



**ASSUPOL HOLDINGS LIMITED AND ITS SUBSIDIARIES**  
(Registration no. 2010/015888/06)

**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2018

**GENERAL NOTICE**

These annual financial statements have been prepared as required by the Companies Act, no 71 of 2008 (as amended), and have been compiled by Ms R Boonzaaier CA(SA) under supervision of Mr D de Klerk CA(SA).

**GENERAL INFORMATION**

Registration number:	2010/015888/06
Country of incorporation:	Republic of South Africa
Registered address:	Summit Place Office Park, Building 6 221 Garstfontein Road Menlyn Pretoria 0181
Postal address:	PO Box 35900 Menlo Park Pretoria 0102
Auditors:	PricewaterhouseCoopers Incorporated Johannesburg
Company secretary:	SJ de Beer

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The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of Assupol Holdings Limited and its subsidiaries. The financial statements presented on pages 16 to 96 have been prepared in accordance with International Financial Reporting Standards (IFRS), the manner required by the Companies Act, no 71 of 2008, and by the Long Term Insurance Act, no 52 of 1998, in South Africa, and include amounts based on judgements and estimates made by management.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the company or any company within the Assupol Group (with the exception of those companies that are in the process of being wound up) will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the company and the Assupol Group.

The financial statements have been audited by the independent auditors, PricewaterhouseCoopers Incorporated, who have been 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 of Directors. The directors believe that all the representations made to the independent auditors during their audit are valid and appropriate. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The audit report of PricewaterhouseCoopers Incorporated is presented on pages 10 to 15.

The financial statements were approved by the Board of Directors on 27 September 2018 and are signed on its behalf by:



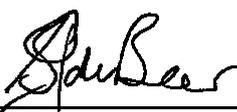
AS Birrell  
Chairman



D de Klerk  
Group Chief Financial Officer

### **COMPANY SECRETARY COMPLIANCE STATEMENT**

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act, no 71 of 2008, that for the year ended 30 June 2018, the company has lodged with the Registrar of Companies all such returns and notices as required of a public company in terms of this legislation, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.



SJ de Beer  
Company Secretary

The Audit Committee presents its report for the financial year ended 30 June 2018.

#### **APPOINTMENT**

The Audit Committee is a statutory committee of the Board of Directors of Assupol Holdings Limited, in terms of section 94(7) of the Companies Act. The members of the Audit Committee are appointed by the shareholders at the annual general meeting.

#### **TERMS OF REFERENCE**

The Board has approved the terms of reference of the Audit Committee. The Audit Committee has conducted its affairs in compliance with these terms of reference.

#### **ROLE AND RESPONSIBILITIES - STATUTORY DUTIES**

The Audit Committee's role and responsibilities include statutory duties in terms of the Companies Act, and additional responsibilities assigned to it by the Board.

##### External auditor appointment and independence

The Audit Committee is satisfied that the external auditor is independent in accordance with King IV, which includes consideration of previous appointments of the auditor, the extent of non-audit work undertaken by the auditor for the Group and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. The auditor provided requisite assurance that internal governance processes within the audit firm support and demonstrate their claim to independence.

Assupol Holdings Limited is considered a public interest company, and the audit firm PricewaterhouseCoopers has been the auditor since the demutualisation of Assupol Life in 2010. PricewaterhouseCoopers has an internal rotation requirement whereby the engagement partner is rotated on every 5 years. Mr DT van den Berg is the audit partner for a second year and has not been involved in the audit of the Group previously. In terms of the mandatory audit firm rotation rule implemented by IRBA, PricewaterhouseCoopers will be eligible to audit the Assupol Group until the June 2023.

The Audit Committee, in consultation with executive management, agreed to the engagement letter, including its terms and conditions, audit plan and budgeted audit fees, for the 2018 financial year.

A formal procedure governs the process whereby the auditor is considered for other non-audit related services. For the year ended 30 June 2018, the external auditor provided non-audit services to the Group. The Audit Committee affirms that these services did not impair the external auditor's independence.

The external auditor had direct and unrestricted access to the chairman of the Audit Committee. The Audit Committee is satisfied with the quality of the external audit work that was performed. The factors considered were specifically the feedback from management as well as the interaction between the Audit Committee and the external auditors.

##### Financial statements and accounting practices

The Audit Committee has reviewed the accounting policies and the financial statements of the Group with both management and the external auditors and is satisfied that they are appropriate and comply with International Financial Reporting Standards. Accounting estimates and assumptions which have the potential for significant adjustment of the overall financial statements are specifically listed in note 3 to the annual financial statements. We would also like to draw attention to key audit matters reported in the audit report contained on pages 10 to 15 in these annual financial statements.

The change in the accounting policies (refer note 38 of the financial statements) was discussed at the committee meetings and the implementation thereof approved.

Based on processes and assurances obtained, the committee recommended the financial statements to the Board for approval.

##### Internal financial controls

The Audit Committee reviewed a written assessment on the effectiveness of the design and implementation of internal financial controls and risk management. Nothing has come to the committee's attention that causes it to believe that the system of internal financial controls and risk management is not effective, or has resulted in any material financial loss, fraud, corruption or error; or that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

#### **DUTIES ASSIGNED BY THE BOARD**

In addition to the statutory duties of the Audit Committee, the Board has determined further functions for the committee to perform, as set out in the terms of reference. These include the following:

##### Going concern

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management and presented on a regular basis, on the going concern status of the Assupol Group. The Board of Directors' statement on the going concern status of the Assupol Group, as supported by the Audit Committee, is disclosed on page 2.

**DUTIES ASSIGNED BY THE BOARD (continued)**Governance of risk

The committee forms an integral part of the risk management framework. The Board of Directors specifically assigns oversight of the Group's financial risk management function to the Audit Committee in respect of financial reporting risks, internal financial controls, fraud and information technology risks relating to financial reporting, and compliance with laws and regulations.

