 565 |
| Listed equities | 211 108 | — | 211 108 |
| Collective investment schemes | 433 005 | — | 433 005 |
| **Total financial assets** | 841 816 | 258 529 | 1 100 345 |
| **Company** | | | |
| Listed preference shares | 20 889 | — | 20 889 |
| Unlisted preference shares | — | 50 000 | 50 000 |
| Short-term deposits less than one year | — | 50 000 | 50 000 |
| Government bonds | 13 152 | — | 13 152 |
| Corporate bonds | 154 565 | — | 154 565 |
| Listed equities | 202 108 | — | 202 108 |
| Collective investment schemes | 334 992 | — | 334 992 |
| **Total financial assets** | 725 706 | 100 000 | 825 706 |

## 31. Management of insurance and financial risk *(continued)*

### 31.3.1 Market risk *(continued)*

Level 1 financial assets includes assets where fair value is determined using quoted prices in an active market. For quoted prices in an active market to exist there should be actual and regular occurring market transactions and the prices of those transactions should be readily available.

Fair value for level 2 assets is determined by way of valuation techniques and the inputs into the valuation model are based on observable market inputs other than quoted prices included within level 1. An input is observable if it can be observed as a market price or can be derived from an observed market price.

If fair value is determined by way of valuation techniques and the inputs into the valuation model are not based on observable market data or the observable market data has been significantly altered, then those instruments are classified as level 3.

#### Interest rate risk

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to a change in market interest rates. The following investments which are held at fair value, will be directly impacted by changes in market interest rates: Accounts receivable and accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of these underlying cash flows. The Regent Life Group does not have any interest-bearing borrowings. Interest rate risk is therefore limited to the Regent Life Group's investment in variable rate investments, such as gilts and bonds.

The table below summarises the effective interest rates at the statement of financial position date:

| | Group 2014 % | Group 2013 % | Company 2014 % | Company 2013 % |
|---|---|---|---|---|
| Debt securities – fixed interest rate: | | | | |
| > Government bonds | **8.17** | 8.28 | **7.25** | 7.50 |
| > Listed bonds | **7.82** | 8.55 | **7.82** | 8.55 |
| Cash at bank | **4.84** | 4.50 | **5.00** | 4.50 |

Investment decisions are delegated by the board to the investment committee, which has responsibility for the investment portfolio's risk profile and related decisions. To this end, the committee is supported by a well-developed research function utilising portfolio managers.

#### *Interest rate sensitivity analysis*

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at statement of financial position date. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 1% higher/lower and all other variables were held constant, the Regent Life Group's profit for the financial year ended 30 June 2014 would decrease/increase by R5.1 million (2013: R3.6 million decrease/increase).

## 31. Management of insurance and financial risk *(continued)*

### 31.3.1 Market risk *(continued)*

*Foreign currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate in rands due to the changes in foreign exchange rates.

The Regent Life Group operates in Botswana and its exposure arises with respect to the Botswana pula.

The following table sets out the exchange rates used for each major currency.

| | Group 2014 Average ZAR | Group 2013 Average ZAR | Group 2014 Closing ZAR | Group 2013 Closing ZAR |
|---|---|---|---|---|
| Botswana pula (BWP) | **1.17402** | 1.08803 | **1.20715** | 1.16266 |

The table below illustrates the analysis of assets and liabilities of the Regent Life Group in Botswana pula.

| | 2014 BWP'000 | 2013 BWP'000 |
|---|---|---|
| Total assets | **192 372** | 215 318 |
| Total liabilities | **96 510** | 97 879 |
| **Net assets** | **95 862** | 117 439 |

*Foreign currency sensitivity analysis*

The following table details the Regent Life Group's sensitivity to a 1% increase and decrease in the rand against the Botswana pula. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the rand strengthens 1% against the relevant currency. For a 1% weakening of the rand against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Profit or loss | **337** | 346 |

### 31.3.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Regent Life Group to incur a financial loss.

Fair values of financial assets may be affected by the credit worthiness of the issuer. Limits of exposure are set by the investment committee and are continuously monitored. The concentrations of credit risk are throughout South Africa, Lesotho and Botswana, with the most significant portion in the Gauteng area. The Regent Life Group has policies that limit the credit exposure to any institution and reputable reinsurers are used for the Regent Life Group's reinsurance treaties.

## 31. Management of insurance and financial risk *(continued)*

### 31.3.2 Credit risk *(continued)*

With regard to credit risk contained in insurance and other receivables, the exposure amounts to R116.1 million (2013: R92.0 million), comprising balances with policyholders, agents, brokers, intermediaries and reinsurers:

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| Policyholder short-term debtors | **50 931** | 41 015 | **49 967** | 40 647 |
| Agents, brokers and intermediaries | **1 203** | 1 519 | **1 203** | 1 519 |
| Investment debtors | **8 163** | 4 961 | **3 660** | 3 441 |
| Reinsurance recoveries | **8 546** | 3 476 | **6 824** | 2 887 |
| Other | **47 276** | 41 022 | **11 225** | 8 057 |
| | **116 119** | 91 993 | **72 879** | 56 551 |

Group policy dictates that provision is made for all debtors that exceed 30 days.

Agents, brokers and intermediaries totalling R1.2 million (2013: R1.5 million) are subject to a comprehensive relationship management programme, including credit assessment. There is no material exposure to any single agent, broker or intermediary. The widespread nature of the individual amounts combined with the relationship programme reduces the credit risk.

Industry supported default lists help to prevent rogue agents, brokers and intermediaries from conducting business with the Regent Life Group. Full provision is made for non-recoverability as soon as management is uncertain as to the recovery.

The Regent Life Group uses reputable reinsurers thereby reducing any credit risk.

### 31.3.3 Liquidity risk

Liquidity risk is the risk that the Regent Life Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Insurance companies are registered financial institutions and are required to hold minimum capital to, *inter alia*, reduce policyholder exposure to the entity's liquidity risk. The Financial Services Board is the regulatory authority that regularly reviews compliance with these minimum capital requirements. The statutory actuary and management continually manage and monitor liquidity and capital requirements – refer to the statutory actuary report (pages 16 to 20) and to the consolidated statutory actuary report (pages 21 to 22).

Liabilities entered into by the Regent Life Group are continuously managed in order to control the liquidity risks to which the Regent Life Group is exposed. The Regent Life Group has sufficient liquid resources.

The following tables detail the Regent Life Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Regent Life Group can be required to pay. The table includes both interest and principal cash flows.

Management monitors the liquidity risks by ensuring that all short-term liabilities are not paid earlier or later than the credit terms and also by ensuring that the payment terms are favourable to the Regent Life Group.

## 31. Management of insurance and financial risk *(continued)*

### 31.3.3 Liquidity risk *(continued)*

| | Total R'000 | Within 1 year R'000 | 1 – 5 years R'000 | Over 5 years R'000 |
|---|---|---|---|---|
| **Period when cash flow is expected to become due** | | | | |
| **2014** | | | | |
| **Group** | | | | |
| **Liabilities** | | | | |
| Net policyholder liabilities | **681 987** | **132 154** | **182 960** | **366 873** |
| Current taxation | **642** | **642** | **—** | **—** |
| Due to group companies | **6 534** | **6 534** | **—** | **—** |
| Insurance and other payables | **237 312** | **237 312** | **—** | **—** |
| **Total** | **926 475** | **376 642** | **182 960** | **366 873** |
| **Company** | | | | |
| **Liabilities** | | | | |
| Net policyholder liabilities | **303 765** | **112 392** | **35 376** | **155 997** |
| Current taxation | **558** | **558** | **—** | **—** |
| Due to group companies | **6 534** | **6 534** | **—** | **—** |
| Insurance and other payables | **197 200** | **197 200** | **—** | **—** |
| **Total** | **508 057** | **316 684** | **35 376** | **155 997** |
| **2013** | | | | |
| **Group** | | | | |
| **Liabilities** | | | | |
| Net policyholder liabilities | 584 787 | 77 349 | 127 375 | 380 063 |
| Current taxation | 52 172 | 52 172 | — | — |
| Due to group companies | 7 021 | 7 021 | — | — |
| Insurance and other payables | 177 789 | 177 789 | — | — |
| **Total** | 821 769 | 314 331 | 127 375 | 380 063 |
| **Company** | | | | |
| **Liabilities** | | | | |
| Net policyholder liabilities | 259 009 | 57 959 | 9 970 | 191 080 |
| Current taxation | 46 371 | 46 371 | — | — |
| Due to group companies | 6 836 | 6 836 | — | — |
| Insurance and other payables | 150 462 | 150 462 | — | — |
| **Total** | 462 678 | 261 628 | 9 970 | 191 080 |

## 31. Management of insurance and financial risk *(continued)*

### 31.4 Insurance risk

Insurance risk is the risk that future claims and expenses will exceed the value placed on insurance liabilities.

It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. This could also occur because of the frequency or severity of claims and benefits being 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 (using statistical techniques). The Regent Life Group uses appropriate base tables of standard mortality and morbidity according to the type of contract being written and the territory in which the insured person resides. An investigation into the actual experience of the Regent Life Group over the last three years 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. The Regent Life Group maintains 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 the best estimate of future termination rates.

The timing is specifically influenced by future mortality, morbidity, and withdrawal rates, about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows different from those projected in liability calculations. As such, each assumption represents a source of uncertainty.

The larger the portfolio of uncorrelated insurance risks, the smaller the relative variability about what the expected outcome will be. In addition, a more diversified portfolio of risks in terms of type and amount of risk, geographical location and type of industry covered, is less likely to be affected, across the board, by a change in any subset of the risks.

*Policyholder behaviour risks*

Policyholders have the option to discontinue or withdraw benefits prior to expiry of the contract term. As a result policyholder behaviour contributes to insurance risk.

The main risk posed by this behaviour is the risk that expenses and commissions incurred early in the term of the contract, but priced to be recovered by means of ongoing charges over a longer period, are not fully recovered due to the decision by the policyholder to cease or reduce contributions.

On contracts where a withdrawal benefit is payable, this risk is mitigated by conditions built into policy contracts which enable the Regent Life Group to recoup these unrecovered expenses by means of a lump sum charge.

In addition, commission clawback provisions, included in contracts with intermediaries, enable the Regent Life Group to mitigate some of the risk of early termination.

*Frequency and severity of claims*

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. The Regent Life Group manages these risks through its underwriting strategy and reinsurance arrangements.

Catastrophe risk is the risk of multiple claims arising out of a single event. The Regent Life Group has catastrophe reinsurance in place as a mitigating action.

## 31. Management of insurance and financial risk *(continued)*

### 31.4 Insurance risk *(continued)*

**Terms of liabilities net of reinsurance including investment contracts**

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| Payable within one year | **132 154** | 77 349 | **112 392** | 57 959 |
| Payable between one and five years | **182 960** | 127 375 | **35 376** | 9 970 |
| Payable after five years | **366 873** | 380 063 | **155 997** | 191 080 |
| | **681 987** | 584 787 | **303 765** | 259 009 |

*Claims development*

The tables below show the claims development gross and net of reinsurance for the Regent Life Group and Company.

| | 2012 R'000 | 2013 R'000 | 2014 R'000 |
|---|---|---|---|
| **Group** | | | |
| **Insurance claims – gross** | | | |
| Estimate of ultimate claim costs: | | | |
| At the end of the claim year | 286 566 | 284 722 | **373 599** |
| One year later | 279 618 | 305 586 | **—** |
| Two years later | 296 723 | — | **—** |
| Current estimate of cumulative claims | 296 723 | 305 586 | **373 599** |
| Cumulative payments to date | (290 164) | (290 773) | **(320 594)** |
| Liability recognised | 6 559 | 14 813 | **53 005** |
| **Cumulative liability – statement of financial position** | | | **74 377** |
| **Insurance claims – net** | | | |
| Estimate of ultimate claim costs: | | | |
| At the end of the claim year | 244 921 | 238 836 | **313 905** |
| One year later | 238 333 | 260 278 | **—** |
| Two years later | 247 797 | — | **—** |
| Current estimate of cumulative claims | 247 797 | 260 278 | **313 905** |
| Cumulative payments to date | (241 627) | (246 009) | **(268 512)** |
| Liability recognised | 6 170 | 14 269 | **45 393** |
| **Cumulative liability – statement of financial position** | | | **65 832** |

## 31. Management of insurance and financial risk *(continued)*

### 31.4 Insurance risk *(continued)*

*Claims development*

| | 2012 R'000 | 2013 R'000 | 2014 R'000 |
|---|---|---|---|
| **Company** | | | |
| **Insurance claims – gross** | | | |
| Estimate of ultimate claim costs: | | | |
| At the end of the claim year | 257 261 | 243 650 | **294 780** |
| One year later | 250 673 | 240 430 | **—** |
| Two years later | 248 348 | — | **—** |
| Current estimate of cumulative claims | 248 348 | 240 430 | **294 780** |
| Cumulative payments to date | (241 609) | (236 915) | **(239 512)** |
| Liability recognised | 6 739 | 3 515 | **55 268** |
| **Cumulative liability – statement of financial position** | | | **65 522** |
| **Insurance claims – net** | | | |
| Estimate of ultimate claim costs: | | | |
| At the end of the claim year | 216 490 | 199 211 | **248 387** |
| One year later | 209 902 | 197 540 | **—** |
| Two years later | 207 671 | — | **—** |
| Current estimate of cumulative claims | 207 671 | 197 540 | **248 387** |
| Cumulative payments to date | (201 141) | (194 160) | **(199 599)** |
| Liability recognised | 6 530 | 3 380 | **48 788** |
| **Cumulative liability – statement of financial position** | | | **58 698** |

## 31. Management of insurance and financial risk *(continued)*

### 31.5 Other risks

*Legal risk*

The Regent Life Group's legal obligations arise throughout its operations and where the Regent Life Group may be faced with risk where legal proceedings are brought against it.

Legal risk arises where:

- the Regent Life Group's businesses may not be conducted in accordance with applicable laws in the countries in which it operates;
- the Regent Life Group may be liable for damages to third parties; and
- contractual obligations may be enforced against the Regent Life Group in an adverse way, resulting in legal proceedings being instituted against it.

The Regent Life Group has processes and controls in place to manage its legal risk.

*Operational risk*

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The initiation of all transactions and their administration is conducted on the foundation of segregation of duties that has been designed to ensure materially the completeness, accuracy and validity of all transactions. These controls are augmented by management and executive review of control accounts and systems, electronic and manual checks and controls, back-up facilities and contingency planning. The internal control systems and procedures are also subjected to regular internal audit reviews.

*Taxation risk*

Taxation risk is the risk that the Regent Life Group will incur a financial loss due to an incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing structures.

During the development stage of any new product and prior to any corporate transactions, the taxation resources of the Regent Life Group, and if required external resources, identify and advise on any material potential taxation impact thereof.

Proposed new taxation legislation is researched fully by the legal and taxation resources to identify any potential impact to the Regent Life Group.

Taxation risk is further mitigated through policy terms and conditions, which enable the risk to be passed back to policyholders.

*Regulatory risk*

Regulatory risk is the risk arising from the non-compliance with, or incorrect application of, regulatory requirements.

In order to manage this risk, the Regent Life Group is an active participant in industry bodies that engage in discussions with policy makers and regulators. The Regent Life Group also has a compliance function which monitors conformance to all regulatory requirements.

*Underwriting risk*

The statutory actuary reports annually on the actuarial soundness of the premium rates in use and the profitability of the business taking into consideration the reasonable benefit expectation of policyholders. All new rate tables are approved and authorised by the statutory actuary prior to being issued. Regular investigations into mortality and morbidity experience are conducted.

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.

## 31. Management of insurance and financial risk *(continued)*

### 31.6 Capital adequacy requirement (CAR)

The Regent Life Group is required to demonstrate solvency to the Registrar of Long-term Insurance, in accordance with the Long-Term Insurance Act (1998) as amended. This requires the Regent Life Group to demonstrate that it has sufficient assets to meet its liabilities and CAR for statutory purposes. Statutory returns are submitted to the Registrar quarterly, and valuations are performed half-yearly.

The CAR is intended to approximate a risk-based capital measure and gives guidance to the board concerning acceptable minimum Regent Life Group capital requirements. The CAR is calculated in accordance with the Long-Term Insurance Act (1998) and SAP 104, as the greater of the TCAR and the 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 over the long term that the insurer will be able to meet all its obligations. It explicitly includes stress tests for the following risks:

- Financial risk arising from mismatches between assets and liabilities in respect of embedded derivatives and the liabilities themselves;
- Changes in lapse and withdrawal experience; and
- Fluctuations in experience for mortality, morbidity and expenses.

The Regent Life Company's CAR was covered 4.2 times at 30 June 2014 (2013: 3.3 times). The CAR is R44.4 million (2013: 59.1 million).
The Regent Life Group's CAR was covered 3.3 times at 30 June 2014 (2013: 2.7 times). The CAR is R93.6 million (2013: R114.3 million).

The FSB is in the process of developing a new Solvency Assessment and Management (SAM) regime for the South African insurance industry, to be in line with international standards. The implementation date for SAM is 1 January 2016. However certain interim requirements were introduced in 2012, which prescribes the method used to calculate the statutory capital requirement and IBNR on a more risk-sensitive basis. Regent Life Company meets the requirements under the interim measures.

## 32. Subsidiaries

Details of the Regent Life Company's subsidiaries are as follows:

| Subsidiaries | Holding 2014 % | Holding 2013 % | Cost of shares R'000 | Principal activity |
|---|---|---|---|---|
| Regent Life Botswana Limited | **100** | 100 | 20 000 | Life assurance |
| Lesotho National Life Assurance Company Limited | **76** | 76 | 7 333 | Life assurance |
| Cedar Employee Benefits Proprietary Limited | **100** | 100 | 16 993 | Retirement fund administrators |
| I'SURE Risk Solutions Proprietary Limited | **100** | 100 | — | Insurance administrator |
| Bridge Works Finance Proprietary Limited | **100** | 100 | — | Finance intermediary |
| Struland Office Park Properties Proprietary Limited | **100** | 100 | 2 009 | Property |
| | | | 46 335 | |

## 33. Contingent liabilities

The Regent Life Group, in the ordinary course of business enters into transactions which expose the Regent Life Group to tax, legal and business risk. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or where it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets. At statement of financial position date there were no material contingent liabilities for the Regent Life Group.

