

**ASSUPOL LIFE
PRINCIPLES AND PRACTICES
OF
FINANCIAL MANAGEMENT
(PPFM)**

**Amended as at 29 February 2012 with effect from
30 June 2011**

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SECTION 1 : INTRODUCTION

- 1.1 Assupol Life is a licensed South African Long-term Insurer and was established in 1913. Assupol Life sells long-term insurance products throughout South Africa. Assupol Life operated as a mutual society without share capital and upon demutualisation into a public company with share capital with effect from 31 December 2010.
- 1.2 The amendments to this 31 December 2010 version were brought about by the transfer of the Prosperity Life Limited business to Assupol Life with effect from 1 July 2011. The main changes to this document pertain to the incorporation of practices and principles relating to the Prosperity Life with-profits policies.
- 1.3 This document is intended to enable financially minded parties to understand the possible risks and rewards pertaining to with-profits (discretionary participation) policies of Assupol Life; and, the manner in which these products (with-profits) are managed by Assupol Life.
- 1.4 None of the contents of this document form part of, or varies, the terms and conditions of any policy issued, or to be issued, by Assupol Life. In the event of any inconsistency, between this document and any policy, the policy terms and conditions will prevail.
- 1.5 The FSB has issued Directive 147A, applicable to long-term insurers, regarding the “governance of discretionary participation policies” within the context of the Long-term Insurance Act, 52 of 1998 (The Act). This document has been prepared in accordance with Directive 147A.
- 1.6 The key elements of the requirements described in this directive are:
- To define the Principles and Practices of Financial Management (PPFM) that are applied in the management of discretionary participation products;
 - To disclose the nature and extent of the discretion used by insurers, and the parameters within which it will be used, by publishing the PPFM;
 - To ensure that decisions by the insurers are in accordance with the PPFM;
 - To monitor any changes that are made to the PPFM; and,
 - An annual confirmation of compliance to the PPFM in the statutory return.
- 1.7 The principles of the PPFM are intended to:
- Be enduring statements of the overarching standards the insurer adopts in managing discretionary participation products (i.e. policy conditions); and

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- Describe the business model used by the insurer for managing the discretionary aspects of its discretionary participation policies (in terms of its policy conditions) and in responding to longer-term changes in the business and economic environment.

1.8 The practices of the PPFM are intended:

- To describe the insurer's specific approach to managing discretionary participation products and responding to changes in the business and economic environment in the shorter-term; and,
- Must contain sufficient detail to enable a knowledgeable observer to understand the possible risks and rewards from effecting a discretionary participation policy with the insurer.

1.9 This document describes the principles and practices applied by Assupol Life in managing its with-profits business and covers the principles and practices under the following headings:

- The amount payable under a with-profits policy;
- Bonus philosophy;
- Investment strategy;
- Business risk; and
- Charges and expenses.

1.10 This document has been approved by Assupol Life's Board and is publicly available. With-profits policyholders will be notified of any amendments to this document which may arise from changes to the structure of Assupol Life and/or the business and regulatory environment.

1.11 Appendix 1 defines the key terms used in this document.

1.12 The following table summarises Assupol Life's with-profits products (i.e. those products to which this document applies):

Policy Type	Description
900	Whole Life – Compound Bonus
901	Whole Life – Simple Bonus
910	Endowment Assurance – Compound Bonus
911	Endowment Assurance – Simple Bonus
940	Reinforced Whole Life – Compound Bonus
950	Reinforced Endowment – Compound Bonus

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1.13 The following tables summarises the with-profits products of Prosperity Life, transferred to Assupol Life with effect from 1 July 2011:

Policy Type	Description
43	Recurrent Invest Pure Endowment
45	Recurrent Invest Endowment
50	Endowment Assurance – Annual bonuses
52	Whole of Life Assurance – Annual bonuses
54	Whole of Life Assurance – Limited premium term
56	Endowment Assurance
58	Joint Endowment Assurance
61	Whole of Life Assurance

1.14 Based on differing historical experience and on grounds of equity (e.g. to avoid any cross subsidisation between Assupol Life and Prosperity Life with-profits policyholders), the Statutory Actuary recommended that the Assupol Life and Prosperity Life with-profits funds be managed and treated separately following the transfer of the Prosperity Life business to Assupol Life. To the extent that the treatment of these two blocks of with-profits business differ with regards to the principles and practices set out in this document, such differentiation will be indicated as it relates to the Assupol Life with-profits fund or the Prosperity Life with-profits fund transferred to Assupol Life. All other principles and practices will apply equally to the Assupol Life policies and the Prosperity Life policies transferred to Assupol Life.