Internal audit

The Audit Committee is responsible for ensuring that the Group's internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. In addition, the committee oversees co-operation between the internal and external auditors, and serves as a link between the Board and these functions.

The Audit Committee approved internal audit's annual audit plan for the 2018 financial year.

The Audit Committee also assesses the performance of the internal auditor and the internal audit function, and is satisfied with the overall effectiveness of the chief audit executive and the arrangements for the internal audit function.

The execution of the internal audit work was outsourced to KPMG until 30 June 2018. Ernst & Young has been appointed to provide the internal audit function from 1 July 2018 onwards. The internal audit service provider reports directly to the Audit Committee and is responsible for reviewing and providing assurance on the adequacy of the internal control environment. The service provider reports the findings of the internal audit work to the Audit Committee on a regular basis and has direct unrestricted access to the Audit Committee, primarily through its chairman.

Evaluation of the expertise and experience of the Group Chief Financial Officer and the finance function

The Audit Committee is satisfied that the Group Chief Financial Officer has appropriate expertise and experience. Furthermore, the Audit Committee has considered and satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function, and experience of the senior members of management responsible for this function. In making these assessments, the committee has obtained feedback from both internal and external audit.

Integrated report

The Audit Committee fulfils an oversight role regarding the Group's integrated report and the reporting process. The Audit Committee considered the Group's sustainability information as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to Audit Committee members, and with the annual financial statements.

Combined assurance

A framework and 3-year phase-in plan are currently being developed to address combined assurance in the Assupol Group. The Audit Committee will review the framework in the 2018/19 financial year.

**MEMBERSHIP, ATTENDANCE AND ASSESSMENT**

The Audit Committee consists of three independent non-executive directors. It should meet at least twice a year as required in its terms of reference. The Group Chief Executive Officer, Group Chief Financial Officer, Chief Risk Officer, external auditors, internal auditors and other assurance providers (actuarial, legal and compliance) attend meetings by invitation only. The Committee held four meetings during the financial year of which three were attended by all members.

The members and their appointment date to and resignation date from the Committee are:

<b>Name of member</b>	<b>Qualification</b>	<b>Date appointed</b>	<b>Date resigned</b>
R Mothapo (Chairman) *	B.Econ Sc, BSc (Hons), FASSA	Sept 2017	-
AS Birrell	B.Bus.Sc, FASSA, FFA, CERA	May 2013	-
IO Greenstreet *	BSc (Hons), FCA	Feb 2018	-
T Muranda *	BCompt (Hons) CA(SA)	Oct 2013	Dec 2017

\* Ms T Muranda was the chairman of the Committee until her resignation on 31 December 2017 as non-executive director. Mr IO Greenstreet acted as chairman of the Audit Committee meeting held in February 2018 and Mr R Mothapo was appointed as acting chairman in May 2018.



R Mothapo  
Chairman: Audit Committee  
27 September 2018

**1. NATURE OF BUSINESS**

Assupol Holdings Limited is incorporated in South Africa and acts as the ultimate holding company of the Assupol Group. During the year under review the Assupol Group continued to provide a range of financial services to a defined niche market. For more detailed information regarding the nature of business per subsidiary, refer to note 42 to the financial statements.

**2. SIGNIFICANT DEVELOPMENTS DURING THE YEAR**

In June 2018 the shares of Assupol Holdings were listed on the 4Africa Exchange (4AX). This will improve the efficiency of the share trading process for current and future shareholders.

The Group acquired 100% of the shareholding in Top Top Business Consultants Proprietary Limited on 30 June 2018. The company provides administration services to financial services intermediaries. Refer to note 40 to the financial statements.

The operations of the subsidiary, Cornerstone Brokers Corporate Proprietary Limited, which provided intermediary services for insurance needs to a defined target market, was sold to Assupol Life on 1 July 2017. The rationale was to improve operational and administration efficiencies within the Group.

**3. GROUP RESULTS**

Details of the Assupol Group's financial performance are set out in the financial statements and notes thereto on pages 16 to 96.

The Assupol Group delivered a solid performance during a financial year that was again challenged by a challenging operating environment. New business volumes were affected by these conditions but through a disciplined approach to the management of expenses and service delivery to clients, the Group met its growth targets. The adjusted operating profit, a metric which reflects management's view of the underlying long-term profitability of the Group, showed growth of 20.85%.

The South African investment markets performed better during the current year in comparison to previous years with after-tax returns on excess assets exceeding the long term investment return assumption by R27 million. As disclosed in the adjusted operating profit below, the 2017 financial year reported an underperformance of R10 million.

Expense management remained a key focus area, resulting in a release of the renewal expense reserve component of policyholder liabilities by an amount of R124.2 million after taxation (2017: R113.2 million).

The key financial performance statistics for the Assupol Group for the year are set out below:

<b>Earnings performance</b>	<b>2018</b>	<b>2017</b>	<b>% change</b>
Gross insurance premium revenue (R'm)	2 934	2 690	9.07%
Net profit attributable to ordinary shareholders (R'm)	847	771	9.86%
Value of new business (R'm)	388	350	10.97%
Return on equity (%)	26%	29%	

The adjusted operating profit for the Assupol Group was calculated as follows:

<b>Adjusted operating profit (R'm)</b>	<b>2018</b>	<b>2017</b>	<b>% change</b>
Net profit attributable to ordinary shareholders	847	771	9.86%
Adjustment on investment returns on excess assets	(27)	10	-370.00%
Non-recurring transactions	9	(43)	120.93%
Non-recurring economic assumption adjustments	15	(85)	117.65%
Other non-recurring actuarial adjustments	(131)	(63)	-107.94%
<b>Adjusted operating profit</b>	<b>713</b>	<b>590</b>	<b>20.85%</b>

The adjusted operating profit is calculated by adjusting the reported profit to exclude the impact of short-term market fluctuations on the investment returns on excess assets, as well as non-recurring transactions or events such as the discontinuation of a business relationship, non-recurring actuarial adjustments and non-core transactions. The calculation does not take into account the economic impact of actuarial adjustments on new business during a financial period.