## 34. Events after the reporting period

On 10 August 2014, The South African Reserve Bank announced the restructuring of African Bank Investments Limited (ABIL) and placed it under curatorship. The Regent Life Company had an exposure of approximately R12.8 million with an anticipated R1.8 million loss. No other material facts or circumstances have arisen between the reporting date and the date of this report which affect the financial position of the Regent Life Group as reflected in these annual financial statements.

# REGENT INSURANCE

## Directors' approval and statement of responsibility

*for the year ended 30 June 2014*

The directors of the Regent Insurance Group are responsible for the maintenance of adequate accounting records and the integrity of the annual financial statements and group annual financial statements of Regent Insurance Company. The annual financial statements presented on pages 91 to 143 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. The Regent Insurance Group's external auditors, Deloitte & Touche have audited the annual financial statements and their audit report appears on page 90.

The directors are also responsible for the Regent Insurance Company and Regent Insurance Group's systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements and group annual financial statements, to adequately safeguard, verify and maintain accountability for assets and to prevent and detect material misstatement and loss.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the Regent Insurance Company and Regent Insurance Group will not be a going concern in the foreseeable future based on forecasts and available cash resources. The viability of the Regent Insurance Company and Regent Insurance Group is supported by the annual financial statements.

Deloitte & Touche were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate.

The annual financial statements of the Regent Insurance Company and the Regent Insurance Group on pages 91 to 143 were approved by the board of directors on 30 October 2014 and are signed on its behalf by:

**MJ Lamberti**
*Chairman*

30 October 2014

**JJ Strydom**
*Chief executive officer*

30 October 2014

## Certificate by the company secretary

In accordance with section 88(e) of the Companies Act, it is hereby certified that to the best of my knowledge and belief the Regent Insurance Company has lodged with the Registrar of Companies, for the financial year ended 30 June 2014, all such returns as are required by a public company in terms of the Act and that such returns are true, correct and up to date.

**WP Behrens**
*Company secretary*

30 October 2014

# Independent auditors' report

*to the shareholder of Regent Insurance Company Limited for the year ended 30 June 2014*

## Report on the financial statements

We have audited the consolidated and separate financial statements of Regent Insurance Company Limited, set out on pages 96 to 143, which comprise the statements of financial position as at 30 June 2014, and the statements of comprehensive income, statements of changes in equity and the statements of cash flow for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the financial statements

The Regent Insurance Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

## Auditors' responsibility

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

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

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

## Opinion

In our opinion, these consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Regent Insurance Company Limited as at 30 June 2014, and its consolidated and separate financial performance and its consolidated and separate cashflows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

## Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2014, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**Deloitte & Touche**
*Registered auditor*

*Per:* **D Jorge**
*Partner*

30 October 2014

Building 8, Deloitte Place
The Woodlands office park
Woodlands Drive
Sandton

**National Executive:**

LL Bam (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Risk Advisory), NB Kader (Tax), TP Pillay (Consulting), K Black (Clients and Industries), JK Mazzocco (Talent and Transformation), CR Beukman (Finance), M Jordan (Strategy), S Gwala (Managed Services), TJ Brown (Chairman of the Board), MJ Comber (Deputy Chairman of the Board).

A full list of partners and directors is available on request.

B-BBEE rating: Level 2 contributor/AAA (certified by Empowerdex).

Member of Deloitte Touche Tohmatsu Limited.

# Audit committee report

*for the year ended 30 June 2014*

## Audit committee report

The audit committee presents its report for the year ended 30 June 2014. The audit committee is an independent statutory committee, as well as a committee of the board in respect of other duties assigned to it by the board. The committee has conducted its affairs in compliance with the board approved terms of reference and has discharged its responsibilities contained herein.

## Objectives and scope

The overall objective of the committee is to assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems and internal financial controls processes, the reviewing of financial information and the preparation of the annual financial statements.

In terms of its charter, which was updated during the current financial year, the main responsibilities of the audit committee include:

- carrying out all the functions as required in terms of legislation;
- performing all the functions of an audit committee for those operating subsidiaries that do not have their own audit committee;
- overseeing the integrity of the annual report and reviewing content thereof to ensure that the information is reliable;
- nominating to the shareholder a registered external auditor who, in the opinion of the committee, is independent of the company, for appointment as external auditor of the company, as well as nominating for appointment the designated individual auditor;
- consideration and recommendation to the board of the appointment, removal or replacement of the internal auditors of the Regent Insurance Group;
- consideration of the accounting treatment of significant or unusual transactions and areas of judgement that have a significant impact on the annual financial statements;
- determination of the nature and extent of any non-audit services which the external auditor may provide to the company and pre-approval of any proposed contract with the external auditor for the provision of those non-audit services;
- review and approval of the annual internal audit operational plan;
- monitoring the compliance of the Regent Insurane Group with legal requirements, statutes, regulations and the Regent Insurance Group's code of ethics;
- consideration of the reports by the internal and external auditors on their findings and recommendations;
- consideration of the annual financial statements and of any information to be included in the Imperial Group interim and preliminary announcements, and any other financial information to be made public, prior to submission and approval by the board;
- review of the effectiveness of the Regent Insurance Group's systems of internal control, including internal financial control and business risk management;
- review of the relationship between management, the internal auditors and the external auditors; and
- oversight of risk management.

## Committee performance

The committee discharged its statutory and board responsibilities by meeting at least quarterly and during the period under review met four times. For the period under review, the committee underwent a process of self-assessment in order to ensure that it functioned effectively in accordance with its terms of reference and is satisfied that it has done so. The record of attendance by each committee member was as follows:

| | 6 August 2013 | 23 October 2013 | 12 February 2014 | 11 June 2014 |
|---|---|---|---|---|
| C Erasmus | √ | √ | √ | √ |
| BR Mallinson (Chairman) | √ | √ | √ | √ |
| RJA Sparks | √ | √ | √ | √ |

**Legend:**

√ Present

# Audit committee report (continued)

*for the year ended 30 June 2014*

During the period under review the committee:

- received and reviewed reports from both the internal and external auditors concerning the effectiveness of the internal control environment, systems and processes;
- reviewed the reports of both the internal and external audit findings and management's responses thereto;
- considered the independence and objectivity of the external auditors and ensured that the scope of their additional services did not impair their independence;
- received and dealt with concerns and complaints through the "whistle blowing" service provided by the Imperial Group and ensured that such concerns and complaints were dealt with appropriately by management;
- reviewed the documented going concern assumptions prepared by management and made recommendations to the board;
- reviewed and recommended for adoption by the board the annual report of the Regent Insurance Group and of the annual financial statements of Regent Life Company for the year ended 30 June 2014;
- considered the effectiveness of internal audit, and approved their annual plan and the rolling three-year internal audit plan;
- received and reviewed reports from the chief risk officer on the enterprise risk management process; and
- satisfied itself that the chief financial officer of the company possesses the appropriate expertise and experience to meet the responsibilities of that position and that the company's finance function is staffed with adequately experienced and qualified people.

The committee is satisfied that it has fulfilled its obligations in respect of the scope of its responsibilities.

## Membership and constitution

The membership of the committee during the year under review comprised solely of independent non-executive directors. The chief executive officer, chief risk officer, chief financial officer, chief audit executive of Imperial Holdings, group risk executive of Imperial Holdings, representatives from the external auditors, the head of the internal audit service provider, other assurance providers, professional advisers and invited board members also attend the meetings as permanent invitees.

The audit committee is constituted as a statutory committee in respect of its statutory duties in terms of the Companies Act, 2008 and the Short-term Insurance Act, and a committee of the board in respect of all other duties assigned to it by the board. The committee operates in terms of a charter that has been approved by the board. As required by the Companies Act, the committee is to be elected by the shareholder at the forthcoming annual general meeting of Regent Insurance Company.

## External audit

The committee has satisfied itself, through enquiry, that the auditor of Regent Insurance Company is independent as defined by the Companies Act.

Non-audit services were provided by the external auditors during the year under review and this was appropriately authorised.

The committee has nominated, for approval at the annual general meeting, Deloitte & Touche as the external auditor for the 2015 financial year for Regent Insurance Company. Mrs D Jorge is the designated auditor for Regent Insurance Company. In terms of the rotation requirements of the Companies Act, this will be Mrs Jorge's fourth year as designated auditor.

## Annual report

Having considered the annual report of the Regent Insurance Group, incorporating the annual financial statements, for the year ended 30 June 2014, the committee recommends the annual report for approval to the board.

## Complaints

No complaints relating either to the accounting practices and internal audit of the company or to the contents or auditing of its financial statements, or to any related matter were received by the committee.

**BR Mallinson**

*Chairman of the audit committee*

30 October 2014

# Directors' report

*for the year ended 30 June 2014*

The directors present their annual report which forms part of the audited annual financial statements of the Regent Insurance Group and Regent Insurance Company for the year ended 30 June 2014.

## Nature of business

Regent Insurance Company, Regent Insurance Botswana and Lesotho National General Insurance Company are registered short-term insurers and underwrite all classes of business. Subsidiary companies own properties for rental and provide other insurance related and administrative services.

## Holding company

The holding company is Imperial Holdings Limited, a company incorporated in the Republic of South Africa.

| | % held | Country of incorporation |
|---|---|---|
| **Subsidiaries** | | |
| Regent Insurance Botswana Proprietary Limited | 100 | Botswana |
| Regent Reinsurance Management Proprietary Limited | 100 | South Africa |
| Motor Compliance Solutions Proprietary Limited | 100 | South Africa |
| Legal Advice Consultants Proprietary Limited | 100 | South Africa |
| Erf Four Nine Nine Spartan Proprietary Limited | 100 | South Africa |
| Newcastle Properties Shareblock Proprietary Limited | 100 | South Africa |
| Anvil Investments Proprietary Limited | 100 | South Africa |
| Anvil Financial Services Proprietary Limited | 100 | South Africa |
| Lesotho National General Insurance Company Limited | 60 | Lesotho |
| SA Warranties Proprietary Limited | 100 | South Africa |
| Paint Tech Maintenance Proprietary Limited | 100 | South Africa |
| **Associates** | | |
| Mobility Insurance Underwriting Managers Proprietary Limited | 30 | South Africa |
| Direct Insurance Brokers Proprietary Limited | 40 | South Africa |

Regent Insurance Company's interest in the aggregate profit after tax in subsidiaries amounted to R88.4 million (2013: R109.6 million) and in the losses amounted to Rnil (2013: Rnil).

## Dividends

Regent Insurance Group declared and paid dividends of R311.9 million (2013: R338.9 million) and Regent Insurance Company declared and paid dividends of R287.1 million (2013: R333.3 million).

## Share capital

Details of share capital are provided in note 19 to the annual financial statements.

## Special resolutions

The Regent Insurance Company and subsidiaries passed the following special resolutions:

- Approved the fees in respect of the independent non-executive directors; and
- Authorised the company to provide any direct, or indirect financial assistance to any related or inter-related company, subject to the provisions of the Companies Act.

None of the subsidiaries passed any special resolutions, which might be significant to members in their appreciation of the state of affairs of the Regent Insurance Group.

## Events after reporting period

On 10 August 2014, The South African Reserve Bank announced the restructuring of African Bank Investments Limited (ABIL) and placed it under curatorship. The Regent Insurance Company had an exposure of approximately R32.5 million with an anticipated R14.7 million loss. No other material facts or circumstances have arisen between the reporting date and the date of this report which affect the financial position of the Regent Insurance Group as reflected in these annual financial statements.

## Financial performance

The underwriting result increased by R42 million compared to the previous financial year and was achieved mainly as result of the improvement in the control of claims costs.

Operating profit before taxation also increased by R64 million over the same period due to in part to the reduction in claims costs as well as due to an increase in investment returns compared to the previous financial year.

## Board of directors to the date of this report

HR Brody (Chairman, non-executive director) (resigned 30 April 2014)

MJ Lamberti (Chairman, non-executive director) (appointed 17 June 2014)

### Executive directors

B Adam (Chief financial officer) (appointed 1 July 2014)

JJ Strydom (Chief executive officer)

AN Tennick (Executive director)

### Non-executive directors

M Akoojee

C Erasmus

BJ Francis

BR Mallinson

S Masinga

JPR Mbau

R Mumford

RJA Sparks

## Audit committee

### Independent non-executive directors

BR Mallinson (Chairman)

C Erasmus

RJA Sparks

## Investment committee

### Executive directors

B Adam (appointed 1 July 2013)

JJ Strydom

AN Tennick

### Non-executive directors

M Akoojee

### Independent non-executive directors

C Erasmus

RJA Sparks

### External

W Reitsma (Chairman)

## Actuarial committee

### Executive directors

B Adam (appointed 1 July 2013)

JJ Strydom

AN Tennick

### Independent non-executive directors

C Erasmus (Chairman)

### External

PC Falconer (Statutory actuary)

## Risk committee

### Executive directors

B Adam (appointed 1 July 2013)

JJ Strydom

AN Tennick

### Non-executive directors

BJ Francis

### Independent non-executive directors

S Masinga (Chairman)

C Erasmus

BR Mallinson

## Board meetings

Attendance of directors at board meetings for the year was as follows:

| | 15 August 2013 | 24 October 2013 | 18 February 2014 | 12 June 2014 |
|---|---|---|---|---|
| **Independent non-executive directors** | | | | |
| S Masinga | √ | ap | √ | √ |
| JPR Mbau | √ | ap | ap | ap |
| RJA Sparks | √ | √ | ap | √ |
| C Erasmus | √ | √ | √ | √ |
| BR Mallinson | √ | √ | √ | √ |
| **Non-executive directors** | | | | |
| HR Brody | √ | √ | ap | n/a |
| MJ Lamberti | n/a | n/a | n/a | √ |
| BJ Francis | √ | √ | √ | √ |
| R Mumford | √ | √ | √ | √ |
| M Akoojee | √ | √ | √ | ap |
| **Executive directors** | | | | |
| JJ Strydom | √ | √ | √ | √ |
| AN Tennick | √ | √ | √ | √ |
| B Adam | √ | √ | √ | √ |

**Legend:**

√ Present ap Absent with apology n/a Not applicable

## Company secretary

WP Behrens

### The addresses of the secretary of the Regent Insurance Company are:

**Business address**

146 Boeing Road East
Elma Park
Edenvale
1609

**Postal address**

PO Box 674
Edenvale
1610

## Auditors

Deloitte & Touche will continue in office in accordance with section 90(2) of the Companies Act subject to the shareholder making such appointment.

# Statements of financial position

*as at 30 June 2014*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property and equipment | 3 | **109 131** | 110 018 | **77 900** | 79 331 |
| Investment property | 4 | **11 175** | — | **—** | — |
| Intangible assets | 5 | **45 618** | 13 553 | **41 623** | 9 385 |
| Investments in subsidiaries | 6 | **—** | — | **81 915** | 81 915 |
| Investments in associates | 7 | **(9 175)** | (1 444) | **—** | (330) |
| Reinsurers' share of outstanding claims | 8 | **89 425** | 112 919 | **62 580** | 100 856 |
| Reinsurers' share of unearned premiums | 8 | **27 442** | 17 499 | **581** | 375 |
| Financial assets | 9 | **974 506** | 1 807 339 | **821 426** | 1 450 464 |
| Non-current assets held for sale | 10 | **1 099** | 3 174 | **—** | — |
| Agents and other insurers' balances | 11 | **107 807** | 128 975 | **34 802** | 57 189 |
| Deferred tax asset | 12 | **7 666** | 7 995 | **—** | — |
| Current taxation | | **6 193** | 75 461 | **—** | 79 334 |
| Other receivables including insurance receivables | 14 | **34 651** | 29 582 | **16 564** | 21 495 |
| Due from group companies | 15 | **86 143** | 8 783 | **16 290** | 8 271 |
| Cash and cash equivalents | 16 | **1 127 810** | 418 487 | **803 241** | 207 699 |
| **Total assets** | | **2 619 491** | 2 732 341 | **1 956 922** | 2 095 984 |
| **LIABILITIES** | | | | | |
| Outstanding claims | 8 | **545 453** | 643 423 | **404 772** | 527 719 |
| Unearned premiums | 8 | **509 425** | 496 922 | **384 865** | 383 694 |
| Agents' and other insurers' balances | 11 | **85 522** | 62 882 | **84 125** | 62 290 |
| Deferred tax liability | 12 | **53 468** | 45 627 | **42 037** | 35 526 |
| Provisions | 17 | **165 565** | 170 066 | **74 233** | 59 758 |
| Current taxation | | **5 833** | 406 | **3 749** | — |
| Due to group companies | 15 | **—** | — | **186** | 1 236 |
| Insurance and other payables | 18 | **142 224** | 147 024 | **47 525** | 65 057 |
| **Total liabilities** | | **1 507 490** | 1 566 350 | **1 041 492** | 1 135 280 |
| **EQUITY** | | | | | |
| Share capital | 19 | **2 940** | 2 940 | **2 940** | 2 940 |
| Share premium | 19 | **452 564** | 452 564 | **452 564** | 452 564 |
| Subordinated debt capital | 28.2.2 | **200 000** | 200 000 | **200 000** | 200 000 |
| Statutory reserve* | | **103 443** | 83 885 | **—** | — |
| Share-based equity reserve | 26 | **(26 568)** | (12 219) | **(26 568)** | (12 219) |
| Foreign currency translation reserve | | **(26 115)** | (25 281) | **—** | — |
| Retained earnings | | **93 678** | 168 868 | **119** | 60 189 |
| Equity attributable to the equity holders of the parent | | **799 942** | 870 757 | **629 055** | 703 474 |
| Non-controlling interests | | **312 059** | 295 234 | **286 375** | 257 230 |
| **Total equity** | | **1 112 001** | 1 165 991 | **915 430** | 960 704 |
| **Total equity and liabilities** | | **2 619 491** | 2 732 341 | **1 956 922** | 2 095 984 |