1.15 The changes set out in this document will be effected with effect from 1 July 2011, being the effective date of the sale of business transaction between Assupol Life and Prosperity Life.

1.16 Assupol Life does not currently write with-profits business and the current with-profits funds are closed to new business.

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2.1 Principles – Amount Payable

- 2.1.1 The aim is to set the amount payable with reference to Earned Asset Shares (as described in Section 2.2.5) taking into consideration the experience of the with-profits fund, the overall financial position of Assupol Life and the fair treatment of with-profits policyholders.
- 2.1.2 The amount payable on maturity is targeted at 100% of Earned Asset Shares, on average, subject to a minimum of the guaranteed benefit, after allowing for smoothing (as described in Section 3.4).
- 2.1.3 The amount payable on surrender is based on a formula which targets a proportion of the Earned Asset Share at any given point in time. The formula and basis may change, on the recommendation of the Statutory Actuary, as the financial position of Assupol Life changes, with the specific aim of protecting the security of the policyholders remaining in the with-profits funds.
- 2.1.4 The amount payable on death, which may be more or less than the Earned Asset Share, is specified in the terms of the contract.
- 2.1.5 The Earned Asset Share is calculated annually in accordance with generally accepted actuarial principles and bonus rates are declared annually bearing the above in mind.
- 2.1.6 Approximate methods were used in calculating the historic portion of the Earned Asset Shares when the first such calculation was performed in 2005.
- 2.1.7 Any changes to the methods or assumptions used to determine the amount payable will, subject to the recommendations made by the Statutory Actuary, require approval from the Assupol Life Board.

2.2 Practices – Amount Payable

- 2.2.1 On average, the Earned Asset Shares, subject to smoothing and guaranteed benefits, is targeted as the amount payable on maturing policies.
- 2.2.2 The amount payable on death is generally determined in accordance with the policy terms and conditions allowing for current bonuses (where relevant) where bonuses are set as outlined in Section 3.
- 2.2.3 The amount payable on surrender complies with the minimum set out in Regulation 5 of the Act. It is determined as a proportion of the discounted amount of the guaranteed benefits (including vested reversionary and terminal bonuses), allowing for unpaid premiums and

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interest. The discounted amount is calculated using the most recent valuation assumption.

2.2.4 The Earned Asset Share methodology is outlined in Section 2.2.5. Bonus philosophy and smoothing are covered in Section 3.

2.2.5 Earned Asset Share Methodology

2.2.5.1 Earned Asset Shares are calculated in accordance with generally accepted actuarial practices.

2.2.5.2 The Earned Asset Shares generally reflect the sources of profit or loss to the with-profits funds. It is broadly the accumulation of past premiums allowing for actual investment returns, tax, expenses (based on that year's valuation assumptions), the cost of risk benefits, cost of capital and other charges (see Section 2.2.7).

2.2.5.3 Individual Earned Asset Shares are calculated per policy and then grouped for similar types of with-profits policies based on assumptions reflecting the actual experience of the with-profits funds measured across different generations or types of with-profits policies.

2.2.5.4 Earned Asset Shares are not calculated for small groups of with-profits policies or for altered policies. Instead, the Earned Asset Share is determined based on the Earned Asset Shares of other similar with-profits product groups.

2.2.5.5 Earned Asset Shares are updated annually to reflect the experience of the with-profits funds. The methodology, parameters and assumptions are reviewed each year by the Statutory Actuary. Any changes to the methodology, as recommended by the Statutory Actuary, will be documented and subject to approval by the Assupol Board.