## 3. GROUP RESULTS (continued)

New business (R'm)	2018	2017	% change
Recurring premiums	891	791	12.64%
Single premiums	191	521	-63.27%
Total new business premiums	1 082	1 312	-17.50%
Annual premium equivalent (APE)	910	843	7.95%
Present value of new business premiums (PV NBP)	3 719	3 688	0.85%
Value of new business margin	10.4%	9.6%	8.43%

New business premiums were up by 7.95% on an APE basis and 0.85% on a PV NBP basis. The growth in recurring premiums can be attributed to the good performance from direct marketing.

Group embedded value (R'm)	2018	2017
Shareholders' funds	1 301	1 055
Value of in-force business	3 195	2 524
Gross	3 489	2 757
Cost of required capital	(294)	(233)
Embedded value of covered business	4 496	3 579
Embedded value of uncovered business	67	(7)
Group embedded value at year end	4 563	3 572
Return on embedded value (%)	33.49%	30.80%

Embedded value earnings - 2018 (R'm)	Adjusted net worth	Value of in-force	Cost of required capital	Total
Embedded value at 30 June 2017 - Covered business	1 055	2 757	(233)	3 579
Opening adjustments	5	137	-	142
Embedded value as at the beginning of the year	1 060	2 894	(233)	3 721
Dividends paid	(208)	-	-	(208)
Deferred bonus shares	35	-	-	35
Embedded value after adjustments	887	2 894	(233)	3 548
Unwinding of risk discount rate	-	368	(27)	341
Expected profits	611	(611)	-	-
New business	(295)	745	(61)	389
Operating experience variations	(10)	48	1	39
Tax	5	-	-	5
Assumption changes	5	35	(13)	27
Investment experience	97	7	39	143
Miscellaneous	1	3	-	4
Embedded value at 30 June 2018 - Covered business	1 301	3 489	(294)	4 496
Embedded value at 30 June 2017 - Uncovered business	37	(44)	-	(7)
Dividends paid	(211)	-	-	(211)
Embedded value after adjustments	(174)	(44)	-	(218)
Net profits	263	-	-	263
Holdings company expense adjustment	-	50	-	50
Market value adjustment	-	(28)	-	(28)
Embedded value at 30 June 2018 - Uncovered business	89	(22)	-	67
Group embedded value at 30 June 2018	1 390	3 467	(294)	4 563

**3. GROUP RESULTS (continued)**

Key statistics in relation to the issued shares of Assupol Holdings are provided below:

Share statistics	2018	2017	% change
Share price - closing (R) *	9.20	5.85	57.26%
Market capitalisation (R'm) *	3 882	2 436	59.36%
Earnings per share (R)	2.31	2.25	2.74%
Diluted earnings per share (R)	2.11	2.01	5.33%
Diluted AOP per share (R)	1.73	1.49	15.82%
Group embedded value per share (R)	10.82	8.58	26.09%
Dividends per qualifying ordinary shares (cents)	96	56	71.43%

\* Market information is based on the 4AX exchange on which the company's shares trade.

**4. BOARD OF DIRECTORS**

The present directors of the company are:

Name	Board committee involvement	Date appointed
<i>Non-executive directors</i>		
AS Birrell (Chairman)	Chairman: Actuarial Committee, Growth and Innovation Committee, Risk Committee (Acting ***) Member: Audit Committee, Remuneration Committee	7 May 2013
EDJ Ashkar	Chairman: Nomination Committee Member: Investment Committee, Social and Ethics Committee, Remuneration Committee, Actuarial Committee, Growth and Innovation Committee, Risk Committee	20 Feb 2013
IO Greenstreet	Chairman: Investment Committee Member: Audit Committee, Nomination Committee, Growth and Innovation Committee	7 Jun 2013
NE Gubb	Member: Investment Committee, Nomination Committee	7 May 2013
R Kisten *	Chairman: Social and Ethics Committee Member: Growth and Innovation Committee	27 July 2016
R Mothapo	Chairman: Audit Committee (Acting***), Remuneration Committee (Acting***) Member: Actuarial Committee, Risk Committee	18 Aug 2017
KC Radebe	Member: Investment Committee	11 Aug 2017
Z Saban	Member: Growth and Innovation Committee	1 Aug 2017
<i>Executive directors</i>		
CJ van Dyk ** (Group Chief Executive Officer)	Member: Investment Committee, Growth and Innovation Committee, Actuarial Committee	30 Sep 2013
D de Klerk (Group Chief Financial Officer)	Member: Investment Committee, Growth and Innovation Committee, Actuarial Committee	30 Jul 2010
MB Mokwena-Halala (Chief Executive Officer: Assupol Life)	Member: Investment Committee, Growth and Innovation Committee	30 Jul 2010
SL Ndwalaza (Human Resources)	Member: Social and Ethics Committee	1 Sep 2012

Mr ILM Barnett resigned as non-executive director with effect from 11 August 2017.

Ms T Muranda resigned as non-executive director with effect from 31 December 2017.

\* Ms R Kisten resigned as non-executive director with effect from 19 September 2018.

\*\* Mr CJ van Dyk was an independent non-executive director until March 2017 when he became acting Group Chief Executive Officer. He was appointed Group Chief Executive Officer on 1 July 2017.

\*\*\* The chairmen of the Risk Committee, Audit Committee and Remuneration Committee were acting in the role as chairman at year-end. This is a temporary measurement following the resignation of the above-mentioned non-executive directors and the appointment of new directors. Once the appointments are finalised the chairman and members of the committees will be reconsidered.