**Relates to Regent Insurance Botswana Proprietary Limited and is a statutory requirement.*

# Statements of comprehensive income

*for the year ended 30 June 2014*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| Gross written premiums | | **1 889 551** | 2 232 300 | **1 448 377** | 1 827 458 |
| Outward reinsurance premiums | | **(181 943)** | (192 425) | **(39 836)** | (84 895) |
| **Net written premiums** | | **1 707 608** | 2 039 875 | **1 408 541** | 1 742 563 |
| Change in provision for unearned premium | | **(305)** | (86) | **(965)** | 2 223 |
| > Change in gross provision | | **(9 948)** | (894) | **(1 171)** | 7 878 |
| > Reinsurers' share | | **9 643** | 808 | **206** | (5 655) |
| **Net premiums earned** | 20 | **1 707 303** | 2 039 789 | **1 407 576** | 1 744 786 |
| Commission income | | **51 809** | 34 052 | **12 488** | 14 935 |
| Investment income | 21 | **116 671** | 105 360 | **179 178** | 157 648 |
| Investment gains | 22 | **118 432** | 106 088 | **108 513** | 97 459 |
| Other operating income | 23 | **75 864** | 98 967 | **32 335** | 43 593 |
| **Net income** | | **2 070 079** | 2 384 256 | **1 740 090** | 2 058 421 |
| Net claims incurred | | **(901 707)** | (1 207 354) | **(752 019)** | (1 067 305) |
| > Gross insurance claims paid | 24 | **(988 983)** | (1 212 119) | **(829 487)** | (1 090 418) |
| > Reinsurers' share of claims paid | 24 | **68 190** | 89 973 | **50 147** | 94 746 |
| > Claims handling costs | 24 | **(57 350)** | (49 733) | **(57 350)** | (49 733) |
| > Change in provision for outstanding claims | 24 | **100 194** | (559) | **122 947** | 3 753 |
| > Change in reinsurers' share of provision for outstanding claims | 24 | **(23 758)** | (34 916) | **(38 276)** | (25 653) |
| Finance costs | | **(1 120)** | (5 009) | **(917)** | (4 922) |
| Commission and acquisition expenses | | **(396 464)** | (465 766) | **(321 363)** | (399 258) |
| General marketing and administration expenses | | **(386 349)** | (385 230) | **(326 776)** | (332 168) |
| Share of loss from associate | | **(8 061)** | (1 114) | **—** | — |
| Exceptional items* | | **6 926** | — | **330** | — |
| Subordinated debt finance cost | | **(15 686)** | (12 426) | **(15 686)** | (12 426) |
| Goodwill impairment | | **—** | (781) | **—** | — |
| **Profit before taxation** | 25 | **367 618** | 306 576 | **323 659** | 242 342 |
| Taxation | 13 | **(102 668)** | (67 393) | **(68 165)** | (30 522) |
| **Profit after taxation** | | **264 950** | 239 183 | **255 494** | 211 820 |
| **Other comprehensive income** | | | | | |
| Currency translation differences | | **(834)** | 4 919 | **—** | — |
| **Total comprehensive income for the year** | | **264 116** | 244 102 | **255 494** | 211 820 |
| **Profit attributable to:** | | | | | |
| Equity owners of the company | | **134 390** | 130 707 | **137 368** | 116 723 |
| Non-controlling interests | | **130 560** | 108 476 | **118 126** | 95 097 |
| | | **264 950** | 239 183 | **255 494** | 211 820 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity owners of the company | | **133 556** | 135 626 | **137 368** | 116 723 |
| Non-controlling interests | | **130 560** | 108 476 | **118 126** | 95 097 |
| | | **264 116** | 244 102 | **255 494** | 211 820 |

**Exceptional items includes profit on sale of property of R6.6 million and disposal of associate of R0.3 million.*

## Statements of changes in equity

*for the year ended 30 June 2014*

| Group | Share capital* R'000 | Share premium R'000 | Statutory reserve R'000 | Share-based equity reserve R'000 | Foreign currency translation reserve R'000 | Retained earnings R'000 | Sub-ordinated debt capital R'000 | Non-con-trolling interests R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2012** | 2 940 | 452 564 | 64 808 | (2 856) | (30 200) | 246 678 | — | 310 416 | 1 044 350 |
| Net profit for the year | — | — | — | — | — | 130 707 | — | 108 476 | 239 183 |
| **Other comprehensive income** | | | | | | | | | |
| Arising from translation of foreign entity | — | — | — | — | 4 919 | — | — | — | 4 919 |
| **Total comprehensive income for the year ended 30 June 2013** | — | — | — | — | 4 919 | 130 707 | — | 108 476 | 244 102 |
| Non-controlling interest capital movement | — | — | — | — | — | — | — | 15 000 | 15 000 |
| Debt issue | — | — | — | — | — | — | 200 000 | — | 200 000 |
| Transfer to statutory reserve | — | — | 19 077 | — | — | (11 436) | — | — | 7 641 |
| Share-based equity reserve transferred to retained earnings on vesting | — | — | — | (2 919) | — | 2 919 | — | — | — |
| Share-based equity | — | — | — | (6 444) | — | — | — | — | (6 444) |
| Dividends paid | — | — | — | — | — | (200 000) | — | (138 658) | (338 658) |
| **Balance at 30 June 2013** | **2 940** | **452 564** | **83 885** | **(12 219)** | **(25 281)** | **168 868** | **200 000** | **295 234** | **1 165 991** |
| Net profit for the year | **—** | **—** | **—** | **—** | **—** | **134 390** | **—** | **130 560** | **264 950** |
| **Other comprehensive income** | | | | | | | | | |
| Arising from translation of foreign entity | **—** | **—** | **—** | **—** | **(834)** | **—** | **—** | **—** | **(834)** |
| **Total comprehensive income for the year ended 30 June 2014** | **—** | **—** | **—** | **—** | **(834)** | **134 390** | **—** | **130 560** | **264 116** |
| Transfer to statutory reserve | | **—** | **19 558** | **—** | **—** | **(12 142)** | **—** | **—** | **7 416** |
| Share-based equity reserve transferred to retained earnings on vesting | | **—** | **—** | **(691)** | **—** | **691** | **—** | **—** | **—** |
| Share-based equity | **—** | **—** | **—** | **(13 658)** | **—** | **—** | **—** | **—** | **(13 658)** |
| Dividends paid | **—** | **—** | **—** | **—** | **—** | **(198 129)** | **—** | **(113 735)** | **(311 864)** |
| **Balance at 30 June 2014** | **2 940** | **452 564** | **103 443** | **(26 568)** | **(26 115)** | **93 678** | **200 000** | **312 059** | **1 112 001** |
| **Company** | | | | | | | | | |
| **Balance at 1 July 2012** | 2 940 | 452 564 | — | (2 856) | — | 140 547 | — | 280 431 | 873 626 |
| Net profit for the year | — | — | — | — | — | 116 723 | — | 95 097 | 211 820 |
| **Total comprehensive income for the year ended 30 June 2013** | — | — | — | — | — | 116 723 | — | 95 097 | 211 820 |
| Non-controlling interest capital movement | | — | — | — | — | — | — | 15 000 | 15 000 |
| Debt issue | | — | — | — | — | — | 200 000 | — | 200 000 |
| Share-based equity reserve transferred to retained earnings on vesting | — | — | — | (2 919) | — | 2 919 | — | — | — |
| Share-based equity | — | — | — | (6 444) | — | — | — | — | (6 444) |
| Dividends paid | — | — | — | — | — | (200 000) | — | (133 298) | (333 298) |
| **Balance at 30 June 2013** | **2 940** | **452 564** | **—** | **(12 219)** | **—** | **60 189** | **200 000** | **257 230** | **960 704** |
| Net profit for the year | **—** | **—** | **—** | **—** | **—** | **137 368** | **—** | **118 126** | **255 494** |
| **Total comprehensive income for the year ended 30 June 2014** | **—** | **—** | **—** | **—** | **—** | **137 368** | **—** | **118 126** | **255 494** |
| Share-based equity reserve transferred to retained earnings on vesting | **—** | **—** | **—** | **(691)** | **—** | **691** | **—** | **—** | **—** |
| Share-based equity | **—** | **—** | **—** | **(13 658)** | **—** | **—** | **—** | **—** | **(13 658)** |
| Dividends paid | **—** | **—** | **—** | **—** | **—** | **(198 129)** | **—** | **(88 981)** | **(287 110)** |
| **Balance at 30 June 2014** | **2 940** | **452 564** | **—** | **(26 568)** | **—** | **119** | **200 000** | **286 375** | **915 430** |

**Included in share capital and share premium are ten preference shares issued at a value of R0.01.*

# Statements of cash flows

*for the year ended 30 June 2014*

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Cash generated from operations | 27.1 | **44 608** | 194 254 | **22 962** | 38 853 |
| Interest received | 27.2 | **110 552** | 83 993 | **80 464** | 57 643 |
| Interest paid | | **(16 806)** | (17 435) | **(16 603)** | (17 348) |
| Share-based equity movement | | **(14 349)** | (9 363) | **(14 349)** | (9 363) |
| Taxation (paid)/refunded | 27.3 | **(18 098)** | (42 468) | **23 134** | (15 627) |
| **Net cash inflow from operating activities** | | **105 907** | 208 981 | **95 608** | 54 158 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property and equipment | | **(16 544)** | (12 423) | **(14 279)** | (11 708) |
| Additions of intangible assets | | **(42 484)** | (7 722) | **(42 383)** | (7 723) |
| Proceeds on sale of property and equipment | | **478** | 655 | **325** | 166 |
| Proceeds on sale of non-current asset held for sale | | **8 672** | — | **—** | — |
| Acquisition of investment property | | **(11 372)** | — | **—** | — |
| Proceeds on sale of client lists | | **—** | 10 250 | **—** | 10 250 |
| Proceeds on sale of financial assets | | **2 919 759** | 1 204 255 | **2 646 768** | 1 202 183 |
| Acquisition of financial assets | | **(1 961 435)** | (1 609 967) | **(1 909 217)** | (1 401 015) |
| Net cash outflow on acquisition of new division | | **—** | (2 000) | **—** | (2 000) |
| Investment in associate movement | | **—** | (837) | **—** | — |
| Dividends received | 27.2 | **15 827** | 20 925 | **105 830** | 103 374 |
| **Net cash inflow/(outflow) from investing activities** | | **912 901** | (396 864) | **787 044** | (106 473) |
| **Cash flow from financing activities** | | | | | |
| Dividends paid | | **(311 864)** | (338 658) | **(287 110)** | (333 298) |
| Subordinated equity loan | | **—** | 200 000 | **—** | 200 000 |
| Non-controlling interest capital movement | | **—** | 15 000 | **—** | 15 000 |
| **Net cash outflow from financing activities** | | **(311 864)** | (123 658) | **(287 110)** | (118 298) |
| **Net increase in cash and cash equivalents** | | **706 944** | (311 541) | **595 542** | (170 613) |
| Foreign currency translation differences on cash balances | | **2 379** | 11 129 | **—** | — |
| Cash and cash equivalents at the beginning of the year | | **418 487** | 718 899 | **207 699** | 378 312 |
| **Cash and cash equivalents at the end of the year** | | **1 127 810** | 418 487 | **803 241** | 207 699 |

# Notes to the consolidated annual financial statements

*for the year ended 30 June 2014*

## 1. Summary of significant accounting policies

### Statement of compliance

The consolidated annual financial statements are stated in South African rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations, adopted by the International Accounting Standards Board (IASB), in issue and effective for the group at 30 June 2014 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

### Accounting policies

The principal accounting policies adopted and the methods of computation used in the preparation of these consolidated annual financial statements are set out below and are consistent in all material respects with those applied during the previous year except for the adoption of new and amended statements and interpretations as disclosed in note 1.1.

### 1.1 Basis of preparation

IFRS comprise, IAS and interpretations originated by the IFRIC or the former SIC. The standards referred to are set by the IASB.

The financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or before 1 July 2013 and in compliance with the Companies Act, No 71 of 2008.

The consolidated and separate financial statements have been prepared on an historical cost basis, except for:

Carried at fair value:

- Financial instruments, (which includes derivative financial instruments) which are designated at fair value through profit and loss;
- Liabilities for cash-settled share-based payment arrangements.

*Changes in accounting policies and disclosures*

The Regent Insurance Group has adopted the following amended accounting standards

- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures in Other Entities*
- *IFRS 13 Fair Value Measurement*

None of these have had a significant impact on the Regent Insurance Group's accounting policies and methods of computation.

*Standards, interpretations and amendments to published standards that are not yet effective*

The following new or revised IFRS standards and IFRICs have been issued with effective dates applicable to future annual financial statements of the Regent Insurance Group:

*IFRS 9 – Financial Instruments*

IFRS 9 introduced new requirements for the classification and measurement of financial assets and liabilities.

The Regent Insurance Group anticipates that the application of IFRS 9 may have a significant impact on amounts reported in respect of the Regent Insurance Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. The standard is expected to first become applicable for the financial year ending 30 June 2016.

*IFRS 14 – Regulatory Deferral Accounts*

IFRS 14 regulatory deferral accounts permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous generally accepted accounting practises, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of comprehensive income, and specific disclosures are required.

The Regent Insurance Group anticipates that this standard will have no significant effect on the consolidated financial statements. The standard is expected to first become applicable for the financial year ending 30 June 2017.

*IFRS 15 – Revenue From Contracts With Customers*

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Regent Insurance Group is in the process of assessing the impact of IFRS 15 on its consolidated financial statements. The standard is expected to first become applicable for the financial year ending 30 June 2018.

*Standards, interpretations and amendments to published standards that are not yet effective (continued)*

*IAS 16 – Property, plant and equipment*

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The Regent Insurance Group anticipates that the amendments to IAS 16 will not have a significant effect on the consolidated financial statements. The standard is expected to first become applicable for the financial year ending 30 June 2015.

*IAS 32 – Financial Instruments: Presentation*

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income taxes.

The Regent Insurance Group anticipates that the amendments to IAS 32 will have no effect on the Regent Insurance Group's consolidated financial statements as the this treatment has already been adopted. The standard is expected to first become applicable for the financial year ending 30 June 2015.

## 1.2 Consolidation

The consolidated annual financial statements incorporate the financial statements of the Regent Insurance Company and entities controlled by the Regent Insurance Company (its subsidiaries).

### Subsidiaries

Subsidiary undertakings, which are those companies in which the Regent Insurance Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Control is achieved where the Regent Insurance Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities and when the Regent Insurance Group has the majority of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Regent Insurance Group and are no longer included from the date on which control ceases (effective date of disposal). Gains and losses on disposal of subsidiaries are included in the statement of comprehensive income. In the company's financial statements, interests in subsidiary companies are shown at cost less any required impairment (which is assessed annually as set out in the accounting policies).

The Regent Insurance Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the cost of acquisition over the fair value of the Regent Insurance Group's share of the identifiable net assets acquired, is recorded as goodwill. If after the reassessment, the Regent Insurance Group's interest in the fair value of the net assets of the subsidiary acquired exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income.

At the acquisition date, the identifiable assets acquired and liabilities assumed are measured at fair values except deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements which are recognised and measured in accordance with IAS 12 – Income taxes and IAS 19 – Employee benefits respectively.

The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the Regent Insurance Group. Inter-group transactions, balances and unrealised gains and losses are eliminated on consolidation.

The Regent Insurance Group consolidates an SPE when the substance of the relationship between the Regent Insurance Group and the SPE indicates that the Regent Insurance Group controls the SPE. The Regent Insurance Group operates cell captives on behalf of entities that wish to participate in the insurance result of a particular category of insured risk. Preference shares are issued to those participants giving them the rights to share in profits on an agreed basis. To reflect the substance of the transaction, it is consolidated and the participants' share of profits is treated as a non-controlling interest.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Regent Insurance Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest's share in the subsidiary's equity are allocated against the interest's of the Regent Insurance Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

### Associates

Associates are all entities over which the Regent Insurance Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is presumed to exist when the Regent Insurance Group holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Regent Insurance Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Regent Insurance Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. When the Regent Insurance Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Regent Insurance Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Regent Insurance Group and an associate are eliminated to the extent of the Regent Insurance Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Regent Insurance Group.

### 1.3 Foreign currencies

#### Foreign currency translation

The Regent Insurance Group's presentation currency is the South African rand. The functional currency of the Regent Insurance Group's operations is the currency of the primary economic environment where each operation physically has its main activities.

#### 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. Monetary assets and liabilities denominated in foreign currencies different to the functional currency at the statement of financial position date are

translated into the functional currency at the ruling rate at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction, and those measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. Foreign exchange gains or losses are recognised as part of fair value adjustments on financial instruments in the statement of comprehensive income.

#### Group foreign companies

Assets and liabilities of companies whose functional currency is different to the presentation currency are translated from their respective functional currency to the Regent Insurance Group's presentation currency at closing rates ruling at statement of financial position date. The income and expenditure and equity movements are translated into the Regent Insurance Group's presentation currency at rates approximating the foreign exchange rates ruling at the dates of the various transactions. All resulting translation differences arising from the consolidation and translation of foreign companies are recognised in other comprehensive income as a foreign currency translation reserve and accumulated in equity. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.

### 1.4 Property and equipment

Property and equipment comprise owner-occupied properties, which are held for use in the supply of services or for administrative purposes, computer equipment, office equipment, furniture and fittings and motor vehicles. These assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Regent Insurance Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Depreciation on property and equipment is calculated using the straight-line method after allocating their cost to their residual values over their estimated useful lives. The assets' residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. The expected useful lives are as follows:

| | |
|---|---|
| Buildings | 20 years |
| Office equipment | 5 years |
| Computer equipment | 2 – 3 years |
| Motor vehicles | 2 – 5 years |
| Furniture and fittings | 6 years |
| Leasehold improvements | Over the period of the lease |
| Land | Not depreciated |

There has been no change to the useful lives from those applied in the previous financial year. The residual values and useful lives are reassessed on an annual basis.

Where the carrying amount of the asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount. Gains and losses on disposal are determined by reference to the carrying amount of the asset and the net profit is recorded in the statement of comprehensive income on disposal.

Where the residual value is greater than or equal to the carrying value, no depreciation is provided for.