2.2.6 Earned Asset Share Data (and Approximations)

2.2.6.1 Earned Asset Share calculations require the accumulation, to date, of all past premiums.

2.2.6.2 For all with-profits product classes, except paid-up policies, the full premium history is known and used in the Earned Asset Share calculations.

2.2.6.3 For paid-up policies, the premium history is not always available. However, since this is a small group of with-profits policies, Earned Asset Shares are approximated.

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2.2.7 Earned Asset Share Assumptions (and Approximations)

2.2.7.1 Earned Asset Share calculations require the following assumptions:

2.2.7.2 Asset Mix Backing the Earned Asset Shares

- The asset mix of the with-profits funds are determined in accordance with the investment strategy (see Section 4).

2.2.7.3 Investment Return

- The rate of investment return credited to Earned Asset Shares is determined at the end of the financial year based on the rates of return on the assets (including negative reserves if applicable) notionally allocated to the with-profits funds.
- Investment returns for the period that pre-dated the first Earned Asset Share calculation were obtained using a combination of historical financial statements and market rates of return in respect of the Assupol Life policies.
- For with-profits policies transferred from Prosperity Life, the investment return prior to 1997 was approximated using a combination of historical financial statements and market rates of return.

2.2.7.4 Commission and Initial Expenses

- As most of the with-profits policies were written decades ago, commission and initial expense details were not readily available.
- Hence, an approximate allowance is made for these in the Earned Asset Share calculation by charging an equivalent of two years' premiums to the Earned Asset Share.

2.2.7.5 Expenses

- Assumptions are required for all years of a policy's duration.
- Expenses charged to the with-profits funds since 2000 in respect of the Assupol Life policies and since 2003 in respect of the Prosperity Life policies have been determined via the annual expense analysis.
- For years prior to 2000 in respect of the Assupol Life policies and prior to 2003 in respect of the Prosperity Life policies, due to the lack of detailed expense analyses, a level percentage of

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premiums paid was assumed for the level of expenses charged to the with-profits funds.

2.2.7.6 Tax

- Investment returns are reduced to allow for the appropriate rate of tax. Expenses are reduced to allow for tax relief, where appropriate. Tax is based on the tax position of the Individual Policyholder fund for each year in the calculation.
- Corporate tax is not charged to the with-profits fund.

2.2.7.7 Mortality Charges

- A mortality charge is deducted from Earned Asset Shares as detailed in Section 6.2.4.

2.2.7.8 Profit and Capital Charge

- A notional cost of capital (and profit) charge of 5% of premiums and 10% of the investment return is levied against the with-profits funds.
- In terms of the Demutualisation Scheme these charges will not be increased for a period of five years after the implementation date, being the last day of the month in which the demutualisation is finally approved, with regards to the Assupol Life policies.
- Within the 5 year period following the implementation date of the demutualisation scheme, Assupol Life shall have the right to review the above mentioned charges in consultation with the Statutory Actuary in the event of any statutory or regulatory amendments which result in a necessary increase to the abovementioned charges.
- After the 5 year period following the implementation date of the Demutualisation Scheme, these charges can only be changed on the recommendation of the Statutory Actuary

2.2.7.9 The Earned Asset Share calculations do not allow for profits from other sources of business. These profits are currently being used to cover capital requirements and fund new business growth.

2.2.8 Scope of the Earned Asset Share Calculation

2.2.8.1 Bonuses are set according to the experience of the main with-profits policy types, for which separate Earned Asset Shares are determined. Historically for Assupol Life policies, there have only been two different sets of bonus rates (despite there, theoretically, being more classes of business as outlined in Section 1.11). No

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bonuses have been declared on the Prosperity Life with-profits business in at least the last 7 years.

2.2.9 Documentation

2.2.9.1 More details of the methodology and assumptions used to determine Earned Asset Shares and the methods used to determine bonus rates are documented in internal company reports.