**5. PRESCRIBED OFFICERS**

Name	Position held in Group	Date appointed
J Dippenaar	Chief Risk Officer	1 Sep 2015
MP Salmon	Head of Strategy	1 Jan 2017
EZ Mngoma *	Group Executive: Sales	1 July 2017

\* Mr EZ Mngoma joined the Assupol Group on 1 February 2013.

**6. DETAILS OF SERVICE CONTRACTS**

The Group has service contracts and permanent contract with all the executive directors and prescribed officers.

**7. SHARE CAPITAL**

The company's authorised share capital was changed in 2017 with the authorisation of 100 000 000 'B' shares.

5 999 724 'B1' shares were issued during the year and 361 557 ordinary shares were bought back, resulting in the issued share capital as at 30 June 2018 as:

	2018 R'000	2017 R'000
367 314 528 (2016: 367 314 528) ordinary shares of R0.001 each	543 853	542 965
44 202 985 'A' ordinary redeemable no par value shares	30 000	30 000
4 820 308 'B' no par value shares	28 843	28 843
5 999 724 'B1' no par value shares	36 742	-
Total share capital	639 438	601 808

Refer note 25 to the financial statements for information on the company's share capital.

**8. SHAREHOLDER DIVIDEND**

Dividends were declared in respect of the following financial years:

	2018 cents per share	2017 cents per share
Cash dividend	54	48
Special dividend	42	8

On 15 September 2017 the directors declared a cash dividend of 48 cents and special dividend of 8 cents per qualifying ordinary share in terms of the company's dividend policy to shareholders recorded at close of business on 6 October 2017. The dividends were paid on 13 October 2017.

Refer to subsequent events (paragraph 13 below) for the dividend declared in respect of the 2018 financial year.

**9. STATUTORY ACTUARY**

In terms of the Long Term Insurance Act, no 52 of 1998, Mr R Subotsky is the statutory actuary of Assupol Life Limited. He replaced Mr CR van der Riet with effect from October 2017.

**10. COMPANY SECRETARY**

The Company Secretary, Mr SJ de Beer, was appointed in July 2010.

**11. AUDITORS**

In accordance with section 90 of the Companies Act, no 71 of 2008, the Audit Committee, on behalf of the Board of Directors, nominated PricewaterhouseCoopers Incorporated for appointment as external auditor. This appointment will be subject to approval by a majority of shareholders at the annual general meeting scheduled for the final quarter in the 2018 calendar year.

**12. SUBSIDIARIES**

The Assupol Group's material interests in subsidiaries are set out in note 42 to the financial statements. These companies were subsidiaries throughout the year. The subsidiaries are involved in the financial services industry in South Africa.

**13. SUBSEQUENT EVENTS****Dividend declaration**

On 27 September 2018 the Board of Directors, in terms of section 46 of the Companies Act, no 71 of 2008, declared a gross cash dividend of 54 cents per qualifying ordinary share for the financial year ended 30 June 2018.

The Board of Directors has also declared a special dividend of 42 cents per qualifying ordinary share.

The qualifying ordinary shares at the date that these financial statements were approved excluded the ordinary shares issued to the Assupol Share Incentive Trust and the 'A2' ordinary shares. Refer notes 27 and 28 for more detail.

The dividends have been declared from retained earnings. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The following dates will apply to the dividend:

Last date to trade cum the dividend	9 October 2018
Trading ex dividend commences	10 October 2018
Record date	12 October 2018
Dividend payment date	15 October 2018

**Insurance Act, no 18 of 2017**

The Insurance Act became effective on 1 July 2018, which in turn gave effect to the new "Twin Peaks" regulatory framework. The Prudential Authority implemented the Solvency Assessment and Management framework (SAM) on 1 July 2018, providing a revised set of solvency capital requirements, risk management standards and disclosure requirements for the insurance industry. The Assupol Group was not required to comply with these requirements as its year-end is prior to the implementation date. The Group will be in full compliance with the requirements for the next financial year.

**Taxation**

Section 29A of the Income Tax Act, no 58 of 1962, which provides the legislative framework for the taxation of life insurers, was amended from 1 July 2018. The amendments relate largely to the change in the valuation of policyholder liabilities, for taxation purposes, from the statutory valuation method to the "adjusted IFRS value". Provisions in the Act are being evaluated by Assupol Life in conjunction with taxation consultants and the regulating authorities. The impact thereof is being considered by management on an on-going basis.



## *Independent auditor's report*

To the Shareholders of Assupol Holdings Limited

### *Report on the audit of the consolidated and separate financial statements*

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#### *Our opinion*

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Assupol Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2018, 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.

#### **What we have audited**

Assupol Holdings Limited's consolidated and separate financial statements set out on pages 16 to 96 comprise:

- the consolidated and separate statements of financial position as at 30 June 2018;
  - the consolidated and separate statements of comprehensive income for the year then ended;
  - the consolidated and separate statements of changes in equity for the year then ended;
  - the consolidated and separate statements of cash flows for the year then ended; and
  - the notes to the financial statements, which include a summary of significant accounting policies.
- 

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

#### **Independence**

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

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*PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090  
Private Bag X36, Sunninghill, 2157, South Africa  
T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za*

Chief Executive Officer: T D Shango

Management Committee: S N Madikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk

The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.  
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

## Our audit approach

### Overview

	<p><b>Overall group materiality</b></p> <ul style="list-style-type: none"> <li>Overall group materiality: R58,9 million which represents 5% of consolidated profit before tax.</li> </ul>
	<p><b>Group audit scope</b></p> <ul style="list-style-type: none"> <li>Our Group scoping included full scope audits based on financial significance, audit risks and statutory audit requirements for four components. Assupol Life Limited is the most significant component within the Group.</li> </ul>
	<p><b>Key audit matters</b></p> <ul style="list-style-type: none"> <li>Valuation of policyholder (assets)/liabilities arising from insurance contracts</li> <li>Impact of tax legislative changes on the determination of deferred tax and the recoverability of deferred tax assets</li> </ul>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall group materiality</i>	<i>R 58,9 million</i>
<i>How we determined it</i>	<i>5% of consolidated profit before tax</i>
<i>Rationale for the materiality benchmark applied</i>	<i>We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.</i>