### 1.5 Intangible assets

#### Computer software

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs clearly associated with an identifiable and unique system, which will be controlled by the Regent Insurance Group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of material and supplier services used or consumed in generating the intangible asset. Expenditure that enhances and extends the benefits of computer software beyond their original specifications and lives is recognised as a capital improvement and capitalised to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of three years. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

#### Amortisation of intangibles

Amortisation of intangibles is charged to the statement of comprehensive income. The expected useful lives are as follows:

- Computer software development costs: 3 – 5 years

Amortisation commences from the date the software is applied to day-to-day business processing. As the software is proprietary and specific to the Regent Insurance Group's operations, no residual value is estimated.

### Goodwill

Goodwill represents the excess of the purchase price consideration of an acquisition over the fair value attributable to the net identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets and goodwill on acquisitions of associates is included in interests in associates.

For the purpose of impairment testing, goodwill is allocated to each of the Regent Insurance Group's cash-generating units expected to benefit from the synergies of the combination. 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 recognised for goodwill is not reversed in a subsequent period.

## 1.6 Investment properties

Investment property is property held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Regent Insurance Group as an owner-occupied property becomes an investment property, the Regent Insurance Group accounts for such property in accordance with the policy stated under property and equipment up to the end of change in use. When the Regent Insurance Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of comprehensive income.

## 1.7 Non current assets held for sale

Non-current assets 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 asset is available for immediate sale in its present condition. Management must be committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification.

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

## 1.8 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Regent Insurance Group as lessor

*Operating leases*

Rental income is recognised in the statement of comprehensive income over the period of the lease term on the straight-line basis. Assets leased under operating leases are included under the appropriate category of assets in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets.

### The Regent Insurance Group as lessee

*Finance leases*

Assets held under finance leases are recognised as assets of the Regent Insurance Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease.

The interest element of the finance cost is charged to the statement of comprehensive income over the lease period according to the effective interest method. The assets acquired under the finance leases are depreciated over the shorter of the useful life of the asset and the lease term, whilst the property is depreciated over its useful life. Leased assets under finance leases are treated in the same manner as owned fixed assets.

*Operating leases*

Operating lease costs are recognised in the statement of comprehensive income over the lease term on the straight-line basis. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### 1.9 Acquisition costs associated with insurance contracts

Acquisition costs for insurance contracts represent commission payments and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred.

### 1.10 Operating and administration expenditure

Operating expenses include administration expenditure, marketing and development expenditure, indirect taxes and levies other than life insurance taxes as well as all other non-commission related expenditure, and are expensed as incurred.

### 1.11 Impairment of tangible and intangible assets

At each statement of financial position date, the Regent Insurance Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Regent Insurance Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and the value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, in which case the impairment loss is taken to profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

### 1.12 Financial assets

The Regent Insurance Group classifies its investments at initial recognition into financial assets held at fair value through profit and loss, held-to-maturity financial assets, loans and other receivables and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the Regent Insurance Group's strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities. In addition, shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed and/or carried at amortised cost.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the Regent Insurance Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit and loss have two sub categories namely financial assets held for trading and those designated at fair value through profit and loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit and loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets or liabilities are part of a Regent Insurance Group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and losses are recognised in the statement of comprehensive income.

Financial assets at fair value through profit and loss include derivative financial instruments.

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Regent Insurance Group has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are expensed when incurred. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are expensed when incurred. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

### 1.12 Financial assets *(continued)*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. At derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the statement of comprehensive income.

### 1.13 Impairment of financial assets

The Regent Insurance Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

The Regent Insurance Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics which are collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each statement of financial position date.

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. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are reversed through the statement of comprehensive income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of comprehensive income.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value can not be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

For held-to-maturity financial assets and loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Regent Insurance Group may measure impairment on the basis of an instrument's fair value using an observable market price.

### 1.14 Derecognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a Regent Insurance Group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Regent Insurance Group retains the right to receive cash flows from the asset, but assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Regent Insurance Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Regent Insurance Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Regent Insurance Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Regent Insurance Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including cash-settled option or similar provision) on the transferred asset, the extent of the Regent Insurance Group's continuing involvement is the amount of the transferred asset that the Regent Insurance Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Regent Insurance Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### 1.15 Derivative financial instruments

Derivative financial instruments are designated at fair value through profit and loss. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the statement of comprehensive income. Embedded derivatives that meet the definition of insurance contracts are treated and measured as insurance contracts.

### 1.16 Agents' and other insurers' balances

Agents' and other insurers' balances comprise amounts due to and from underwriting agents, insurers and other insurance related entities.

### 1.17 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

### 1.18 Cash and cash equivalents

Cash and cash equivalents comprise balances with bankers, highly liquid short-term funds on deposit and cash on hand, but do not include money market securities held for investment.

### 1.19 Share capital

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

### 1.20 Classification of insurance contracts

Insurance contracts are those contracts where the Regent Insurance Group has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is risk other than financial risk, transferred from the holder of the contract to the issuer. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception, if insurance risk becomes significant.

#### Reinsurance

Contracts entered into with reinsurers by the short-term operations, under which the Regent Insurance Group is compensated for losses on one or more contracts, and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

The benefits to which Regent Insurance Group are entitled under their reinsurance contracts held are recognised as reinsurance assets, consisting of short-term balances due from reinsurers that are dependent on the expected claims and benefits. Reinsurance liabilities are primarily premiums payable and are recognised as an expense when due.

### 1.21 Income recognition

#### Premiums

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

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of the premium received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten less provisions raised for cash backs. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

#### Unearned premiums

Premiums are earned from the date the risk attaches over the indemnity period, based on the pattern of the risk underwritten. Unearned premiums, which represent the proportion of premiums written in the current year which relate to the risks that have not expired by the end of the financial year, are calculated on the 365th basis for even risk business and other bases that best represent the unearned risk profile for uneven risk business.

#### Reinsurance contracts

The Regent Insurance Group cedes risks to reinsurers in the normal course of business for the purpose of limiting its exposure to liability. Reinsurance arrangements do not relieve the Regent Insurance Group from its direct obligations to its policyholders. Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Regent Insurance Group may not recover all amounts due and

### Reinsurance contracts *(continued)*

that there is a reliably measurable impact on the amounts that the Regent Insurance Group will receive from the reinsurer. Impairment losses are recognised in the statement of comprehensive income.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant risk (that is, financial reinsurance) are accounted for as financial assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

### Investment income

Investment return comprises interest, dividends, rental income and realised and unrealised gains or losses. Dividend income from investments is recognised when the Regent Insurance Group's rights to receive payment have been established.

Interest income is recognised using the effective interest method by reference to the principal debt outstanding and the interest rate. Rental income is recognised on a straight-line basis over the term of the relevant lease. Other investment returns are accounted for on an accrual basis.

## 1.22 Claims recognition

### Insurance contracts

#### *Underwriting results*

The Regent Insurance Company's short-term underwriting results are determined after making provisions for unearned premiums, outstanding claims and such additional provisions as are considered necessary. The methods used to determine these provisions are set out below.

### Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Regent Insurance Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not, and an appropriate risk margin.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used to value the provisions, and the estimates made, are reviewed regularly.

## 1.23 Policyholder insurance contracts

### IBNR – Insurance contracts

Provision is made in the policyholders liabilities under insurance contracts for the estimated cost at the end of the year for claims IBNR at that date. IBNR provisions are calculated using run-off triangle techniques or as a multiple, based on the average historical reporting delay, of the claims reported in the three weeks following the valuation date but where the claims event occurred prior to valuation date. These liabilities are not discounted due to the short-term nature of outstanding claims.

### Unexpired risk provision

Provision is made for unexpired risks arising to the extent that the expected value of claims and claims handling expenses attributable to the unexpired periods of contracts in force at the statement of financial position date exceeds the unearned premiums provision in relation to such contracts and attributable investment income after the deduction of any deferred acquisition costs.

### Cash-back provisions

A provision is made for the accrued expected obligations to policyholders to the extent that the premiums for these benefits are already received and other terms and conditions are met within the period leading up to the expected cash back.

### Deferred acquisition costs

The costs of acquiring new and renewal insurance business that is commission and other acquisition costs, primarily related to the term products of that business, are deferred. Deferred acquisition costs are amortised on a pro rata basis over the contract term. Similarly, any reinsurance commissions received are deferred and recognised as income over the term of the reinsurance contract. Deferred acquisition costs and reinsurance commissions received are included in the unearned premium provision.

### Liability adequacy test – Insurance contracts

At each reporting date the adequacy of the insurance liabilities is assessed. This is done using an unearned premium approach for pre-claims liabilities and by using a statistical approach for the claims liabilities. The claims liabilities are reported at a 75% level of sufficiency, claims liabilities are thus expected to be sufficient three out of every four years. If that assessment shows that the carrying amount of the insurance liabilities (less related deferred acquisition costs) is inadequate in the light of the estimated future cash flows, the insurance liability is increased and the deficiency is recognised as a loss.

## 1.24 Financial liabilities

### Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

### 1.25 Provisions

Provisions are recognised when the Regent Insurance Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Regent Insurance Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain and the amount can be measured reliably. The expense relating to any provision is presented in the statement of comprehensive income. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

#### Leave pay provision

Leave pay provision is calculated based on the outstanding number of days' leave due to employees, applied to the total cost of their employment.

#### Employee bonus provision

Within the Regent Insurance Group there are various formulas to calculate bonuses payable to employees. Provisions are raised based on the estimates of the total amount due.

### 1.26 Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

#### Current taxation

The charge for current tax is based on the results for the year as adjusted for items that are non-taxable or are disallowed. It is calculated using the tax rates that have been enacted or substantively enacted on the statement of financial position date, in each particular jurisdiction in which the Regent Insurance Group operates.

#### Deferred taxation

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Regent Group intends to settle its current tax assets and liabilities on a net basis.

#### Dividends tax

A dividends tax became effective on 1 April 2012 and this tax is levied on non-exempt shareholders. The Regent Insurance Group is responsible for the collection of the dividends tax and payment of the amounts collected to the South African Revenue Service. As this tax is levied on the shareholders and not the company, it does not form part of the tax expense recognised in the statement of other comprehensive income. Dividends are reflected gross of tax.

### 1.27 Employee retirements benefits

The policy of the Regent Insurance Group is to provide retirement benefits for its employees. The contributions paid by the Regent Insurance Group to fund obligations for the payment of retirement benefits are charged to the statement of comprehensive income in the year to which they relate. The Regent Insurance Group's employees are members of a defined contribution plan, which is governed by the Pension Funds Act 24 of 1956.

For defined contribution plans, the Regent Insurance Group pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Regent Insurance Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### 1.28 Share-based payments transactions

The Imperial Holdings Group operates equity-settled share-based compensation plans. Senior employees and executives of the Regent Insurance Group participate in the plan and Regent Insurance Group bears the costs thereof.

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over

### 1.28 Share-based payments transactions *(continued)*

the vesting period, based on the group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Regent Insurance Group revises its estimates of the number of equity instruments that are expected to vest.

The impact of the revision of original estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share-based payment reserve in equity.

### 1.29 Exceptional items

Exceptional items include income and expense items which are not considered to be of a trading nature and include items such as impairments of goodwill and profit on sale of property.

### 1.30 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and where there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.31 Dividend distribution

Dividend distribution to the Regent Insurance Group's shareholders is recognised as a liability in the Regent Insurance Group's financial statements in the period in which the dividends are approved by the Regent Insurance Group's board of directors.

### 1.32 Events after statement of financial position date

The financial statements are adjusted to reflect events that occurred between the statement of financial position date and the date when the financial statements are authorised for issue, provided they provide evidence of conditions that existed at the statement of financial position date. Events that are indicative of conditions that arose after the statement of financial position date are disclosed (if material), but do not result in an adjustment of the financial statements themselves.

### 1.33 Transactions with related parties

Transactions with related parties are subject to terms and conditions that are no less favourable than those arranged with third parties.

### 1.34 Key assumptions in applying accounting policies

Key assumptions are those used to derive estimates, which require management's most complex or subjective judgements.

The Regent Insurance Group's management decides on assumptions that can materially affect the reported amounts of assets and liabilities within the next financial year. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant assets and liabilities, which typically require such assumptions, are the following:

- The Regent Insurance Group holds a number of financial assets that are held at fair value through profit and loss. These are valued at quoted market prices as far as possible. However, if such prices are unavailable, fair value is based either on internal valuations or management's best estimates of realisable amounts.
- Impairment tests are conducted on all assets included in the statement of financial position. In determining the value in use, various estimates are used by management including deriving future cash flows and applicable discount rates. These estimates are most applicable to the impairment tests on reinsurance assets, intangible assets (including goodwill), deferred acquisition costs and receivables. Further details are contained in note 1.13 and 1.17 of the accounting policies.
- The IBNR provision consists of a best estimate reserve and an explicit risk margin. Further details are contained in note 8.3 of the notes to the consolidated annual financial statements.

## 2. Accounting estimates and judgements

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

Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. In terms of IAS 8 – Accounting policies, changes in accounting estimates and errors, changes in accounting estimates do not necessitate a prior period adjustment.

| | Notes | Property R'000 | Computer and office equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **3. Property and equipment** | | | | | | |
| **Group** | | | | | | |
| **2014** | | | | | | |
| Balance at the beginning of the year | | **85 959** | **16 251** | **6 756** | **1 052** | **110 018** |
| Additions | | **983** | **13 749** | **1 483** | **329** | **16 544** |
| Disposals | | **(3 028)** | **(457)** | **(6 195)** | **(929)** | **(10 609)** |
| Reclassification | | **(10)** | **150** | **—** | **(140)** | **—** |
| Depreciation charge for the year | 25 | **(4 231)** | **(9 795)** | **(1 799)** | **(347)** | **(16 172)** |
| Accumulated depreciation on disposals | | **1 944** | **186** | **5 443** | **928** | **8 501** |
| Arising from translation of foreign assets | | **816** | **—** | **22** | **11** | **849** |
| **Balance at the end of the year** | | **82 433** | **20 084** | **5 710** | **904** | **109 131** |
| Cost | | **92 870** | **65 580** | **10 005** | **2 589** | **171 044** |
| Accumulated depreciation and impairments | | **(10 437)** | **(45 496)** | **(4 295)** | **(1 685)** | **(61 913)** |
| **Balance at the end of the year** | | **82 433** | **20 084** | **5 710** | **904** | **109 131** |
| **2013** | | | | | | |
| Balance at the beginning of the year | | 86 314 | 16 969 | 7 458 | 1 430 | 112 171 |
| Additions | | 2 391 | 8 394 | 1 479 | 159 | 12 423 |
| Disposals | | (558) | (1 984) | (928) | (480) | (3 950) |
| Reclassification | | — | 10 | (10) | — | — |
| Depreciation charge for the year | 25 | (4 207) | (9 122) | (1 888) | (399) | (15 616) |
| Accumulated depreciation on disposals | | 511 | 1 979 | 587 | 319 | 3 396 |
| Arising from translation of foreign assets | | 1 508 | 5 | 58 | 23 | 1 594 |
| **Balance at the end of the year** | | 85 959 | 16 251 | 6 756 | 1 052 | 110 018 |
| Cost | | 94 033 | 53 186 | 14 656 | 2 507 | 164 382 |
| Accumulated depreciation and impairments | | (8 074) | (36 935) | (7 900) | (1 455) | (54 364) |
| **Balance at the end of the year** | | 85 959 | 16 251 | 6 756 | 1 052 | 110 018 |

| | Notes | Property R'000 | Computer and office equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **3. Property and equipment** *(continued)* | | | | | | |
| **Company** | | | | | | |
| **2014** | | | | | | |
| Balance at the beginning of the year | | **58 160** | **15 204** | **5 967** | **—** | **79 331** |
| Additions | | **983** | **12 353** | **943** | **—** | **14 279** |
| Reclassification | | **(10)** | **10** | **—** | **—** | **—** |
| Disposals | | **(3 028)** | **(162)** | **(6 195)** | **—** | **(9 385)** |
| Depreciation charge for the year | 25 | **(3 127)** | **(9 076)** | **(1 543)** | **—** | **(13 746)** |
| Accumulated depreciation on disposals | | **1 944** | **33** | **5 444** | **—** | **7 421** |
| **Balance at the end of the year** | | **54 922** | **18 362** | **4 616** | **—** | **77 900** |
| Cost | | **62 996** | **59 812** | **7 472** | **—** | **130 280** |
| Accumulated depreciation and impairments | | **(8 074)** | **(41 450)** | **(2 856)** | **—** | **(52 350)** |
| **Balance at the end of the year** | | **54 922** | **18 362** | **4 616** | **—** | **77 900** |
| **2013** | | | | | | |
| Balance at the beginning of the year | | 58 913 | 15 430 | 6 162 | — | 80 505 |
| Additions | | 2 390 | 7 894 | 1 424 | — | 11 708 |
| Disposals | | — | — | — | (264) | (264) |
| Depreciation charge for the year | 25 | (3 143) | (8 120) | (1 619) | — | (12 882) |
| Accumulated depreciation on disposals | | — | — | — | 264 | 264 |
| **Balance at the end of the year** | | 58 160 | 15 204 | 5 967 | — | 79 331 |
| Cost | | 65 051 | 47 611 | 12 724 | 281 | 125 667 |
| Accumulated depreciation and impairments | | (6 891) | (32 407) | (6 757) | (281) | (46 336) |
| **Balance at the end of the year** | | 58 160 | 15 204 | 5 967 | — | 79 331 |

A register of all property and equipment owned by the Regent Insurance Company and the Regent Insurance Group is available for inspection at the registered office of the company. Property comprises the following:

- Property situated on ERF 262, Elma Park, Edenvale. The cost of the property is R10.4 million and market value at 30 June 2014 is R43.6 million (2013: R41.8 million).
- Property situated on ERF 264 and 265, Elma Park, Edenvale. The cost of the property is R48.4 million and market value at 30 June 2014 is R62.2 million (2013: R60.0 million).
- Property situated on ERF 35325, Bellville, Cape Town. The cost of the property is R2.8 million and the market value at 30 June 2014 is R2.5 million (2013: R2.8 million).
- An amount of R0.3 million relates to the cost of land.
- Property situated on Erf 64511, Fairground Office Park, Gaborone. The cost of the property is R24.3 million and market value at 30 June 2014 is R21.8 million (2013: R21.8 million).
- An amount of R1.0 million (2013: R3.0 million) relates to capitalised leasehold improvements.