2.2.9.2 All bonus declarations proposed by the Statutory Actuary, in any relevant actuarial report, are approved by the Assupol Life Board.

3.1 Principles – Reversionary Bonus

3.1.1 Reversionary bonus rates are set with the aim of steadily building up the guaranteed benefits over the lifetime of the contract.

3.1.2 The overarching aim is to retain sufficient profits to award a terminal bonus which is used to target Earned Asset Shares.

3.1.3 For Assupol Life, terminal bonuses are targeted at 100% to 200% of reversionary bonuses and at 0% to 100% for the Prosperity Life with-profits business.

3.1.4 Reversionary bonus rates may be changed to reflect changes in the allocated profit for the year and to maintain terminal bonus within the target range (see 3.1.3) and achieve the objective of maturities being close to Earned Asset Shares.

3.1.5 Annual reversionary bonus rates will be smoothed to limit fluctuations.

3.1.6 Different reversionary bonus rates may apply to different classes of with-profits policies.

3.2 Practices – Reversionary Bonus

3.2.1 Reversionary bonus rates are reviewed and declared as part of each annual statutory valuation as at 30 June.

3.2.2 Reversionary bonuses declared as at 30 June will apply to with-profits policies, on their policy anniversaries in the year following the valuation.

3.2.3 Reversionary bonus rate changes are implemented upon Board approval of bonus recommendations set out in the Statutory Actuary's report.

3.2.4 The level of the annual reversionary bonus rates depends on:

- The surplus in the with-profits funds (essentially the excess of Earned Asset Shares over the relevant liabilities);

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- The investment return expected in the long term;
- The guaranteed benefits of the with-profits policies; and,
- The current and projected regulatory solvency levels.

3.2.5 Reversionary bonus rates are declared in advance and consequently no interim rates apply.

3.2.6 With regards to the Prosperity Life policies, historically due to the Earned Asset Share being lower than the actuarial liabilities and the low solvency position of Prosperity Life, no annual reversionary bonuses were declared on the Prosperity Life with-profits business in at least the last 7 years. Furthermore, based on the valuation assumptions and reserves of Prosperity Life as at the date of transfer of the business to Assupol Life, which do not make any allowance for future reversionary bonuses, and the relatively low levels of expected future profits, it is not anticipated that any bonuses will be declared in future on the with-profits business transferred from Prosperity Life.

The Earned Asset Share of the Prosperity Life policies has been carried over to Assupol Life. While the Earned Asset Share is less than the actuarial liabilities no reversionary bonus will be considered. If the Earned Asset Share is greater than the actuarial liabilities in the future, then consideration will be given to awarding reversionary bonuses to the Prosperity Life with-profits policies.

3.3 Principles – Terminal Bonus

3.3.1 Terminal bonuses are set as a percentage of reversionary bonuses with the aim of approximately distributing the balance of the undistributed surplus earned over the lifetime of the policy.

3.3.2 The aim in setting terminal bonus rates for maturing policies is to set final payouts close to the target level of 100% of Earned Asset Shares, subject to smoothing (see below).

3.3.3 When setting terminal bonus rates, payouts will be smoothed; hence, there will be a difference between actual and targeted payouts.

3.3.4 Terminal bonuses are targeted at 100% to 200% of reversionary bonuses in respect of the Assupol Life policies, and 0% to 100% of reversionary bonuses for the Prosperity Life policies.

3.3.5 Terminal bonuses are set at the discretion of the Board and may be reviewed, altered or cancelled at any time, without notice, to reflect a change in the financial circumstances of the with-profits funds and to protect the security of the remaining with-profits policyholders.

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- 3.3.6 The frequency of terminal bonus reviews will depend on the difference between actual and target payouts, current market conditions and the overall financial position of Assupol Life.
- 3.3.7 A terminal bonus may also be paid on surrender. It will be based on the terminal bonus rate for a maturing policy of the same term but on the reduced reversionary bonuses. Surrender values may be reduced at the discretion of the Board in the light of the overall financial position of Assupol Life and anticipated rates of surrender in order to protect the level of security of the remaining with-profits policyholders.
- 3.3.8 On death, the payout is the greater of the benefits prescribed in the policy terms and conditions and the guaranteed benefits, including a terminal bonus set at the same level as for maturing policies.