## How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

There are eight components within the Group. The group engagement team performed full scope audits for four components based on financial significance, audit risks and statutory audit requirements. One of these four components, Assupol Life Limited is the most significant in the Group. Analytical review procedures were performed on the remaining four components as the results of these components were insignificant to the Group results.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of policyholder (assets)/liabilities arising from insurance contracts</b> (Refer to notes 2.22.1, 2.22.3, 4, 5 and 29 to the financial statements)</p> <p>The Group issues contracts that transfer insurance risk or financial risk or, in some cases, both. An insurance contract is a contract under which the insurer accepts significant insurance risk.</p> <p>Management valued policyholder (assets)/liabilities arising from insurance contracts of R2.4 billion as disclosed in note 29 using a discounted cash flow method in terms of the Financial Soundness Valuation (FSV) method and assumptions as contained in Actuarial Practice Notes (APNs) and the Standard of Actuarial Practice 104 (SAP 104) of the Actuarial Society of South Africa.</p> <p>The valuation of these (assets)/liabilities took into account key economic and non-economic assumptions which were then applied to projected future cash flows, often for periods in excess of 20 years.</p> <p>Economic assumptions which are based on market observable data as at the end of the financial year that were applied by management include the following:</p> <ul style="list-style-type: none"> <li>● Investment returns;</li> <li>● Discount rates; and</li> <li>● Inflation rates.</li> </ul> <p>Non-economic assumptions are based on experience investigations performed by the Group and therefore contain judgement and an element of subjectivity. Non-economic assumptions that were applied by management include the following:</p> <ul style="list-style-type: none"> <li>● Future mortality;</li> </ul>	<p>Our work to address the valuation of policyholder (assets)/liabilities arising from insurance contracts was supported by our in-house actuarial experts and included the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>● We considered the Group's actuarial control environment and governance, such as the functioning of the Actuarial Committee, which approves the methodology and assumption changes against industry practice and regulatory requirements.</li> <li>● We tested management's control in which management compares the results from the internal valuation as at 30 June 2018 to the valuation performed independently by the external actuarial experts. No notable differences between the two independent valuation results were noted.</li> <li>● We tested the underlying data, and key management reconciliations between the policyholder administration system and the data used in the valuation. No material exceptions were noted.</li> <li>● We compared the valuation methodology used by management against the guidance of SAP 104 and industry practice and we found management's valuation methodology to be consistent with SAP 104 and the industry practice.</li> <li>● We examined and corroborated management's Analysis of Surplus showing sources of profit and how it relates to the change in insurance contract provisions as disclosed on the statement of comprehensive income.</li> <li>● We assessed the reasonableness of economic assumptions through comparison to available market observable data and found them to be</li> </ul>

<ul style="list-style-type: none"> <li>• Withdrawals; and</li> <li>• Renewal expenses.</li> </ul> <p>We considered the valuation of policyholder (assets)/liabilities arising from insurance contracts to be a matter of most significance to our current year audit due to the following:</p> <ul style="list-style-type: none"> <li>• The significant judgements and subjectivity applied by management in the valuation and changes to key assumptions which could result in a material change in the valuation. In particular, we focussed on the expense renewal assumption as a change in this assumption would have the most significant impact on the valuation; and</li> <li>• The magnitude of the policyholder (assets)/liabilities balance in relation to total assets and liabilities.</li> </ul>	<p>reasonable and comparable to market observable data.</p> <ul style="list-style-type: none"> <li>• We assessed the reasonableness of non-economic assumptions by comparing the assumptions to actual experience investigations conducted by management and our knowledge of the business. We found management's assumptions to be within an acceptable range.</li> </ul> <p>Our work to address the expense renewal assumption included the following:</p> <ul style="list-style-type: none"> <li>• We assessed management's budgeting process, which included, in particular, the allocation of expenses between the Company and Assupol Life Limited by testing appropriate budget approvals, regular monitoring of actual results versus budget by management and the reasonableness of budgets over the past three years compared to actual results. Management's budgeting process was found to be reasonable.</li> <li>• We tested the classification of expenses between initial and renewal expenses and how these are applied in the valuation considering the nature of the expense and found the classification to be reasonable considering the nature of the expense.</li> <li>• We assessed the consistency of management's allocation of expenses per insurance contract against its internal policy and prior periods and we did not note any inconsistencies.</li> </ul>
<p><b><i>Impact of tax legislative changes on the determination of deferred tax and the recoverability of deferred tax assets (Refer to note 3.3 and 3.3 to the financial statements)</i></b></p> <p>The new Insurance Act became effective on 1 July 2018. A number of tax amendments that were previously enacted also became effective on this date. This affected the determination of deferred tax in the 30 June 2018 financial year. A number of these complex amendments affected the tax base of the insurance contract (assets)/liabilities.</p> <p>The tax liability for a South African life insurance company is calculated using the five funds tax approach as defined in the Income Tax Act.</p> <p>In terms of the taxation methodology applied in the Individual Policyholder Fund ("IPF"), Assupol Life Limited (Assupol Life) has accumulated ("I-E") losses in excess of R1,9 billion as a result of the deductible expenses ("E") (being mostly commission expenses for risk policies) far exceeding the taxable income ("I") (being mostly investment income from assets backing the investment policies).</p> <p>The Group recognised a deferred tax asset of R43 million on the assessed loss within the IPF. We considered the recognition of the deferred tax asset</p>	<p>We obtained management's calculation of the deferred tax assets/(liabilities) and their forecast of the recovery of the assessed loss and performed the following procedures:</p> <ul style="list-style-type: none"> <li>• With the assistance of our inhouse actuarial experts, we assessed the reasonableness of key assumptions used in the forecast such as the projected investment business sales, withdrawals and future investment returns. We found these to be reasonable and in line with the market and historical experience where appropriate.</li> <li>• With the assistance of our tax specialists we evaluated the appropriateness of the tax principles applied by management in the calculation of the tax base of insurance (assets)/liabilities and the projected recovery of the deferred tax asset in the IPF in terms of the Income Tax Act. We found the principles applied by management in the calculation of deferred taxes and their assessment of the recoverability of the deferred asset to be appropriate and in line with our interpretation of the tax amendments.</li> </ul>