All valuations were performed by independent valuators and facilitated by an Imperial Group division, Imperial Properties Proprietary Limited which deals with property related matters.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **4. Investment property** | | | | |
| Balance at the beginning of the year | — | 2 204 | — | — |
| Transfer to non-current assets held for sale | — | (2 076) | — | — |
| Additions | **11 372** | — | — | — |
| Depreciation | **(197)** | (128) | — | — |
| **Balance at the end of the year** | **11 175** | — | — | — |
| Cost | **11 372** | — | — | — |
| Accumulated depreciation | **(197)** | — | — | — |
| **Balance at the end of the year** | **11 175** | — | — | — |
| **5. Intangible assets** | | | | |
| **Application software** | | | | |
| Balance at the beginning of the year | **7 979** | 7 446 | **7 718** | 6 444 |
| Additions | **42 484** | 7 723 | **42 383** | 7 723 |
| Disposals | **(6 224)** | (2 533) | **(4 814)** | — |
| Amortisation | **(3 938)** | (7 188) | **(3 664)** | (6 449) |
| Accumulated amortisation on disposals | **1 410** | 2 530 | | |
| Arising from translation of foreign assets | — | 1 | — | — |
| **Balance at the end of the year** | **41 711** | 7 979 | **41 623** | 7 718 |
| Cost | **88 747** | 53 264 | **88 334** | 50 765 |
| Accumulated amortisation | **(47 036)** | (45 285) | **(46 711)** | (43 047) |
| **Balance at the end of the year** | **41 711** | 7 979 | **41 623** | 7 718 |
| **Goodwill** | | | | |
| Balance at the beginning of the year | 3 907 | 4 649 | — | — |
| Impairment | — | (781) | — | — |
| Arising from translation of foreign assets | — | 39 | — | — |
| **Balance at the end of the year** | **3 907** | 3 907 | — | — |
| **Management retention*** | | | | |
| Balance at the beginning of the year | | | | |
| Addition | **1 667** | 2 000 | **1 667** | 2 000 |
| Amortisation | **(750)** | (333) | **(750)** | (333) |
| Impairment | **(917)** | — | **(917)** | — |
| **Balance at the end of the year** | — | 1 667 | — | 1 667 |
| **Total** | **45 618** | 13 553 | **41 623** | 9 385 |

**This intangible asset relates to the consulting agreement on purchase of the Emote business and has a two-year term.*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Regent Insurance Group's share of the net assets of the acquired subsidiaries at the initial date of acquisition. Intangible assets were assessed for impairment at year end and were found not to be impaired.

### Goodwill impairment testing

Goodwill is allocated to cash generating units (CGUs) that are measured individually for the purposes of impairment testing. A CGU represents the business operation from which goodwill was originally generated. The recoverable amount of a CGU is determined being the higher of value in use, or the fair value less costs to sell method.

| | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|
| **6. Investments in subsidiaries** | | |
| Balance at the beginning of the year | **81 915** | 81 915 |
| **Balance at the end of the year** | **81 915** | 81 915 |

Regent Insurance Company's interest in the aggregate profit after tax in subsidiaries amounted to R88.4 million (2013: R109.6 million) and in the losses amounted to Rnil (2013: Rnil).

Details of subsidiaries have been provided in note 35.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **7. Investments in associates** | | | | |
| Balance at the beginning of the year | **(1 444)** | (330) | **(330)** | (330) |
| Disposal | **330** | — | **330** | — |
| Share of losses | **(8 061)** | (1 114) | **—** | — |
| **Balance at the end of the year** | **(9 175)** | (1 444) | **—** | (330) |

Details of the Regent Insurance Group's investments in associates are as follows:

| | Percentage holding | Country of incorporation | Principal activity | Reporting date |
|---|---|---|---|---|
| Mobility Insurance Underwriting Managers Proprietary Limited | 30 | South Africa | Underwriters | 30 June 2014 |
| Direct Insurance Brokers Proprietary Limited | 40 | South Africa | Brokers | 30 June 2014 |

The directors' value of the associates approximates its carrying value.

The summarised financial information in respect of the Regent Insurance Group's share in its associates are set out below:

| | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Total assets attributable | **269** | —* | **—** | — |
| Total liabilities attributable | **3 126** | 342 | **—** | — |
| **Net assets attributable** | **(2 857)** | (342) | **—** | — |
| **Revenue attributable** | **252** | 694 | **—** | — |

**Denotes an amount of less than R1 000.*

| | 2014 Gross R'000 | 2014 Reinsurance R'000 | 2014 Net R'000 | 2013 Gross R'000 | 2013 Reinsurance R'000 | 2013 Net R'000 |
|---|---|---|---|---|---|---|
| **8. General insurance liabilities** | | | | | | |
| **Group** | | | | | | |
| Reported claims | **440 430** | **82 144** | **358 286** | 506 751 | 106 607 | 400 144 |
| Incurred but not reported | **105 023** | **7 281** | **97 742** | 136 672 | 6 312 | 130 360 |
| Outstanding claims, including claims IBNR | **545 453** | **89 425** | **456 028** | 643 423 | 112 919 | 530 504 |
| Unearned premiums | **509 425** | **27 442** | **481 983** | 496 922 | 17 499 | 479 423 |
| **Balance at the end of the year** | **1 054 878** | **116 867** | **938 011** | 1 140 345 | 130 418 | 1 009 927 |
| **Company** | | | | | | |
| Reported claims | **336 386** | **60 172** | **276 214** | 424 079 | 95 741 | 328 338 |
| Incurred but not reported | **68 386** | **2 408** | **65 978** | 103 640 | 5 115 | 98 525 |
| Outstanding claims, including claims IBNR | **404 772** | **62 580** | **342 192** | 527 719 | 100 856 | 426 863 |
| Unearned premiums | **384 865** | **581** | **384 284** | 383 694 | 375 | 383 319 |
| **Balance at the end of the year** | **789 637** | **63 161** | **726 476** | 911 413 | 101 231 | 810 182 |
| **Analysis of movements in net outstanding claims including claims IBNR** | | **Group** | | | **Company** | |
| **2014** | | | | | | |
| Balance at the beginning of the year | **643 423** | **112 919** | **530 504** | **527 719** | **100 856** | **426 863** |
| Claims incurred during the year | **888 789** | **44 432** | **844 357** | **706 540** | **11 871** | **694 669** |
| *Less:* Claims paid during the year | **(988 983)** | **(68 190)** | **(920 793)** | **(829 487)** | **(50 147)** | **(779 340)** |
| Effects of translation of foreign balances | **2 224** | **264** | **1 960** | **—** | **—** | **—** |
| **Balance at the end of the year** | **545 453** | **89 425** | **456 028** | **404 772** | **62 580** | **342 192** |
| **2013** | | | | | | |
| Balance at the beginning of the year | 638 527 | 147 532 | 490 995 | 531 472 | 126 509 | 404 963 |
| Claims incurred during the year | 1 212 678 | 55 058 | 1 157 620 | 1 086 665 | 69 093 | 1 017 572 |
| *Less:* Claims paid during the year | (1 212 119) | (89 974) | (1 122 145) | (1 090 418) | (94 746) | (995 672) |
| Effects of translation of foreign balances | 4 337 | 303 | 4 034 | — | — | — |
| **Balance at the end of the year** | 643 423 | 112 919 | 530 504 | 527 719 | 100 856 | 426 863 |
| **Analysis of movements in unearned premium** | | | | | | |
| **2014** | | | | | | |
| Balance at the beginning of the year | **496 922** | **17 499** | **479 423** | **383 694** | **375** | **383 319** |
| Premiums written during the year | **1 889 551** | **181 943** | **1 707 608** | **1 448 377** | **39 836** | **1 408 541** |
| *Less:* Premiums earned during the year | **(1 879 603)** | **(172 300)** | **(1 707 303)** | **(1 447 206)** | **(39 630)** | **(1 407 576)** |
| Effects of translation of foreign balances | **2 555** | **300** | **2 255** | **—** | **—** | **—** |
| **Balance at the end of the year** | **509 425** | **27 442** | **481 983** | **384 865** | **581** | **384 284** |
| **2013** | | | | | | |
| Balance at the beginning of the year | 487 470 | 12 672 | 474 798 | 391 572 | 6 030 | 385 542 |
| Premiums written during the year | 2 232 300 | 192 425 | 2 039 875 | 1 827 458 | 84 896 | 1 742 562 |
| *Less:* Premiums earned during the year | (2 231 406) | (191 617) | (2 039 789) | (1 835 336) | (90 551) | (1 744 785) |
| Effects of translation of foreign balances | (3 016) | (7 555) | 4 539 | — | — | — |
| Other | 11 574 | 11 574 | — | — | — | — |
| **Balance at the end of the year** | 496 922 | 17 499 | 479 423 | 383 694 | 375 | 383 319 |

Other relates to adjustments processed directly against the balance.

## 8. General insurance liabilities *(continued)*

### 8.1 Maturity analysis of general insurance liabilities

Based on actuarial modelling of historical and future expected trends, the Regent Insurance Group has estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out below. The maturity profile of the related reinsurance assets is expected to be similar to the profile of the gross liabilities.

| | Maturity in less than 3 months R'000 | Maturity between 3 months and 1 year R'000 | Maturity more than 1 year R'000 | Total R'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2014** | | | | |
| Claims IBNR | **41 805** | **31 567** | **31 651** | **105 023** |
| Outstanding claims | **175 316** | **132 381** | **132 733** | **440 430** |
| Unearned premiums | **95 752** | **173 803** | **239 870** | **509 425** |
| **Total** | **312 873** | **337 751** | **404 254** | **1 054 878** |
| **2013** | | | | |
| Claims IBNR | 55 022 | 43 369 | 38 281 | 136 672 |
| Outstanding claims | 197 904 | 160 008 | 148 839 | 506 751 |
| Unearned premiums | 101 746 | 178 034 | 217 142 | 496 922 |
| **Total** | 354 672 | 381 411 | 404 262 | 1 140 345 |
| **Company** | | | | |
| **2014** | | | | |
| Claims IBNR | **26 968** | **20 430** | **20 988** | **68 386** |
| Outstanding claims | **132 656** | **100 492** | **103 238** | **336 386** |
| Unearned premiums | **54 749** | **117 735** | **212 381** | **384 865** |
| **Total** | **214 373** | **238 657** | **336 607** | **789 637** |
| **2013** | | | | |
| Claims IBNR | 40 086 | 32 530 | 31 024 | 103 640 |
| Outstanding claims | 164 027 | 133 108 | 126 944 | 424 079 |
| Unearned premiums | 57 184 | 120 996 | 205 513 | 383 694 |
| **Total** | 261 298 | 286 634 | 363 481 | 911 413 |

### 8.2 Process used to determine significant assumptions

Insurance risks are unpredictable and the Regent Insurance Group recognises that it is impossible to forecast with absolute precision, future claims payable under existing insurance contracts. Over time, the Regent Insurance Group has developed methodologies that are aimed at establishing insurance provisions that are estimated to be adequate.

### 8.3 Claim provisions

The Regent Insurance Group's outstanding claims provisions include notified claims as well as claims IBNR.

## 8. General insurance liabilities *(continued)*

### 8.3 Claim provisions *(continued)*

*Notified claims*

Each notified claim is assessed on a separate, case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The Regent Insurance Group employs staff experienced in claims handling and rigorously applies standardised policies and procedures around claim assessments.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Case estimates are initially set at a prudent level but are reviewed regularly and updated as new information becomes available.

*Claims IBNR*

The IBNR provision, other than for business originating from underwriting managers, consists of a best estimate reserve and an explicit risk margin. The best estimate represents the expected value of the insurance liabilities that is, the mean in a range of possible outcomes in the development of unreported claims and the future development of notified claims. The explicit risk margins are added to the best estimate to reflect the uncertainty of the ultimate cost of claims. The IBNR for business originating from underwriting managers is set at the historical industry average and adjusted if the experience indicates that the methodology is no longer appropriate. The aggregate of the best estimate reserve and risk margins expressed as a percentage of premiums written, represents the IBNR assumption for each financial year.

The methods applied by the Regent Insurance Group use historical claims development information and therefore the underlying basis assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

The provision for the notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries. The calculation of the reinsurance recoveries considers the type of risk underwritten, which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

### 8.4 Premium provisions

The Regent Insurance Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the Regent Insurance Group's insurance contracts have an even risk profile and therefore the unearned premium provisions are released evenly over the period of insurance using a time proportionate basis. For the remainder of the insurance portfolio the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts.

The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue are recognised on a basis consistent with the related provisions for unearned premiums.

### 8.5 Assumptions

The risk margins are determined statistically such that the level of confidence on the adequacy of the provision is approximately 75% (or only a 25% probability that the provision will be inadequate). The levels of the IBNR provisions and the risk margins are assessed annually by management against the Regent Insurance Group's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate.

The IBNR provision for policies underwritten by underwriting managers ranges from 5% to 9% of net written premiums.

The unearned premiums provision for motor warranty policies takes account of assumed premium earning patterns. The premium earning patterns are reassessed and updated by management after review of the actual loss experience for these types of contracts.

## 8. General insurance liabilities *(continued)*

### 8.6 Sensitivity of assumptions

The assumption that will have a significant impact on the Regent Insurance Group's results is the confidence level used in the IBNR calculation. A hypothetical increase in the IBNR from the 75th percentile confidence level to the 80th percentile will have an adverse effect of R4.5 million (2013: R7.3 million) in income before tax. The 75% level of adequacy is considered prudent until the requirements of the Financial Services Board's proposed Solvency Assessment and Management (SAM) principles are finalised.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **9. Financial assets** | | | | |
| The Regent Insurance Group's financial assets at fair value through profit and loss comprise: | | | | |
| Listed preference shares | **78 767** | 81 938 | **78 767** | 81 938 |
| Unlisted preference shares | **—** | 100 000 | **—** | 100 000 |
| Listed equities | **111 925** | — | **111 925** | — |
| Listed foreign government bonds | **1 000** | 2 598 | **—** | — |
| Corporate bonds | **140 005** | 170 082 | **140 005** | 170 082 |
| Collective investment schemes | **567 315** | 919 316 | **480 729** | 769 861 |
| Short-term cash deposits | **75 494** | 533 405 | **10 000** | 328 583 |
| **Total** | **974 506** | 1 807 339 | **821 426** | 1 450 464 |
| **Market value** | | | | |
| **Maturity analysis of gilts** | | | | |
| Maturing in less than one year from statement of financial position date | **50 011** | 101 598 | **50 011** | 99 999 |
| Maturing in more than one year and less than five years from statement of financial position date | **90 994** | 71 082 | **89 994** | 70 083 |
| **Total** | **141 005** | 172 680 | **140 005** | 170 082 |
| **Movement** | | | | |
| Balance at the beginning of the year | **1 807 339** | 1 292 091 | **1 450 464** | 1 150 725 |
| Additions | **1 961 435** | 1 609 967 | **1 909 217** | 1 401 015 |
| Disposals | **(2 919 759)** | (1 200 807) | **(2 646 768)** | (1 198 735) |
| Fair value adjustment | **118 432** | 106 088 | **108 513** | 97 459 |
| FCTR | **7 059** | — | **—** | — |
| **Balance at the end of the year** | **974 506** | 1 807 339 | **821 426** | 1 450 464 |

The collective investment schemes comprise protected equity and money market funds with a duration of greater than 90 days.

## 10. Non-current assets held for sale

In the 2009 financial year, management committed to the sale of the Cenez property that is held in Lesotho National General Insurance Company. The Deed of Sale, which is subject to approval by the authorities in Lesotho, was concluded. Management is still of the opinion that the sale will be approved by Lesotho authorities in the next financial year.

| | Group 2014 R'000 | Group 2013 R'000 |
|---|---|---|
| **10. Non-current assets held for sale** *(continued)* | | |
| Cost | | |
| > Buildings | **3 175** | 1 099 |
| Transfer from investment property | **—** | 2 076 |
| Disposals | **(2 076)** | — |
| **Balance at the end of the year** | **1 099** | 3 175 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **11. Agents and other insurers' balances** | | | | |
| Premium debtors | **134 957** | 159 128 | **50 788** | 77 683 |
| Provision for bad debts | **(27 150)** | (30 153) | **(15 986)** | (20 494) |
| Net receivable | **107 807** | 128 975 | **34 802** | 57 189 |
| Commission payable | **(54 313)** | (50 651) | **(52 916)** | (50 059) |
| Fees payable | **(31 209)** | (12 231) | **(31 209)** | (12 231) |
| Net payable | **(85 522)** | (62 882) | **(84 125)** | (62 290) |
| Net agent and other insurers' balances | **22 285** | 66 093 | **(49 323)** | (5 101) |

This balance represents current amounts due to or from underwriters, brokers and premium debtors. The Regent Insurance Group is of the opinion that the carrying amounts of these assets represents a reasonable approximation of fair value.