3.4 Practices – Terminal Bonus

- 3.4.1 Terminal bonuses apply for the period following the declaration. Terminal bonuses are revised annually. They will also be changed more frequently should market conditions require this.
- 3.4.2 Terminal bonuses may be reviewed at any time and at least once a year at the same time as the statutory valuation (30 June).
- 3.4.3 Terminal bonus rates may be reviewed more often in the following circumstances:
- Following sudden large and sustained changes in the value of the underlying investments;
 - If the difference between actual or expected payouts and target payouts is large;
 - If, in the opinion of the Board, the overall financial position of Assupol Life is in jeopardy;
 - If a greater than normal number of surrenders or transfers are anticipated; and,
 - In any other circumstances, subject to Board approval, to protect the security and equity of remaining with-profits policyholders.
- 3.4.4 Terminal bonus rate changes are implemented upon Board approval of bonus recommendations set out in the Statutory Actuary's report.
- 3.4.5 For maturing policies, the overall aim is to set terminal bonus rates such that maturity payouts are at the target level of 100% of Earned Asset Shares on average, subject to smoothing.
- 3.4.6 Historically due to the Earned Asset Share being less than the actuarial liabilities and the relatively low solvency position of Prosperity Life in the

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past, no terminal bonuses have been declared on the Prosperity Life with-profits business.

3.4.7 The Earned Asset Share of the Prosperity Life policies has been carried over to Assupol Life. And while the Earned Asset Share is less than the actuarial liabilities no terminal bonus will be considered. If the Earned Asset Share is greater than the actuarial liabilities in the future, then consideration will be given to awarding terminal bonuses to the Prosperity Life with-profits policies.

3.5 Principles – Smoothing

3.5.1 The actual payout on a with-profits policy may be different to the target payout because with-profits payouts are smoothed.

3.5.2 The nature of with-profits policies means that actual payouts do not immediately reflect changes in investment returns but are smoothed over time.

3.5.3 Bonus rates are not calculated for individual policies but for cohorts of similar with-profits policies within the with-profits funds. This has the effect of smoothing payouts across different policies within the with-profits funds.

3.5.4 The degree of smoothing and the level of smoothing costs are not limited by the financial position of the with-profits funds. However, they are limited by the overall financial position of Assupol Life and consequently may be suspended.

3.5.5 As it is expected that, over time, maturity payouts will average 100% of Earned Asset Shares, the cost and effect of smoothing should be neutral. Although there is no requirement that the effect of smoothing should be neutral, it is expected, over time, that maturity payouts will average 100% of Earned Asset Shares.

3.6 Practices – Smoothing

3.6.1 The following smoothing is applied:

- Payouts across different policies are smoothed because bonus rates are not calculated for individual policies but are calculated for cohorts (currently 3 cohorts of which 1 is for the with-profits policies transferred from Prosperity Life) of similar policies within the with-profits funds.

3.6.2 Smoothing over time is achieved by maintaining a Bonus Smoothing Reserve. The aim is to maintain this reserve at a level of between 0% and 20% of the underlying liabilities.

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3.6.3 As at 30 June 2011, this level was at 10% for the Assupol Life with-profits business and negative 52% for the Prosperity Life with-profits business.

3.6.4 For the Prosperity Life business the Bonus Smoothing Reserve is negative. Although the liability for the Prosperity Life with-profits policies is set equal to the actuarial liabilities, the Earned Asset Share is monitored. No bonuses will be recommended while the Earned Asset Share is less than the actuarial liabilities in respect of the Prosperity Life policies.

3.6.5 The Bonus Smoothing Reserve may be reviewed more often than once a year in the following circumstances:

- Following sudden large and sustained changes in the value of the underlying investments;
- If the difference between actual or expected payouts and target payouts is large;
- If, in the opinion of the Board, the overall financial position of Assupol Life is in jeopardy; and,
- In any other circumstances, subject to Board approval, to protect the security and equity of remaining with-profits policyholders.