<p>to be a matter of most significance to our current year audit as:</p> <ul style="list-style-type: none"> <li>• the impact of the interpretation of the legislative changes on the tax base of insurance contract (assets)/liabilities was subject to judgement by management; and</li> <li>• management's forecast of the recovery of the deferred tax asset which includes the projection of future investment business sales, withdrawals and investment returns was subject to significant judgement and estimation uncertainty.</li> </ul>	
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*Other information*

The directors are responsible for the other information. The other information comprises the information included in the *Assupol Holdings Limited and its subsidiaries Annual Financial Statements for the year ended 30 June 2018*, which includes the Directors' Report, the Report of the Audit Committee and the Company Secretary compliance statement as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and other sections of the *Assupol Holdings Limited 2018 Integrated Report*, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

*Responsibilities of the directors for the consolidated and separate financial statements*

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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#### *Report on other legal and regulatory requirements*

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Assupol Holdings Limited for 85 years.

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*PricewaterhouseCoopers Inc.*

PricewaterhouseCoopers Inc.  
Director: DT van den Berg  
Registered Auditor  
Johannesburg  
27 September 2018

## STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2018

	NOTES	CONSOLIDATED		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Insurance premiums revenue		2 933 533	2 689 623	-	-
Insurance premiums ceded to reinsurers		(234 253)	(237 822)	-	-
<i>Net insurance premium revenue</i>	7	2 699 280	2 451 801	-	-
Commission received on outward reinsurance		7 222	11 624	-	-
Fee income	8	66 653	77 842	-	-
Investment income	9	253 446	187 826	187 477	167 052
Net fair value gains / (losses) on financial assets	10	129 394	(49 097)	-	-
Other income	11	(373)	1 437	152	536
<b>Income</b>		<b>3 155 622</b>	<b>2 681 433</b>	<b>187 629</b>	<b>167 588</b>
Insurance benefits and claims		(976 742)	(995 698)	-	-
Insurance claims recovered from reinsurers		224 643	208 815	-	-
<i>Net insurance benefits and claims</i>	12	(752 099)	(786 883)	-	-
Commission expenses	13	(631 277)	(536 552)	-	-
Operating and administrative expenses	14	(977 532)	(841 542)	(16 287)	(8 976)
Investment management expenses		(10 790)	(12 661)	-	-
Change in insurance contract provisions	29	532 926	579 107	-	-
Fair value adjustments on investment contract liabilities	30	(123 475)	(19 068)	-	-
<b>Expenses</b>		<b>(1 962 247)</b>	<b>(1 617 599)</b>	<b>(16 287)</b>	<b>(8 976)</b>
<b>Result of operating activities</b>		<b>1 193 375</b>	<b>1 063 834</b>	<b>171 342</b>	<b>158 612</b>
Finance charges	15	(14 221)	(26)	-	(1)
<b>Profit before taxation</b>		<b>1 179 154</b>	<b>1 063 808</b>	<b>171 342</b>	<b>158 611</b>
Income tax expense	16	(332 259)	(292 624)	255	(26)
<b>PROFIT FOR THE YEAR</b>		<b>846 895</b>	<b>771 184</b>	<b>171 597</b>	<b>158 585</b>
<b>Other comprehensive income</b>					
Revaluation reserve on owner-occupied properties		-	(3 647)	-	-
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>-</b>	<b>(3 647)</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>846 895</b>	<b>767 537</b>	<b>171 597</b>	<b>158 585</b>
<b>Profit attributable to:</b>					
Shareholders		846 895	771 184	171 597	158 585
<b>Total comprehensive income attributable to:</b>					
Shareholders		846 895	767 537	171 597	158 585
<b>Group earnings per share</b>					
Basic earnings per share	17	2.31	2.25		
Diluted earnings per share	17	2.11	2.01		

## STATEMENT OF FINANCIAL POSITION as at 30 June 2018

	NOTES	CONSOLIDATED		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>ASSETS</b>					
Property and equipment	18	250 699	67 802	-	-
Deferred tax asset	33	-	50 026	-	-
Intangible assets	19	137 668	102 756	-	-
Investments in subsidiaries	20	-	-	769 121	733 799
Financial assets - Investments	21				
At fair value through profit or loss					
Equity securities		1 205 706	1 083 596	-	-
Debt securities		1 145 601	855 348	-	-
Deposits and money market securities		883 773	890 045	-	-
At amortised cost					
Deposits and money market securities		756 524	515 776	-	-
Policyholder assets					
Insurance contracts	29	2 424 981	1 870 751	-	-
Reinsurance assets	29	3 515	24 819	-	-
Insurance and other receivables	22	132 197	110 474	863	2 873
Current taxation	35	3 031	-	362	71
Cash and cash equivalents	23	346 698	304 718	37 398	43 053
Non-current assets held for sale	24	-	13 570	-	-
<b>TOTAL ASSETS</b>		<b>7 290 393</b>	<b>5 889 681</b>	<b>807 744</b>	<b>779 796</b>
<b>EQUITY</b>					
Share capital	25	639 438	601 808	639 438	601 808
Treasury shares	26, 27	(68 106)	(39 196)	(65 601)	(28 867)
Employee benefits reserve	27	167 485	74 504	167 485	74 504
Black Economic Empowerment reserve	28	14 300	14 300	14 300	14 300
Retained earnings		2 931 147	2 293 006	33 137	34 870
<b>TOTAL EQUITY</b>		<b>3 684 264</b>	<b>2 944 422</b>	<b>788 759</b>	<b>696 615</b>
<b>LIABILITIES</b>					
Policyholder liabilities: Investment contracts					
At fair value through profit or loss	30	1 449 596	1 311 317	-	-
At amortised cost	30	727 797	506 207	-	-
Employee benefits	31	79 501	133 516	-	57 667
Deferred revenue liability	32	511	458	-	-
Deferred tax liability	33	839 869	712 713	-	-
Insurance and other payables	34	508 855	266 779	18 985	25 514
Current taxation	35	-	14 269	-	-
<b>TOTAL LIABILITIES</b>		<b>3 606 129</b>	<b>2 945 259</b>	<b>18 985</b>	<b>83 181</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7 290 393</b>	<b>5 889 681</b>	<b>807 744</b>	<b>779 796</b>

## STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2018

	SHARE CAPITAL R'000	TREASURY SHARES R'000	EMPLOYEE BENEFITS RESERVE R'000
<b>COMPANY</b>			
<b>Balance at 30 June 2016</b>	572 965	(30)	45 756
B shares issued	28 843	(28 843)	-
Cost of incentive shares	-	-	4 878
Share incentive options exercised	-	6	(6)
Deferred bonus recognition	-	-	23 876
Dividend paid	-	-	-
Assupol Life's deferred bonus shares	-	-	-
Profit for the year	-	-	-
<b>Balance at 30 June 2017</b>	601 808	(28 867)	74 504
B shares issued	36 742	(36 742)	-
Cost of incentive shares	-	-	2 045
Share incentive options exercised	-	8	(8)
Deferred bonus recognition	-	-	33 277
Dividend paid	-	-	-
Assupol Life's deferred bonus shares	-	-	-
Share-based payment liability transferred to reserve	-	-	57 667
Adjustment of redemption on preference shares	888	-	-
Profit for the year	-	-	-
<b>Balance at 30 June 2018</b>	639 438	(65 601)	167 485
<b>CONSOLIDATED</b>			
<b>Balance at 30 June 2016</b>	572 965	(30)	45 756
B-Shares issued	28 843	(28 843)	-
Treasury shares acquired	-	(10 329)	-
Cost of incentive shares	-	-	4 878
Share incentive options exercised	-	6	(6)
Deferred bonus recognition	-	-	23 876
Dividend paid	-	-	-
Profit for the year	-	-	-
Other comprehensive income for the year	-	-	-
<b>Balance at 30 June 2017</b>	601 808	(39 196)	74 504
B-Shares issued	36 742	(36 742)	-
Treasury shares acquired	-	7 824	-
Cost of incentive shares	-	-	2 045
Share incentive options exercised	-	8	(8)
Deferred bonus recognition	-	-	33 277
Share-based payment liability transferred to reserve	-	-	57 667
Dividend paid	-	-	-
Adjustment of redemption on preference shares	888	-	-
Profit for the year	-	-	-
<b>Balance at 30 June 2018</b>	639 438	(68 106)	167 485

## STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2018

	BEE RESERVE R'000	RETAINED EARNINGS R'000	REVALUATION RESERVE R'000	TOTAL EQUITY R'000
<b>COMPANY</b>				
<b>Balance at 30 June 2016</b>	14 300	49 637	-	682 628
B-Shares issued	-	-	-	-
Cost of incentive shares	-	-	-	4 878
Share incentive options exercised	-	-	-	-
Deferred bonus recognition	-	-	-	23 876
Dividend paid	-	(202 195)	-	(202 195)
Assupol Life's deferred bonus shares	-	28 843	-	28 843
Profit for the year	-	158 585	-	158 585
<b>Balance at 30 June 2017</b>	14 300	34 870	-	696 615
B-Shares issued	-	-	-	-
Cost of incentive shares	-	-	-	2 045
Share incentive options exercised	-	-	-	-
Deferred bonus recognition	-	-	-	33 277
Dividend paid	-	(210 934)	-	(210 934)
Assupol Life's deferred bonus shares	-	36 742	-	36 742
Share-based payment liability transferred to reserve	-	-	-	57 667
Adjustment of redemption on preference shares	-	862	-	1 750
Profit for the year	-	171 597	-	171 597
<b>Balance at 30 June 2018</b>	14 300	33 137	-	788 759
<b>CONSOLIDATED</b>				
<b>Balance at 30 June 2016</b>	14 300	1 720 370	3 647	2 357 008
B-Shares issued	-	-	-	-
Treasury shares acquired	-	-	-	(10 329)
Cost of incentive shares	-	-	-	4 878
Share incentive options exercised	-	-	-	-
Deferred bonus recognition	-	-	-	23 876
Dividend paid	-	(202 195)	-	(202 195)
Profit for the year	-	771 184	-	771 184
Other comprehensive income for the year	-	3 647	(3 647)	-
<b>Balance at 30 June 2017</b>	14 300	2 293 006	-	2 944 422
B-Shares issued	-	-	-	-
Treasury shares acquired	-	-	-	7 824
Cost of incentive shares	-	-	-	2 045
Share incentive options exercised	-	-	-	-
Deferred bonus recognition	-	-	-	33 277
Share-based payment liability transferred to reserve	-	-	-	57 667
Dividend paid	-	(209 616)	-	(209 616)
Adjustment of redemption on preference shares	-	862	-	1 750
Profit for the year	-	846 895	-	846 895
<b>Balance at 30 June 2018</b>	14 300	2 931 147	-	3 684 264