### 11.1 Agents and other insurers' balances

#### Insurance premium receivables

Insurance premium receivables are aged according to the terms and conditions of the underlying agreements. Past due policies are reviewed for recoverability and either lapsed or provided for where necessary. No interest is charged on the outstanding insurance premium receivables. If a claim is payable, the outstanding amount receivable will be recovered from the amount payable to the client.

| | | | | |
|---|---|---|---|---|
| Movement in the provision for impairment of trade receivables | | | | |
| Balance at the beginning of the year | **30 153** | 36 268 | **20 494** | 27 431 |
| Decrease in allowance recognised in profit and loss | **(3 162)** | (638) | **(4 662)** | (786) |
| Amounts reversed/(written off) during the year | **159** | (5 477) | **154** | (6 151) |
| **Balance at the end of the year** | **27 150** | 30 153 | **15 986** | 20 494 |

## 11. Agents and other insurers' balances *(continued)*

In determining the recoverability of a receivable, the Regent Insurance Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

### 11.2 Age analysis

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **Ageing of premium debtors** | | | | |
| Not past due | **92 500** | 86 307 | **30 618** | 45 367 |
| Past due 0 – 90 days | **15 307** | 44 180 | **4 185** | 14 482 |
| Past due 91 – 360 days | **8 677** | 12 570 | **856** | 2 714 |
| Past due more than one year | **18 473** | 16 071 | **15 129** | 15 120 |
| **Total** | **134 957** | 159 128 | **50 788** | 77 683 |

## 12. Deferred tax

| | | | | |
|---|---|---|---|---|
| Balance at the beginning of the year | **(37 632)** | (5 920) | **(35 526)** | (6 320) |
| Movement during the year attributable to: | | | | |
| > Temporary differences | **(10 318)** | (31 489) | **(7 261)** | (28 983) |
| > Prior year under provision | **2 148** | (223) | **750** | (223) |
| **Balance at the end of the year** | **(45 802)** | (37 632) | **(42 037)** | (35 526) |
| Comprising: | | | | |
| > Provisions | **(25 829)** | (6 232) | **(22 065)** | (4 126) |
| > Unrealised appreciation on financial assets at fair value | **(19 973)** | (31 400) | **(19 972)** | (31 400) |
| **Balance at the end of the year** | **(45 802)** | (37 632) | **(42 037)** | (35 526) |
| Reflected in the statement of financial position*: | | | | |
| > Deferred tax asset | **7 666** | 7 995 | **—** | — |
| > Deferred tax liability | **(53 468)** | (45 627) | **(42 037)** | (35 526) |
| **Balance at the end of the year** | **(45 802)** | (37 632) | **(42 037)** | (35 526) |

**In terms of IAS 12, the deferred tax asset and liability cannot be offset against one another, as they have arisen in different legal entities.*

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **13. Taxation** | | | | |
| South African normal taxation | | | | |
| Current | **86 919** | 31 006 | **54 075** | (3 359) |
| > Current year | **54 034** | 29 017 | **23 517** | (5 401) |
| > Prior year under provision | **12 162** | 708 | **9 835** | 761 |
| > CGT | **20 723** | 1 281 | **20 723** | 1 281 |
| Deferred | **8 170** | 31 712 | **6 511** | 29 206 |
| > Current year | **10 318** | 31 489 | **7 261** | 28 983 |
| > Prior year adjustment | **(2 148)** | 223 | **(750)** | 223 |
| Withholding taxation and STC | **7 579** | 4 675 | **7 579** | 4 675 |
| **Total** | **102 668** | 67 393 | **68 165** | 30 522 |
| Reconciliation of taxation: | | | | |
| South African normal taxation at statutory rate of 28% | **28.00** | 28.00 | **28.00** | 28.00 |
| Adjusted for: | | | | |
| Non-allowable income | **(0.83)** | (3.19) | **(9.10)** | (13.58) |
| Withholding tax and STC | **1.71** | 1.52 | **1.94** | 1.93 |
| Foreign tax rate difference | **(1.21)** | (1.41) | **—** | — |
| Losses in subsidiaries | **0.62** | 0.04 | **—** | — |
| Realised and unrealised gains for CGT | **(3.28)** | (3.29) | **(3.14)** | (4.16) |
| Prior year under provision | **3.03** | 0.30 | **3.36** | 0.41 |
| **Taxation charge in income statement** | **28.04** | 21.98 | **21.06** | 12.59 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **14. Other receivables including insurance receivables** | | | | |
| Other receivables comprise: | | | | |
| Reinsurance debtors | **11 779** | 3 286 | **3 408** | 1 014 |
| Salvage debtors | **8 200** | 14 552 | **8 064** | 14 449 |
| Sundry and other debtors | **19 152** | 17 290 | **9 572** | 11 578 |
| Gross receivables including insurance receivables | **39 131** | 35 128 | **21 044** | 27 041 |
| Bad debt provision | **(4 480)** | (5 546) | **(4 480)** | (5 546) |
| **Balance at the end of the year** | **34 651** | 29 582 | **16 564** | 21 495 |

| | Re-insurance debtors R'000 | Salvage debtors R'000 | Sundry and other debtors R'000 | Total R'000 |
|---|---|---|---|---|
| **14. Other receivables including insurance receivables** *(continued)* | | | | |
| **14.1 Ageing of other receivables** | | | | |
| **2014** | | | | |
| **Group** | | | | |
| Neither impaired nor past due | **6 635** | **2 790** | **14 349** | **23 774** |
| Past due but not impaired: | **5 144** | **2 354** | **3 379** | **10 877** |
| > 0 – 90 days | **262** | **2 354** | **2 623** | **5 239** |
| > 91 – 360 days | **3 326** | **—** | **613** | **3 939** |
| > More than one year | **1 556** | **—** | **143** | **1 699** |
| > Impaired | **—** | **3 056** | **1 424** | **4 480** |
| **Balance at the end of the year** | **11 779** | **8 200** | **19 152** | **39 131** |
| **Company** | | | | |
| Neither impaired nor past due | **1 681** | **2 654** | **8 085** | **12 420** |
| Past due but not impaired: | **1 727** | **2 354** | **63** | **4 144** |
| > 0 – 90 days | **262** | **2 354** | **63** | **2 679** |
| > 91 – 360 days | **1 465** | **—** | **—** | **1 465** |
| > More than one year | **—** | **—** | **—** | **—** |
| > Impaired | **—** | **3 056** | **1 424** | **4 480** |
| **Balance at the end of the year** | **3 408** | **8 064** | **9 572** | **21 044** |
| **2013** | | | | |
| **Group** | | | | |
| Neither impaired nor past due | 1 735 | 4 305 | 9 391 | 15 431 |
| Past due but not impaired: | 1 551 | 5 796 | 6 804 | 14 151 |
| > 0 – 90 days | — | 5 778 | 3 034 | 8 812 |
| > 91 – 360 days | 1 551 | 18 | 3 309 | 4 878 |
| > More than one year | — | — | 461 | 461 |
| > Impaired | — | 4 451 | 1 095 | 5 546 |
| **Balance at the end of the year** | 3 286 | 14 552 | 17 290 | 35 128 |
| **Company** | | | | |
| Neither impaired nor past due | 1 014 | 4 226 | 9 732 | 14 972 |
| Past due but not impaired: | — | 5 772 | 751 | 6 523 |
| > 0 – 90 days | — | 5 754 | 477 | 6 231 |
| > 91 – 360 days | — | 18 | 223 | 241 |
| > More than one year | — | — | 51 | 51 |
| > Impaired | — | 4 451 | 1 095 | 5 546 |
| **Balance at the end of the year** | 1 014 | 14 449 | 11 578 | 27 041 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **15. Due to and from group companies** | | | | |
| Due from Regent Insurance Group subsidiaries | **—** | — | **3 935** | 381 |
| Due from Regent Insurance Group associates | **5 804** | 869 | **5 804** | 869 |
| Due from Imperial Holdings and fellow Imperial Holdings subsidiaries | **80 339** | 7 914 | **6 551** | 7 021 |
| **Due from group companies** | **86 143** | 8 783 | **16 290** | 8 271 |
| Due to Regent Insurance Group subsidiaries | **—** | — | **(186)** | (1 236) |
| **Due to group companies** | **—** | — | **(186)** | (1 236) |
| **Due from group companies** | **86 143** | 8 783 | **16 104** | 7 034 |

These are call loans payable on demand.

| | | | | |
|---|---|---|---|---|
| **16. Cash and cash equivalents** | | | | |
| Cash at bank and on hand | **208 041** | 87 361 | **84 241** | 54 390 |
| Cash deposits* | **919 769** | 331 126 | **719 000** | 153 309 |
| **Total cash and cash equivalents** | **1 127 810** | 418 487 | **803 241** | 207 699 |

**Call and cash deposits maturing within three months or less.*

The average call rate on short-term bank deposits was 4.35% (2013: 4.5%).

## 17. Provisions

### 17.1 Leave pay

In terms of the Regent Insurance Group's policy, employees are entitled to accumulate a maximum of 30 days leave. Minimum leave of 15 days has to be taken within 12 months of earning it.

### 17.2 Bonus

In terms of the Regent Insurance Group's policy, selected employees at the discretion of directors receive an incentive bonus. The incentive bonus relates to employee, corporate and divisional performance and it is approved by the remuneration committee of Imperial Holdings Limited.

### 17.3 Other

Other provisions include amongst others, provisions for internal audit, actuarial and underwriting manager fees.

| | Leave pay R'000 | Bonus R'000 | Service and main-tenance R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2014** | | | | | |
| Balance at the beginning of the year | **17 452** | **45 903** | **97 487** | **9 224** | **170 066** |
| Charged to statement of comprehensive income | **3 395** | **53 612** | **—** | **5 075** | **62 082** |
| Utilised during the year | **(3 330)** | **(38 701)** | **(21 097)** | **(3 740)** | **(66 868)** |
| Arising from translation of foreign provisions | **41** | **244** | **—** | **—** | **285** |
| **Balance at the end of the year** | **17 558** | **61 058** | **76 390** | **10 559** | **165 565** |
| **2013** | | | | | |
| Balance at the beginning of the year | 13 771 | 43 081 | 94 787 | 10 921 | 162 560 |
| Charged to statement of comprehensive income | 5 907 | 45 415 | 1 085 | 4 192 | 56 599 |
| Utilised during the year | (5 441) | (43 963) | 1 614 | (6 210) | (54 000) |
| Arising from translation of foreign provisions | 85 | 281 | — | — | 366 |
| Reclassification | 3 130 | 1 089 | 1 | 321 | 4 541 |
| **Balance at the end of the year** | 17 452 | 45 903 | 97 487 | 9 224 | 170 066 |
| **Company** | | | | | |
| **2014** | | | | | |
| Balance at the beginning of the year | **11 634** | **38 899** | **—** | **9 225** | **59 758** |
| Charged to statement of comprehensive income | **2 890** | **44 959** | **—** | **4 115** | **51 964** |
| Utilised during the year | **(2 689)** | **(31 282)** | **—** | **(3 518)** | **(37 489)** |
| **Balance at the end of the year** | **11 835** | **52 576** | **—** | **9 822** | **74 233** |
| **2013** | | | | | |
| Balance at the beginning of the year | 11 050 | 37 413 | — | 7 138 | 55 601 |
| Charged to statement of comprehensive income | 5 606 | 38 961 | — | 3 209 | 47 776 |
| Utilised during the year | (5 022) | (37 475) | — | (5 663) | (48 160) |
| Reclassification | — | — | — | 4 541 | 4 541 |
| **Balance at the end of the year** | 11 634 | 38 899 | — | 9 225 | 59 758 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **18. Insurance and other payables** | | | | |
| Reinsurance payable | **59 063** | 65 920 | **14 285** | 21 691 |
| Sundry creditors | **26 669** | 28 349 | **602** | 1 198 |
| Accruals | **8 951** | 16 148 | **8 951** | 16 148 |
| Other | **47 541** | 36 607 | **23 687** | 26 020 |
| **Balance at the end of the year** | **142 224** | 147 024 | **47 525** | 65 057 |

This current liability consists of sundry creditors relating to insurance and administration operations which are considered to approximate fair value.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **19. Share capital and share premium** | | | | |
| **Authorised share capital** | | | | |
| 3 000 000 ordinary shares of R1 each and | **3 000** | 3 000 | **3 000** | 3 000 |
| 1 000 preference shares of R0.01 each | * | * | * | * |
| **Issued share capital** | | | | |
| 2 940 000 ordinary shares of R1 each | **2 940** | 2 940 | **2 940** | 2 940 |
| 10 preference shares of R0.01 each | * | * | * | * |
| Share premium | **452 564** | 452 564 | **452 564** | 452 564 |

**Denotes an amount of less than R1 000.*

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 but subject to the provisions of the Companies Act, No 71 of 2008 and the Company's memorandum of incorporation.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **20. Net premiums earned** | | | | |
| Net premiums earned represents gross written insurance premiums from policyholders adjusted for unearned premiums and reinsurance premiums paid. | | | | |
| Gross premium income | **1 889 551** | 2 232 300 | **1 448 377** | 1 827 458 |
| Reinsurance | **(181 943)** | (192 425) | **(39 836)** | (84 895) |
| Unearned premiums | **(9 948)** | (894) | **(1 171)** | 7 878 |
| Reinsurance on unearned premiums | **9 643** | 808 | **206** | (5 655) |
| **Total** | **1 707 303** | 2 039 789 | **1 407 576** | 1 744 786 |

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **21. Investment income** | | | | |
| Interest income | **103 560** | 85 528 | **77 235** | 57 869 |
| Rental income | **1 171** | 2 502 | **—** | — |
| Investment management expenses | **(3 887)** | (3 595) | **(3 887)** | (3 595) |
| Dividend income | **15 827** | 20 925 | **105 830** | 103 374 |
| > Listed | **13 698** | 20 925 | **103 701** | 17 871 |
| > Unlisted | **2 129** | — | **2 129** | 85 503 |
| **Total** | **116 671** | 105 360 | **179 178** | 157 648 |
| **22. Investment gains** | | | | |
| Realised profit on disposal of investments | **111 312** | 3 448 | **111 130** | 3 448 |
| > Listed | **111 312** | 3 448 | **111 130** | 3 448 |
| Unrealised profit on revaluation of investments | **7 120** | 102 640 | **(2 617)** | 94 011 |
| > Listed | **7 120** | 102 640 | **(2 617)** | 94 011 |
| **Total** | **118 432** | 106 088 | **108 513** | 97 459 |
| **23. Other operating income*** | | | | |
| Policy and underwriting fees | **25 493** | 26 412 | **25 493** | 26 399 |
| Recoveries | **3 043** | 4 041 | **2 602** | 1 505 |
| Sundry income** | **47 328** | 68 514 | **4 240** | 15 689 |
| **Total** | **75 864** | 98 967 | **32 335** | 43 593 |

**Fees related to the sale of maintenance products was reallocated from policy and underwriting fees and recoveries to sundry income in the prior year in order to be comparable with the current year disclosure.*
***Included in sundry income is R41 million (2013: R57 million) that relates to fees earned from the sale of maintenance products.*

| | | | | |
|---|---|---|---|---|
| **24. Net claims incurred** | | | | |
| Gross | **(888 789)** | (1 212 678) | **(706 540)** | (1 086 665) |
| > Claims paid | **(988 983)** | (1 212 119) | **(829 487)** | (1 090 418) |
| > Change in provision for outstanding claims | **100 194** | (559) | **122 947** | 3 753 |
| Reinsurers' share | **44 432** | 55 057 | **11 871** | 69 093 |
| > Claims paid | **68 190** | 89 973 | **50 147** | 94 746 |
| > Change in provision for outstanding claims | **(23 758)** | (34 916) | **(38 276)** | (25 653) |
| Other | | | | |
| > Claims handling costs | **(57 350)** | (49 733) | **(57 350)** | (49 773) |
| **Total** | **(901 707)** | (1 207 354) | **(752 019)** | (1 067 305) |

| | Notes | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|---|
| **25. Profit before taxation** | | | | | |
| Profit before taxation is determined after taking the following into account: | | | | | |
| Property and equipment – depreciation | 3 | **16 172** | 15 616 | **13 746** | 12 882 |
| > Buildings | | **3 685** | 3 790 | **2 709** | 2 770 |
| > Investment property | | **128** | — | **—** | — |
| > Furniture and fittings | | **1 799** | 1 888 | **1 543** | 1 619 |
| > Computer and office equipment | | **9 795** | 9 122 | **9 076** | 8 120 |
| > Leasehold improvements | | **418** | 417 | **418** | 373 |
| > Motor vehicles | | **347** | 399 | **—** | — |
| Amortisation of intangible assets | 5, 27.1 | **4 688** | 7 522 | **4 414** | 6 782 |
| Impairment losses/(reversals) on financial assets | | **917** | (638) | **917** | (786) |
| Rentals under operating leases | | **9 626** | 10 759 | **7 556** | 6 922 |
| Auditors' remuneration | | **4 574** | 4 352 | **3 061** | 2 659 |
| Consultancy fees | | **12 806** | 14 885 | **11 201** | 13 624 |
| Staff costs | | **294 016** | 294 544 | **244 891** | 247 857 |
| > Pension contributions* | | **13 907** | 14 654 | **11 084** | 11 614 |
| > Salaries | | **267 986** | 267 780 | **221 684** | 224 133 |
| > Share-based payment expense | 26 | **12 123** | 12 110 | **12 123** | 12 110 |
| Foreign exchange gains and losses | | **880** | 41 | **912** | 41 |
| Loss/(profit) on sale of property and equipment | | **1 630** | (101) | **1 639** | (166) |
| Profit on sale of client list | | **—** | 10 250 | **—** | 10 250 |
| Profit on sale of investment property | | **6 596** | — | **—** | — |
| Rental income | | **397** | 1 267 | **—** | — |
| Administration fees received** | | **7 744** | 7 167 | **7 744** | 7 155 |
| **Number of employees at year end** | | **699** | 742 | **581** | 597 |

**Post-employment benefits.*

***The prior year Regent Insurance Group number was restated to reflect reallocation as per note 23.*

The Regent Insurance Group provides retirement benefits through independent funds under the control of trustees and all contributions to those funds are charged to the statement of comprehensive income. The large majority of employees are members of the Imperial Group Pension Fund and the Imperial Group Provident Fund which are governed by the Pensions Funds Act, 1956.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **26. Share-based equity reserve** | | | | |
| Reconciliation of share-based payment reserve | | | | |
| Balance at the beginning of the year | **12 219** | 2 856 | **12 219** | 2 856 |
| Hedge premium paid | **27 485** | 19 527 | **27 485** | 19 527 |
| Direct transfer to equity | **691** | 2 919 | **691** | 2 919 |
| Share-based equity reserve raised: | | | | |
| > Direct cost | **(12 123)** | (12 110) | **(12 123)** | (12 110) |
| > Tax | **(1 704)** | (973) | **(1 704)** | (973) |
| **Total share-based payments equity reserve** | **26 568** | 12 219 | **26 568** | 12 219 |

The Imperial Holdings Limited Share Appreciation Rights Scheme was set up to provide executives and senior management including those of the Regent Insurance Group, with an opportunity to own shares in the ultimate holding company of Regent Insurance Group, Imperial Holdings Limited, through the grant of rights to the appreciation in Imperial Holdings Limited share price. Share Appreciation Rights are rights to receive shares equal in value to the appreciation of the Imperial Holdings Limited shares between the grant date and the vesting date, subject to the fulfilment of pre-determined performance criteria over the vesting period.