4.1 Principles

4.1.1 The investment strategy aims to maximise long term investment returns having regard to:

- The regulatory solvency position of Assupol Life;
- The nature and maturity of the with-profits liabilities;
- The management of cashflows and need for liquid assets;
- The current and expected level of guaranteed benefits;
- The admissibility of different asset classes;
- Negative reserves on other classes of business to back with-profits liabilities;
- The advice from the Statutory Actuary following an asset-liability modelling exercise;
- The advice from the Fund Managers;
- The need to diversify the investments so as to limit exposure to any one asset class, market sector, currency, interest rate market or counterparty; and,
- The overall financial position of Assupol Life.

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- 4.1.2 Assupol Life's Investment Committee, on authority from the Board, determines the allocated asset mix and the acceptable level of investment risk taking account of the above factors.
- 4.1.3 There will not be any investments in derivative instruments or assets that are not readily tradable other than those approved by the Board and/or for the purpose of efficient portfolio management.
- 4.1.4 The Board approves the use of new financial instruments subject to the advice of the Statutory Actuary and the Investment Committee.

4.2 Practices

- 4.2.1 Assupol Life's assets have been allocated into four portfolios, namely assets backing the non-profit business (including linked business, group business, funeral business etc), assets backing the two with-profits funds and assets backing the excess assets required to meet Assupol Life's solvency capital requirements.
 - 4.2.1.1 The balance of the assets consists of negative liabilities and a mix of investments. For purposes of calculating the investment return on the with-profits fund for Assupol Life policies, currently 27% of the actual liabilities of the with-profits business are assumed to be invested in negative liabilities and 73% in the mix of investments.
 - 4.2.1.2 With-profits policies of Prosperity Life will be managed separately.
- 4.2.2 An investment management agreement exists with the appointed fund managers setting out investment strategy mandates and guidelines.
- 4.2.3 The Board is responsible for managing the relationship with the Fund Managers, setting the investment strategy and reviewing the Fund Manager's performance against benchmarks.
- 4.2.4 At least once a year, the Assupol Life Board formally reviews the asset mix and investment strategy, taking into consideration the advice of the Statutory Actuary who may undertake an asset-liability modelling exercise every two years. The frequency of reviews depends on the overall financial position of Assupol Life, the experience of the with-profits funds and the solvency risk i.e. risk of failing to meet the statutory solvency requirements allowing for the current mix of assets and liabilities. Where the risk is high, reviews will be more frequent than once a year.
- 4.2.5 The assets in the with-profits funds are predominantly invested in equities, property, fixed investment securities, negative reserves and cash.

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- 4.2.6 For the with-profits fund for Assupol Life policies, currently about 27% of the negative reserves are offset against the with-profits liabilities. The target is to maintain the investment in negative reserves to below 40%.
- 4.2.7 There will not be any investments in non-tradeable assets or derivatives other than those approved by the Board and/or for the purposes of efficient asset portfolio management.
- 4.2.8 An appropriate degree of matching between assets and liabilities will be maintained by calculating a suitable equity backing ratio, so that the with-profits guarantees can be met.
- 4.2.9 Equity investments are permitted in listed and strategic unlisted shares. Investments in strategic unlisted shares must be approved by the Board.
- 4.2.10 Investments in corporate bonds will be restricted to a minimum credit rating/grading of A unless pre-approved by the Board. The ratings of these bonds will be monitored regularly for any downgrades.