The fair values for the share-based payment reserves were calculated using a Black-Scholes pricing model.

| | June 2014 | June 2013 |
|---|---|---|
| Share appreciation rights scheme | | |
| > Volatility (%) | **28.41** | 29.50 |
| > Weighted average share price (rand) | **193.77** | 195.20 |
| > Weighted average exercise price (rand) | **193.77** | 195.20 |
| > Weighted average fair value (rand) | **46.67** | 47.02 |
| > Expected life (years) | **4.28** | 4.32 |
| > Average risk-free rate (%) | **7.75** | 6.50 |
| > Expected dividend yield (%) | **4.34** | 3.89 |
| Deferred bonus plan | | |
| > Volatility (%) | **28.41** | 29.50 |
| > Weighted average share price (rand) | **193.77** | 195.20 |
| > Weighted average fair value (rand) | **168.45** | 171.89 |
| > Expected life (years) | **3.23** | 3.27 |
| > Average risk-free rate (%) | **7.75** | 6.50 |
| > Expected dividend yield (%) | **4.34** | 3.89 |

The volatilities were determined by calculating the historical volatility of the Imperial Holdings Limited's share price over the previous five years. The expected life is determined by the rules of the schemes which dictate the expiry date.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **27. Notes to the cash flow statement** | | | | |
| **27.1 Cash generated by operations** | | | | |
| Profit before taxation | **367 618** | 306 576 | **323 659** | 242 342 |
| Adjusted for: | | | | |
| Interest income | **(103 560)** | (85 528) | **(77 235)** | (57 869) |
| Interest expense | **16 806** | 17 435 | **16 603** | 17 348 |
| Dividends received | **(15 827)** | (20 925) | **(105 830)** | (103 374) |
| Unrealised profit on revaluation of investments | **(7 120)** | (102 640) | **2 617** | (94 011) |
| Depreciation of property and equipment | **16 172** | 15 616 | **13 746** | 12 882 |
| Amortisation of intangible assets | **4 688** | 7 521 | **4 414** | 6 782 |
| Profit on sale of property and equipment | **1 630** | (101) | **1 639** | (166) |
| Profit on sale of investments | **(111 312)** | (3 448) | **(111 129)** | (3 448) |
| Profit on sale of client list | **—** | (10 250) | **—** | (10 250) |
| Foreign exchange gains | **880** | 41 | **912** | 41 |
| Share of loss from associate | **8 061** | 1 114 | **—** | — |
| Changes in working capital: | **(126 832)** | 68 843 | **(46 434)** | 28 576 |
| > Decrease/(increase) in receivables | **9 106** | (7 543) | **27 562** | (9 372) |
| > Increase/(decrease) in other payables | **17 841** | 9 211 | **4 303** | (1 394) |
| > (Decrease)/increase in provisions | **(4 502)** | 7 507 | **14 475** | 4 157 |
| > Net movement in group loans | **(77 361)** | 15 534 | **(9 069)** | 15 508 |
| > (Decrease)/increase in net outstanding claims and IBNR | **(74 476)** | 39 509 | **(84 670)** | 21 900 |
| > Increase/(decrease) in unearned premiums | **2 560** | 4 625 | **965** | (2 223) |
| **Total** | **44 608** | 194 254 | **22 962** | 38 853 |
| **27.2 Investment income** | | | | |
| **Dividend received** | | | | |
| Dividend received per statement of comprehensive income | **15 827** | 20 925 | **105 830** | 103 374 |
| **Total** | **15 827** | 20 925 | **105 830** | 103 374 |
| **Interest received** | | | | |
| Accrued interest income at the beginning of the year | **15 913** | 14 378 | **6 495** | 6 269 |
| Interest income per statement of comprehensive income | **103 560** | 85 528 | **77 235** | 57 869 |
| Accrued interest income at the end of the year | **(8 921)** | (15 913) | **(3 266)** | (6 495) |
| **Total** | **110 552** | 83 993 | **80 464** | 57 643 |
| **27.3 Taxation paid** | | | | |
| Amount receivable at the beginning of the year | **75 055** | 67 295 | **79 334** | 64 049 |
| Amount charged to statement of comprehensive income | **(102 668)** | (67 393) | **(68 165)** | (30 521) |
| Prior year over provision | | | | |
| Tax effect on the share-based equity reserves | **1 705** | 973 | **1 705** | 973 |
| Movement in deferred tax | **8 170** | 31 712 | **6 511** | 29 206 |
| | **(17 738)** | 32 587 | **19 385** | 63 707 |
| Amount (receivable)/payable at the end of the year | **(360)** | (75 055 | **3 749** | (79 334) |
| **Total** | **(18 098)** | (42 468) | **23 134** | (15 627) |
| **27.4 Dividend paid** | | | | |
| Dividends per statement of changes in equity | **(311 864)** | (338 658) | **(287 110)** | (333 298) |
| Dividends paid | **(311 864)** | (338 658) | **(287 110)** | (333 298) |

## 28. Related party transactions

### 28.1 Identity of related parties

The Regent Insurance Company has a related party relationship with its holding company, subsidiaries and fellow subsidiaries and with its directors and key management personnel.

### 28.2 Other related party transactions and balances

The company has balances receivable with subsidiary companies. These balances are disclosed below in note 28.2.2. Transactions between the Regent Insurance Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

During the year the Regent Insurance Company and its subsidiaries in the ordinary course of business entered into various transactions with fellow subsidiary companies in the greater Imperial group of companies. These transactions occurred under terms that are no less favourable than those arranged with third parties.

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **28.2.1 Transactions with group companies** | | | | |
| Fees paid to holding company | **15 999** | 16 153 | **15 999** | 16 153 |
| Internal audit fee paid to holding company | **149** | 141 | **149** | 141 |
| Premiums received from Imperial Group companies | **9 980** | 40 206 | **9 980** | 40 206 |
| Administration fees paid to subsidiary | **—** | — | **55 057** | 63 820 |
| Rental income from Imperial Group companies | **397** | 1 267 | **—** | — |
| Interest paid to holding company | **15 686** | 12 417 | **15 686** | 12 417 |
| Vehicle operating lease costs paid to group company | **5 237** | 5 219 | **5 237** | 5 219 |
| **28.2.2 Year-end balances with related parties** | | | | |
| **Receivable from related parties** | **86 143** | 8 783 | **16 290** | 8 271 |
| > Regent Insurance Group subsidiaries | **—** | — | **3 935** | 381 |
| > Regent Insurance associates | **5 804** | 869 | **5 804** | 869 |
| > Fellow Imperial Holdings Limited subsidiaries | **80 339** | 7 914 | **6 551** | 7 021 |
| **Payable to related parties** | **200 000** | 200 000 | **200 186** | 201 236 |
| > Regent Insurance Group subsidiaries | **—** | — | **186** | 1 236 |
| > Imperial Holdings* | **200 000** | 200 000 | **200 000** | 200 000 |

**This loan has been subordinated in favour of all policyholders and creditors.*

| | Group 2014 R'000 | Group 2013 R'000 | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|---|---|
| **29. Operating lease commitments** | | | | |
| The future minimum lease payments under non-cancellable operating leases: | **20 689** | 16 266 | **10 635** | 10 304 |
| > Not later than 1 year | **6 182** | 7 760 | **3 752** | 5 195 |
| > Between 1 and 5 years | **14 507** | 8 506 | **6 883** | 5 109 |

The Regent Insurance Group leases certain of its office buildings and office equipment in terms of operating leases. The Regent Insurance Company does not have an option to acquire the assets at the termination of the lease.

| | Company 2014 R'000 | Company 2013 R'000 |
|---|---|---|
| **30. Remuneration** | | |
| **30.1 Directors' emoluments** | | |
| Directors' emoluments comprise: | | |
| Executive directors' remuneration | **22 100** | 29 039 |
| > Basic remuneration | **7 373** | 7 034 |
| > Retirement and medical benefits | **701** | 490 |
| > Other incentives and benefits | **14 026** | 21 515 |
| **Non-executive directors' fees** | **1 425** | 1 303 |
| > RG Cottrell | **—** | 144 |
| > C Erasmus | **445** | 416 |
| > S Masinga | **226** | 211 |
| > JPR Mbau | **107** | 100 |
| > BR Mallinson | **369** | 142 |
| > RJA Sparks | **278** | 290 |

Fees for the services as director for the year ended 30 June 2014 were approved by the shareholder at the annual general meeting. The remuneration of directors is determined by the remuneration committee of Imperial Holdings Limited based on the performance of the individual and market trends. All executive directors are eligible for annual performance related bonus payments. The remuneration of directors and prescribed officers reflects a total remuneration paid by both Regent Life Company and Regent Insurance Company.

## 30. Remuneration *(continued)*

### 30.2 Executive directors' remuneration

| | Salary R'000 | Bonus R'000 | Retirement and medical contribu-tions R'000 | Other benefits R'000 | 2014 Total R'000 | 2013 Total R'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| B Adam | 1 644 | 1 431 | 175 | 62 | **3 312** | — |
| PCW Hibbit | — | — | — | — | — | 2 940 |
| AN Tennick | 2 414 | **2 340** | 229 | 3 657 | **8 640** | 10 333 |
| JJ Strydom | 3 315 | **2 650** | 297 | 3 886 | **10 148** | 15 766 |
| | 7 373 | 6 421 | 701 | 7 605 | **22 100** | 29 039 |

| | Commence-ment date | Price on commence-ment date | Number of rights | Exercised | Number of rights | Vesting date |
|---|---|---|---|---|---|---|
| **Participation in Imperial Holdings Limited Share Appreciation Rights Scheme** | | | | | | |
| AN Tennick | 2 June 2010 | 96.71 | 26 979 | 26 485 | _ | 15 September 2013 |
| | 14 June 2011 | 116.59 | 10 283 | _ | 10 283 | 15 September 2014 |
| | 14 June 2012 | 170.57 | 23 979 | _ | 23 979 | 26 August 2015 |
| | 11 June 2013 | 195.20 | 29 513 | _ | 29 513 | 15 September 2016 |
| | 24 June 2014 | 193.77 | 30 417 | | 30 417 | 15 September 2017 |
| JJ Strydom | 2 June 2010 | 96.71 | 25 264 | 24 802 | _ | 15 September 2013 |
| | 14 June 2011 | 116.59 | 9 384 | _ | 9 384 | 15 September 2014 |
| | 14 June 2012 | 170.57 | 29 342 | _ | 29 342 | 26 August 2015 |
| | 11 June 2013 | 195.20 | 48 263 | _ | 48 263 | 15 September 2016 |
| B Adam | 2 June 2010 | 96.71 | 15 186 | _ | 14 908 | 15 September 2013 |
| | 14 June 2011 | 116.59 | 6 500 | _ | 6 500 | 15 September 2014 |
| | 14 June 2012 | 170.57 | 16 421 | _ | 16 421 | 26 August 2015 |
| | 11 June 2013 | 195.20 | 25 000 | _ | 25 000 | 15 September 2016 |
| | 24 June 2014 | 193.77 | 23 466 | | 23 466 | 15 September 2017 |

## 30. Remuneration *(continued)*

### 30.2 Executive directors' remuneration *(continued)*

| | Allocation date | Number of rights allocated | Number of shares committed to the plan | Forfeited | Balance available to be taken up | Vested during the year | Balance remaining | Vested date |
|---|---|---|---|---|---|---|---|---|
| **Participation in Imperial Holdings Limited Deferred Bonus plan** | | | | | | | | |
| AN Tennick | 18 June 2010 | 2 778 | 1 982 | — | — | 1 982 | — | 15 September 2013 |
| | 14 June 2011 | 4 425 | 1 530 | — | — | — | 1 530 | 7 September 2014 |
| | 13 June 2012 | 3 326 | 2 836 | — | — | — | 2 836 | 26 August 2015 |
| | 11 June 2013 | 2 567 | 2 567 | — | — | — | 2 567 | 15 September 2016 |
| | 24 June 2014 | 2 742 | — | — | 2 742 | — | — | 15 September 2017 |
| JJ Strydom | 18 June 2010 | 2 602 | 2 602 | — | — | 2 602 | — | 15 September 2013 |
| | 14 June 2011 | 4 039 | 4 039 | — | — | — | 4 039 | 7 September 2014 |
| | 13 June 2012 | 5 931 | 3 957 | — | — | — | 3 957 | 26 August 2015 |
| | 11 June 2013 | 3 689 | 3 689 | — | — | — | 3 689 | 15 September 2016 |
| | 24 June 2014 | 21 159 | — | — | 21 159 | — | — | 15 September 2017 |
| B Adam | 11 June 2013 | 1 458 | 1 458 | — | — | — | 1 458 | 15 September 2016 |
| | 24 June 2014 | 2 115 | — | — | 2 115 | — | — | 15 September 2017 |

## 31. Post-employment benefits

The Regent Insurance Group provides retirement benefits through independent funds under the control of trustees and all contributions to those funds are charged to the statement of comprehensive income. The large majority of employees are members of the Imperial Group Pension Fund and the Imperial Group Provident Fund which are governed by the Pensions Funds Act, 1956.

## 32. Contingent liabilities

The Regent Insurance Group, in the ordinary course of business enters into transactions which expose the Regent Insurance Group to tax, legal and business risk. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or where it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets. At statement of financial position date there were no material contingent liabilities for the Regent Insurance Group.

## MANAGEMENT OF RISK

## 33. Insurance risk

### 33.1 Terms and conditions of insurance contracts

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

The Regent Insurance Group underwrites primarily short-tailed risks, that is, insurance under which claims are typically settled within one year of the occurrence of the events giving rise to the claims. Risks that are long-tailed in nature represent an insignificant portion of the Regent Insurance Group's insurance portfolio.

The product features of insurance contracts underwritten by the Regent Insurance Group that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts in the Regent Insurance Group are described below:

## 33. Insurance risk *(continued)*

### 33.1 Terms and conditions of insurance contracts *(continued)*

Property

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

*Accident*

Provides indemnity for loss or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass, loss of money and fidelity guarantee for staff.

*Personal accident*

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

*Motor*

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

*Engineering*

Provides indemnity for loss sustained through the use of machinery and equipment or the erection of buildings or structures. This type of contract may cover losses resulting from project delay, machinery breakdown, loss of profits and deterioration of stock.

*Marine*

Provides indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo, with a project delay option. Hull covers loss or damage to vessels as a result of accidents and may also include legal liability as a result of the accident.

*Liability*

Provides indemnity for the insured against damages consequent to a personal injury or property damage and includes professional indemnity as well as directors' and officers' liability for errors and omissions.

*Aviation*

Provides indemnity for cargo, hull and liability classes of business. Cargo covers physical loss or damage to cargo. Hull covers loss or damage to aircraft. Liability covers third party claims.

### 33.2 Risks that arise from insurance contracts

The Regent Insurance Group distributes these products to personal and commercial policyholders using traditional methods of distribution through intermediaries and direct sales, as well as through strategic partnerships with niche underwriting managers, retailers, banks and motor dealers. The Regent Insurance Group provides primary risk policies, which are contracts structured to provide entry level insurance cover for corporate entities.

### 33.3 Limiting exposure to insurance risk

The Regent Insurance Group manages its insurance risk through setting underwriting limits, through approval procedures for transactions that involve new products or that exceed set limits or pricing guidelines and through monitoring of emerging issues. These procedures are described below:

*Underwriting strategy*

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. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of risk incidence will be, and therefore a well-diversified portfolio is not likely to be affected across the board by a change in any subset of the portfolio. The Regent Insurance Group has developed its insurance underwriting strategy to stabilise risk experience by utilising a sufficiently large population of risks to reduce the variability of the expected outcome. The concentration of insurance risk is thereby substantially limited to the occurrence of natural disasters in densely populated areas.

The underwriting strategy is detailed in underwriting authorities which set the limits for underwriters in terms of amount of capacity, class of business, geographical location and industry to enforce the appropriate risk selection within the portfolio. The underwriting mandates are applicable to both internal underwriters and partners. Management review and periodic internal audits ensure that underwriters operate within these limits.

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

## 33. Insurance risk *(continued)*

### 33.3 Limiting exposure to insurance risk *(continued)*

*Reinsurance*

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

*Catastrophe events*

The Regent Insurance Group defines in its underwriting strategy the total aggregate exposure that it is prepared to accept in certain territories from a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Regent Insurance Group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net risk exposure of the Regent Insurance Group.

*Other risks*

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Sophisticated software and fraud detection measurements are in place to improve the Regent Insurance Group's ability to detect fraudulent claims proactively.

*Claims development*

The Regent Insurance Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to pre-determined time scales dependent on the nature of the insurance contract. The Regent Insurance Group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims ''run-off risk''. To manage run-off risk the Regent Insurance Group takes steps to ensure that it has appropriate information regarding its claims and exposures and adopts sound reserving practices.

The majority of the Regent Insurance Group's insurance contracts are classified as "short-tailed", meaning that generally claims are settled within a year after the loss date. This contrasts with the "long-tailed" classes where the claims cost takes longer to emerge. The Regent Insurance Group's long-tailed business is generally limited to third-party motor liability and some engineering classes.

In terms of IFRS 4, an insurer need only disclose claims run-off information where uncertainty exists about the amount and timing of claim payments not resolved within one year. In total long-tail business comprises less than 7% (2013:8%) of an average year's claims cost and consequently, detailed claims run-off information is not presented.

## 34. Financial risk

The Regent Insurance Group is exposed to various financial risks through its operating activities. The main financial risk is that the proceeds from the Regent Insurance Group's financial assets are insufficient to fund the obligations arising from insurance contracts. The major components of this risk are market risk, credit risk and liquidity risk. An investment committee proposes asset management policies to the board and implements the policy as approved. It also appoints and monitors the activities of asset managers, receiving quarterly reports on compliance with investment mandates.

### 34.1 Market risk

This can be described as the risk of a change in fair value or future cash flows of a financial instrument brought about by changes in interest rates, equity prices or foreign exchange rates.

## 34. Financial risk *(continued)*

### 34.1 Market risk *(continued)*

*Equity price risk*

The portfolio of listed equities, gilts and foreign equities which are carried on the statement of financial position at fair value, are exposed to price risk, being the potential loss in market value resulting from an adverse change in prices.

At 30 June 2014 the Regent Insurance Group was exposed to equities through listed instruments and collective investment schemes to the value of R412 million (2013: R455 million) at fair value. A hypothetical 1% decrease in the all share index of the JSE, based on similar sensitivities used in the industry and on market conditions, would result in an estimated reduction in profit before tax of R4.12 million (2013: R4.5 million).

*Fair value hierarchy disclosures*

The table below shows the Group's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification is based on the lowest level input that is significant to the fair value measurement in its entirety.

| | Valuations with reference to quoted prices in an active market Level 1 R'000 | Valuations based on observable inputs Level 2 R'000 | Total carried at fair value R'000 |
|---|---|---|---|
| **Financial assets held as at fair value through profit and loss** | | | |
| **2014** | | | |
| **Group** | | | |
| Listed preference shares | 78 767 | — | 78 767 |
| Unlisted preference shares | — | — | — |
| Government bonds | 1 000 | — | 1 000 |
| Corporate bonds | 140 005 | — | 140 005 |
| Collective investment schemes | 567 315 | — | 567 315 |
| Listed equities | 111 925 | — | 111 925 |
| Short-term deposits | — | 75 494 | 75 494 |
| **Total financial assets** | 899 012 | 75 494 | 974 506 |
| **2014** | | | |
| **Company** | | | |
| Listed preference shares | 78 767 | — | 78 767 |
| Unlisted preference shares | — | — | — |
| Corporate bonds | 140 005 | — | 140 005 |
| Collective investment schemes | 480 729 | — | 480 729 |
| Listed equities | 111 925 | — | 111 925 |
| Short-term deposits | — | 10 000 | 10 000 |
| **Total financial assets** | 811 426 | 10 000 | 821 426 |

## 34. Financial risk *(continued)*

### 34.1 Market risk *(continued)*

| | Valuations with reference to quoted prices in an active market Level 1 R'000 | Valuations based on observable inputs Level 2 R'000 | Total carried at fair value R'000 |
|---|---|---|---|
| **Financial assets held as at fair value through profit and loss** | | | |
| **2013** | | | |
| **Group** | | | |
| Listed preference shares | 81 938 | — | 81 938 |
| Unlisted preference shares | — | 100 000 | 100 000 |
| Government bonds | 2 598 | — | 2 598 |
| Corporate bonds | 170 082 | — | 170 082 |
| Collective investment schemes | 919 316 | — | 919 316 |
| Short-term cash deposits | — | 533 405 | 533 405 |
| **Total financial assets** | 1 173 934 | 633 405 | 1 807 339 |
| **2013** | | | |
| **Company** | | | |
| Listed preference shares | 81 938 | — | 81 938 |
| Unlisted preference shares | — | 100 000 | 100 000 |
| Corporate bonds | 170 082 | — | 170 082 |
| Collective investment schemes | 769 861 | — | 769 861 |
| Short-term cash deposits | — | 328 583 | 328 583 |
| **Total financial assets** | 1 021 881 | 428 583 | 1 450 464 |

Level 1 financial assets include assets where fair value is determined using quoted prices in an active market. For quoted prices in an active market to exist there should be actual and regular occurring market transactions and the prices of those transactions should be readily available.

Fair value for level 2 assets is determined by way of valuation techniques and the inputs into the valuation model are based on observable market inputs other than quoted prices included within level 1. An input is observable if it can be observed as a market price or can be derived from an observed market price.

If fair value is determined by way of valuation techniques and the inputs into the valuation model are not based on observable market data or the observable market data has been significantly altered then those instruments are classified as level 3.

Movements on financial assets and liabilities subsequently measured at fair value using valuations based on unobservable inputs (level 3).

## 34. Financial risk (continued)

### 34.2 Interest rate risk

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to a change in market interest rates. The following investments which are held at fair value, will be directly impacted by changes in market interest rates: Accounts receivable and accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of these underlying cash flows. The Regent Insurance Group does not have any interest-bearing borrowings. Interest rate risk is therefore limited to the Regent Insurance Group's investment in variable rate investments, such as gilts and bonds.

The table below summarised the effective interest rates at the financial position date:

| | Group 2014 % | Group 2013 % | Company 2014 % | Company 2013 % |
|---|---|---|---|---|
| Debt securities – fixed interest rate: | | | | |
| Government bonds | **9.00** | 8.54 | **—** | — |
| Listed bonds | **7.41** | — | **7.41** | — |
| Cash at bank | **4.35** | 4.50 | **5.00** | 4.50 |

Investment decisions are delegated by the Board to the Investment Committee, which has ultimate responsibility for the investment portfolio's risk profile and related decisions. To this end, the Committee is supported by a well-developed research function utilising portfolio managers.

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at statement of financial position date. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

It is estimated that a 1% movement in the prime lending rate would increase/decrease the Regent Insurance Group's profit before tax by R4.1 million (2013: R6.6 million).

## 34. Financial risk (continued)

### 34.3 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate in rands due to the changes in foreign exchange rates. The Regent Insurance Group manages this risk by limiting the extent of net foreign assets to pre-determined amounts considering the type of asset and foreign currency.

The group also operates in Botswana and its exposure arises with respect to the Botswana pula.

The following table sets out the exchange rates used:

| | 2014 Average ZAR | 2013 Average ZAR | 2014 Closing ZAR | 2013 Closing ZAR |
|---|---|---|---|---|
| Botswana pula (BWP) | **1.17402** | 1.08803 | **1.20715** | 1.16266 |

The table below illustrates the analysis of assets and liabilities of the Regent Insurance Group by major currency.

| | 2014 BWP'000 | 2013 BWP'000 |
|---|---|---|
| Total assets | **291 414** | 272 898 |
| Total liabilities | **152 455** | 140 950 |
| **Net assets** | **138 958** | 131 948 |

#### Foreign currency sensitivity analysis

The following table details the Regent Insurance Group's sensitivity to a 1% increase and decrease in the rand against the Botswana pula. The sensitivity rate used is 1% when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the rand strengthens 1% against the relevant currency. For a 1% weakening of the rand against the relevant currency, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

| | 2014 R'000 | 2013 R'000 |
|---|---|---|
| Profit and loss | **406** | 459 |

This is attributable to the exposure outstanding on BWP.

### 34.4 Credit risk

The Regent Insurance Group is exposed to the risk that a counterparty will be unable to pay amounts in full when due. The main areas of exposure are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance contract intermediaries.

The group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties and industry segments. Reputable financial institutions are used for investment and cash-handling purposes.

The group has policies in place to ensure that sales of products and services are made via brokers with an appropriate credit history.

Credit risk in terms of direct insurance clients is mitigated by the fact that where premiums are not paid to the Regent Insurance Group, the Regent Insurance Group is not obliged to perform in terms of the policy contract, with respect to monthly business.

All reinsurers have at least an "A-" rating or better as rated by Standard and Poor's. Some of the local reinsurers are not separately rated, however, they are subsidiaries of international reinsurance groups, that are rated as above, and carry parental guarantees.

## 34. Financial risk *(continued)*

### 34.4 Credit risk *(continued)*

### Analysis of the credit quality of the Regent Insurance Group's assets

| | Normal monitoring R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|
| **Group** | | | |
| **2014** | | | |
| Reinsurers' share of outstanding claims | **89 408** | **17** | **89 425** |
| Short-term deposits | **75 494** | **—** | **75 494** |
| Due from group companies | **—** | **86 143** | **86 143** |
| Cash and cash equivalents | **1 127 810** | **—** | **1 127 810** |
| Insurance and other receivables | **—** | **142 458** | **142 458** |
| **Total** | **1 292 712** | **228 618** | **1 521 330** |
| **2013** | | | |
| Reinsurers' share of outstanding claims | 112 919 | —* | 112 919 |
| Short-term deposits | 533 405 | — | 533 405 |
| Due from group companies | — | 8 783 | 8 783 |
| Cash and cash equivalents | 418 487 | — | 418 487 |
| Insurance and other receivables | — | 158 557 | 158 557 |
| **Total** | 1 064 811 | 167 340 | 1 232 151 |
| **Company** | | | |
| **2014** | | | |
| Reinsurers' share of outstanding claims | **62 580** | **—** | **62 580** |
| Short-term deposits | **10 000** | **—** | **10 000** |
| Due from group companies | **—** | **16 290** | **16 290** |
| Cash and cash equivalents | **803 241** | **—** | **803 241** |
| Insurance and other receivables | **—** | **51 366** | **51 366** |
| **Total** | **875 821** | **67 656** | **943 477** |
| **2013** | | | |
| Reinsurers' share of outstanding claims | 100 856 | — | 100 856 |
| Short-term deposits | 328 583 | — | 328 583 |
| Due from group companies | — | 8 271 | 8 271 |
| Cash and cash equivalents | 207 699 | — | 207 699 |
| Insurance and other receivables | — | 78 684 | 78 684 |
| **Total** | 637 138 | 86 955 | 724 093 |

**Denotes an amount of less than R1 000.*

## 34. Financial risk *(continued)*

### 34.4 Credit risk *(continued)*

*Normal monitoring*

This refers to the credit ratings ranging from AAA to B-. AAA rating would refer to a counterparty being a superior financial security. The capacity to meet obligations is overwhelming under a variety of economic conditions. B- refers to a counterparty which is a partially vulnerable security. Counterparties are able to meet current obligations, but the capacity to meet obligations is vulnerable during adverse economic conditions. All securities in this range need to be monitored whether AAA or B-.

*Reinsurance*

Reinsurance is used to manage insurance risk. This does not discharge the Regent Insurance Group's liability as the primary insurer. If the reinsurer fails to pay a claim for any reason, the Regent Insurance Group remains liable for the payment to the policyholder. The Regent Insurance Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

When selecting a reinsurer the Regent Insurance Group considers the reinsurer's security. This is assessed from public rating information and from internal investigations.

The ageing of the Regent Insurance Group's financial assets after impairment at the reporting date was as follows:

| | Other insurance balances R'000 | Other receivables R'000 | Due from group companies R'000 | Cash and cash equivalents R'000 | Reinsurers' share of outstanding claims R'000 | Reinsurers' share of unearned premium R'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2014** | | | | | | |
| Neither impaired nor past due | **92 500** | **23 774** | **86 143** | **1 127 810** | **89 425** | **27 442** |
| Past due but not impaired: | **15 307** | **10 877** | **—** | **—** | **—** | **—** |
| > 0 – 90 days | **15 307** | **5 239** | **—** | **—** | **—** | **—** |
| > 91 – 360 days | **—** | **3 939** | **—** | **—** | **—** | **—** |
| > More than one year | **—** | **1 699** | **—** | **—** | **—** | **—** |
| **Balance at the end of the year** | **107 807** | **34 651** | **86 143** | **1 127 810** | **89 425** | **27 442** |
| **2013** | | | | | | |
| Neither impaired nor past due | 86 308 | 15 431 | 8 783 | 418 487 | 112 919 | 17 499 |
| Past due but not impaired: | 42 187 | 14 151 | — | — | — | — |
| > 0 – 90 days | 40 362 | 8 812 | — | — | — | — |
| > 91 – 360 days | 1 825 | 4 878 | — | — | — | — |
| > More than one year | — | 461 | | | | |
| **Balance at the end of the year** | 128 495 | 29 582 | 8 783 | 418 487 | 112 919 | 17 499 |

## 34. Financial risk *(continued)*

### 34.4 Credit risk *(continued)*

The ageing of the Regent Insurance Company's financial assets after impairment at the reporting date was as follows:

| | Other insurance balances R'000 | Other receivables R'000 | Due from group companies R'000 | Cash and cash equivalents R'000 | Reinsurers' share of outstanding claims R'000 | Reinsurers' share of unearned premium R'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2014** | | | | | | |
| Neither impaired nor past due | **30 618** | **12 420** | **16 290** | **803 241** | **62 580** | **581** |
| Past due but not impaired: | **4 184** | **4 144** | **—** | **—** | **—** | **—** |
| > 0 – 90 days | **4 184** | **2 679** | **—** | **—** | **—** | **—** |
| > 91 – 360 days | **—** | **1 465** | **—** | **—** | **—** | **—** |
| > More than one year | **—** | **—** | **—** | **—** | **—** | **—** |
| **Balance at the end of the year** | **34 802** | **16 564** | **16 290** | **803 241** | **62 580** | **581** |
| **2013** | | | | | | |
| Neither impaired nor past due | 45 368 | 14 972 | 8 271 | 207 699 | 100 856 | 375 |
| Past due but not impaired: | 11 821 | 6 523 | — | — | — | — |
| > 0 – 90 days | 10 664 | 6 231 | — | — | — | — |
| > 91 – 360 days | 1 157 | 241 | — | — | — | — |
| > More than one year | — | 51 | — | — | — | |
| **Balance at the end of the year** | 57 189 | 21 495 | 8 271 | 207 699 | 100 856 | 375 |

## 34. Financial risk *(continued)*

### 34.5 Liquidity risk

The Regent Insurance Group is exposed to daily calls on its available cash resources from claims arising. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Regent Insurance Group's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The Regent Insurance Group's liquidity and ability to meet such calls are monitored by the investment committee. The Regent Insurance Group has significant liquid resources to cover its obligations.

The maturity of the liquidity risk has been detailed in the table below:

| | Total R'000 | Within 1 year R'000 | 1 – 5 years R'000 | Over 5 years R'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **2014** | | | | |
| Outstanding claims | **545 453** | **381 070** | **118 439** | **45 944** |
| Agents' and other insurers' balances | **85 522** | **82 012** | **3 510** | **—** |
| Current taxation | **5 833** | **5 833** | **—** | **—** |
| Insurance and other payables | **142 224** | **137 477** | **4 747** | **—** |
| | **779 032** | **606 392** | **126 696** | **45 944** |
| **2013** | | | | |
| Outstanding claims | 643 423 | 456 304 | 132 922 | 54 197 |
| Agents' and other insurers' balances | 62 882 | 61 893 | 989 | — |
| Current taxation | 406 | 406 | — | — |
| Insurance and other payables | 147 024 | 141 330 | 5 694 | — |
| | 853 735 | 659 933 | 139 605 | 54 197 |
| **Company** | | | | |
| **2014** | | | | |
| Outstanding claims | **404 772** | **280 546** | **104 170** | **20 056** |
| Agents' and other insurers' balances | **84 125** | **80 615** | **3 510** | **—** |
| Current taxation | **3 749** | **3 749** | **—** | **—** |
| Due to group companies | **186** | **186** | **—** | **—** |
| Insurance and other payables | **47 525** | **47 525** | **—** | **—** |
| | **540 357** | **412 621** | **107 680** | **20 056** |
| **2013** | | | | |
| Outstanding claims | 527 719 | 369 751 | 131 821 | 26 147 |
| Agents' and other insurers' balances | 62 290 | 61 301 | 989 | — |
| Due to group companies | 1 236 | 1 236 | — | — |
| Insurance and other payables | 65 057 | 65 057 | — | — |
| | 656 302 | 497 345 | 132 810 | 26 147 |

### 34.6 Regulatory risks

Continuous legislation changes in the long-term and short-term environment may impact on the operational and financial structures within these businesses. The Regent Insurance Group has sufficient resources to address the impact of legislation timeously and efficiently.

During the development stage of any new product, rights and obligations of all parties are clearly defined in the contracts and documentation.

### 34.7 Catastrophe risk

The Regent Insurance Group sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Regent Insurance Group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of operations.

## 34. Financial risk *(continued)*

### 34.8 Solvency risk

The Regent Insurance Company is registered in South Africa, to provide short-term insurance and therefore submits quarterly and annual returns to the Financial Services Board in terms of the Short-Term Insurance Act, 1998. It is required to maintain at all times a statutory surplus asset ratio as defined in the Short-Term Insurance Act. The quarterly returns submitted to the regulator showed that Regent Insurance Company met the minimum capital requirements at year end.

The Financial Services Board is in the process of developing a new Solvency Assessment and Management (SAM) regime for the South African insurance industry, to be in line with international standards. The implementation date for SAM is 1 January 2016. However, certain interim requirements were introduced in 2012, which prescribes the method used to calculate the statutory capital requirement and IBNR on a more risk-sensitive basis. Regent Insurance Company meets the requirements under the interim measures.

The operating subsidiaries in Lesotho and Botswana are governed by the legislation in those jurisdictions and these insurers also met their respective solvency requirements.

### International solvency margin

The Regent Insurance Group solvency margin is calculated as the ratio of capital and reserves to net premium. At year end the Regent Insurance Group solvency margin was 40.2% (2013: 56.7%) and the Regent Insurance Company CAR was covered 1.83 times (2013: 1.74 times).

## 35. Subsidiaries

Details of the Regent Insurance Company's subsidiaries are as follows:

| | Holding 2014 % | Holding 2013 % | Cost of shares R'000 | Principal activity |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Regent Insurance Botswana Proprietary Limited | **100** | 100 | 12 000 | Insurance |
| Regent Reinsurance Management Proprietary Limited | **100** | 100 | — | Reinsurance |
| Motor Compliance Solutions Proprietary Limited | **100** | 100 | — | Risk administration |
| Legal Advice Consultants Proprietary Limited | **100** | 100 | — | Legal |
| Erf Four Nine Nine Spartan Proprietary Limited | **100** | 100 | 1 774 | Property |
| Newcastle Properties Shareblock Proprietary Limited | **100** | 100 | — | Property |
| Anvil Investments Proprietary Limited | **100** | 100 | 141 | Investments |
| Anvil Financial Services Proprietary Limited | **100** | 100 | — | Finance |
| Lesotho National General Insurance Company Proprietary Limited | **60** | 60 | 28 760 | Insurance |
| SA Warranties Proprietary Limited | **100** | 100 | 39 239 | Maintenance and warranty |
| Paint Tech Maintenance Proprietary Limited | **100** | 100 | 1 | Maintenance |
| **Balance at the end of the year** | | | 81 915 | |

## 36. Events after reporting period

On 10 August 2014, The South African Reserve Bank announced the restructuring of African Bank Investments Limited (ABIL) and placed it under curatorship. The Regent Insurance Company had an exposure of approximately R32.5 million with an anticipated R14.7 million loss. No other material facts or circumstances have arisen between the reporting date and the date of this report which affect the financial position of the Regent Insurance Group as reflected in these annual financial statements.

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