5.1 Principles

- 5.1.1 With-profits policyholders are entitled to a share of the distributable surplus, and therefore are exposed to general business risk of miscellaneous profits and losses that may arise from various sources within the with-profits funds.
- 5.1.2 The primary risk bearers in respect of the solvency capital requirements of Assupol Life are the shareholders. Should Assupol Life's excess assets not be sufficient to meet the solvency capital requirements, the Board of Directors of Assupol Life will exhaust all avenues to raise additional capital to meet the solvency capital requirements.
- 5.1.3 Should Assupol Life's excess assets not be sufficient to meet the solvency capital requirements, the Board of Directors of Assupol Life may remove both, or either, of the Bonus Smoothing Reserve (in total or in part) and/or the non-vested terminal bonuses (in total or in part). This course of action will only be implemented once all other avenues to raise capital have been exhausted. Any reduction for this reason will be considered a temporary loan from the With-profits fund to the Shareholders and will be repaid as soon as the capital resources of Assupol Life are sufficient to meet its solvency capital requirements. While the loan exists, no dividends will be paid to any class of shareholder. Under current regulation, all proposed dividend payments have to be certified by the Statutory Actuary.
- 5.1.4 The with-profits funds are currently closed to new business.

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5.1.5 The with-profits funds will make investments in accordance with legal and regulatory requirements.

5.1.6 Existing business risk is controlled via regular monitoring of all significant business risks such as insurance, market, credit, liquidity and operational risks and their impact on the financial position of the with-profits fund. Where necessary, mitigating actions will be implemented.

5.2 Practices

5.2.1. When contemplating whether to undertake a business risk, Assupol Life will consider:

- Existing risks;
- Potential rewards to policyholders;
- Opportunity cost; and,
- Impact on the with-profits funds.

5.2.2 The considerations for strategic investments are covered in Section 4.2.

6.1 Principles

6.1.1 The with-profits funds are charged for the costs of managing the with-profits policies.

6.1.2 The Statutory Actuary must ensure that the expenses and tax charges, based on actual incurred costs, to the with-profits funds are reasonable and fair. The costs are charged to the Earned Asset Shares.

6.2 Practices

6.2.1 Expenses allocated to the with-profits funds and charged to Earned Asset Shares are determined from annual expense analyses of actual incurred expenses.

6.2.2 Similarly, the actual tax paid is apportioned across the various funds from which the tax charge to Earned Asset Shares is determined.

6.2.3 An approximate allowance is made for commission and initial expenses by charging the equivalent of two year's premiums to the with-profits funds.

6.2.4 Mortality charges are deducted from the Earned Asset Shares based on:

- The actual cost of providing death benefits for Assupol Life policies (since 2005);

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- The expected cost of providing death benefits (where the expected death rate in each given year is based on the then current valuation mortality assumption for that given year) for Assupol Life policies (prior to 2005); and,
 - The expected cost of providing death benefits (on current valuation assumptions) for Prosperity Life policies.
- 6.2.4.1 The actual cost is calculated by multiplying the sum at risk, i.e. the amount by which death benefits exceed Earned Asset Shares, by the actual death rate. The actual death rate is based on the observed mortality rate in the year.
- 6.2.4.2 The expected cost is calculated by multiplying the sum at risk, i.e. the amount by which death benefits exceed Earned Asset Shares, by the expected death rate. The expected death rate is based on the valuation mortality assumption.
- 6.2.5 A cost of capital (and profit) charge of 5% of premiums and 10% of the investment return is made against the Earned Asset Shares. In terms of the Demutualisation Scheme the level of these charges will not be increased for a period of five years following the implementation date of the demutualisation. Within the five year period following the implementation date of the Demutualisation Scheme, Assupol Life shall have the right to review the abovementioned charges in consultation with the Statutory Actuary in the event of any statutory or regulatory amendments which result in a necessary increase to the abovementioned charges. After the five year period following the implementation date of the Demutualisation Scheme, these charges can only be changed on the recommendation of the Statutory Actuary. The above is only applicable to Assupol Life policies as at 30 June 2011.
- 6.2.6 The Statutory Actuary is responsible for ensuring that these charges to Earned Asset Shares are fair and reasonable.

APPENDIX 1 : GLOSSARY

Actuarial Reserves	:	The amount set aside to meet liabilities to policyholders calculated on the Statutory Valuation Method.
Amount Paid on Death	:	The total amount payable if the policyholder dies while the policy is still in-force.
Amount Paid on Maturity	:	The total amount payable on the agreed termination date of the policy if it is still in-force at that time.
Amount Payable on Surrender	:	The total amount payable if the policyholder decides to cash the guaranteed benefits at a date earlier than the originally agreed termination date of the policy.
Annual Reversionary Bonus	:	The distribution of surplus added to a with-profits policy each year (either as a percentage of sum assured and previously declared bonuses or as a percentage of sum assured only). Once added, it is part of the guaranteed benefit to be paid on death or maturity depending on the nature of the with-profits contract.
Asset Class	:	Refers to different types of assets in which Assupol Life invests e.g. equities, fixed interest securities, property and cash.
Assupol Life	:	The legal entity Assupol Life established in 1913, is currently a body corporate in common law. In December 2010 Assupol Life converted from a mutual society to a public company having a share capital.
Assupol Life policies / Assupol Life business	:	All policies underwritten by Assupol Life, excluding the Prosperity Life policies and/or the Prosperity Life business to be transferred.
Benchmark	:	The standard position against which any difference would be measured for assessing performance (e.g. of Fund Managers).
Bonus Smoothing Reserve	:	The difference between the Earned Asset Shares and the with-profits liabilities.
Cohort	:	A particular group (e.g. of policies) with common characteristics.
Counterparty	:	The other party in an investment contract; both parties have an obligation to meet the terms of the contract.

APPENDIX 1 : GLOSSARY

Demutualisation	:	The Scheme to convert Assupol Life from a mutual society to a public company having an equity capital base.
Earned Asset Share	:	The premiums paid, less deductions for expenses, guarantees, tax and other charges, accumulated at the investment return achieved on the assets in the with-profits fund.
Endowment Assurance	:	A life assurance contract that pays a sum of money on survival of the life assured to a specific date, or upon earlier death, in return for regular premiums or a single (once-off) premium.
Excess Assets	:	The free assets determined as the excess of assets over liabilities to meet statutory solvency capital requirements.
FSB	:	The Financial Services Board (FSB) is an independent non-governmental body given statutory powers by the Long-term Insurance Act, 1998 to regulate the financial services industry in South Africa.
Guaranteed Benefits	:	The benefits promised at maturity increased by annual bonuses added to date. They are guaranteed provided all contractual obligations are met.
Maturity Date	:	The agreed termination of an endowment assurance contract when the amount payable on maturity is paid to the policyholder.
Mortality Costs	:	The costs of providing life cover over a specific period.
Mortality Rates	:	The actual or expected proportion of people dying at a certain age.
Negative Reserves		Policies for which the discounted value of future expected premiums are greater than the discounted value of policy benefits and expenses (not necessarily with-profits policies).
Overall Financial Position of Assupol Life	:	This refers to the current and ongoing position of Assupol Life relative to its solvency requirements, taking into account all assets and liabilities.

APPENDIX 1 : GLOSSARY

Prosperity Life policies / Prosperity Life business	:	The policies previously underwritten by Prosperity Life and transferred to Assupol Life as part of a sale of business transaction concluded between Assupol Life and Prosperity Life with effect from 1 July 2011, subject to the terms of the sale of business agreement.
Pure Endowment	:	A life assurance contract that pays a sum of money on survival of the life assured to a specific date in return for regular premiums or a single (once-off) premium.
Regulatory Solvency	:	The required minimum level of assets in excess of liabilities including any regulatory buffers (Capital Adequacy Requirement).
Smoothing	:	The amount payable under a with-profits policy aims to dampen the volatility of return from the underlying assets in the with-profits fund.
Statutory Actuary	:	An actuary appointed by an insurance company and approved by the FSB in terms of the Act.
Surrender	:	The termination of a contract prior to its maturity date.
Terminal Bonus	:	An amount that may be added to the guaranteed benefits of a with-profits policy claim. It is not guaranteed and may be altered or revised at any time.
Whole Life Assurance	:	A life assurance contract that pays a sum of money on death of the life assured at any time in return for regular premiums or a single (once-off) premium.
With-Profits Fund	:	The pool of assets held in respect of with-profits policies.