## STATEMENT OF CASH FLOWS for the year ended 30 June 2018

	NOTES	CONSOLIDATED		COMPANY	
		2018 R'000	2017 Restated * R'000	2018 R'000	2017 Restated * R'000
<b>Cash flows from operating activities</b>					
Cash generated from / (utilised in) operations	36	784 506	939 283	(18 904)	372
Net acquisition of financial instruments					
at fair value through profit or loss	21	(276 697)	(178 481)	-	-
at amortised cost	21	(240 748)	(515 776)	-	-
Interest received	9	172 797	152 140	3 064	1 338
Dividends received	9	16 213	16 342	184 413	165 714
Dividends paid		(209 616)	(202 195)	(210 934)	(202 195)
Finance charges	15	(14 221)	(26)	-	(1)
Taxation paid	37	(169 943)	(118 570)	(36)	(120)
<b>Net cash flows from operating activities</b>		<b>62 291</b>	<b>92 717</b>	<b>(42 397)</b>	<b>(34 892)</b>
<b>Cash flows from investing activities</b>					
Acquisition of property and equipment	18	(25 721)	(37 918)	-	-
Proceeds on disposal of property and equipment	18	15 097	14 694	-	-
Payment for acquisition of subsidiary	19	(5 875)	-	-	-
<b>Net cash flows from investing activities</b>		<b>(16 499)</b>	<b>(23 224)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Shares issued	25	-	-	36 742	28 843
Decrease / (increase) in treasury shares	27	7 824	(10 329)	-	-
Principal elements of lease payments	18, 34	(11 636)	-	-	-
<b>Net cash flows from financing activities</b>		<b>(3 812)</b>	<b>(10 329)</b>	<b>36 742</b>	<b>28 843</b>
Net increase / (decrease) in cash and cash equivalents		41 980	59 164	(5 655)	(6 049)
Cash and cash equivalents at beginning of the year		304 718	245 554	43 053	49 102
<b>Cash and cash equivalents at end of the year</b>		<b>346 698</b>	<b>304 718</b>	<b>37 398</b>	<b>43 053</b>

\* The 2017 disclosure was restated as it incorrectly included non-cash items. The disclosure was adjusted with no impact on the Statement of Comprehensive Income or the Statement of Financial Position. The adjustment only affected the Statement of Cash Flows and note 36.

## 1. GENERAL INFORMATION

Assupol Holdings Limited ("Assupol Holdings") and its subsidiaries (the "Assupol Group" or "Group") operate mainly in the financial services industry, with all products and services offered only in the Republic of South Africa.

Assupol Life Limited ("Assupol Life"), the life insurance subsidiary of Assupol Holdings, underwrites life insurance risks, such as those associated with death, disability and dread disease. The company also issues a diversified portfolio of investment contracts, consisting both fixed and variable return portfolios, to provide its customers with asset management solutions for their savings and retirement needs.

The operations of the subsidiary, Cornerstone Brokers Corporate Proprietary Limited ("Cornerstone Brokers"), that provided an intermediary service for insurance needs to a defined target market, was sold to Assupol Life on 1 July 2017. On 30 June 2018 the Group purchased 100% of Top Top Business Consultants Proprietary Limited ("Top Top Business Consultants") which provides administration services to financial services intermediaries. The other companies in the Group include a property company, Siebador Sewentien Proprietary Limited ("Siebador Sewentien"), as well as Assupol Investment Holdings Proprietary Limited ("Assupol Investment Holdings"), which holds the investments in all the non-life subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise indicated. All amounts are shown in thousands of South African Rand, rounded to the nearest thousand, unless otherwise indicated.

### 2.1 Basis of preparation

The consolidated financial statements of the Assupol Group and the financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act, no 71 of 2008, in South Africa, as well as the reporting requirements of 4Africa Exchange (4AX).

IFRS comprises International Financial Reporting Standards, International Accounting Standards (IAS) and Interpretations, and are set by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company and Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3 to the financial statements.

The Group and the company prepares its audited consolidated financial statements on a going concern basis. The assets and liabilities are valued on the historical cost basis, except for the following items:

#### *Carried at fair value*

- Financial assets designated as 'at fair value through profit or loss';
- Financial liabilities for policyholder liabilities under investment contracts designated as 'at fair value through profit or loss'.

#### *Carried at a different measurement basis*

- Policyholder liabilities / assets under insurance contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in the Actuarial Society of South Africa's Actuarial Practice Note SAP104 and described in accounting policy 2.22.3; and
- Investments in subsidiaries are carried at cost.

#### 2.1.1 Standards and interpretations early adopted in the current year

The following changes to accounting policies that are applicable to the Group were implemented and are either new or have been amended from the prior year, in accordance with the transitional provisions of the standards. The effective date that is indicated below represents financial periods beginning on or after that specific date, unless otherwise indicated.

- *IFRS 15 - Revenue from contracts from customers*  
This is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. The application of the standard had no impact on the recognition of fee income as described in 2.4.4.
- *IFRS 16 - Leases*  
This standard requires of lessees to recognise lease liabilities reflecting future lease payments and right-to-use assets for all leases (with limited exceptions). The Group has elected to early adopt IFRS 16 - Leases. In accordance with the transition provisions in the standard the application thereof has been adopted prospectively from 1 July 2017. Comparatives for the financial year ending June 2017 have not been restated. Refer notes 18 and 34 for the impact on the current financial year.

### 2.1.2 *Standards and interpretations not yet effective*

The following accounting standards that are applicable to the Group have been amended by the International Accounting Standards Board (IASB), but with effective dates that are after the Group's current reporting period. The Group will comply with the amendments from the effective date. The standards have not been early adopted and the impact thereof is currently being assessed. The effective date that is indicated below represents financial periods beginning on or after that specific date, unless otherwise indicated.

- *IFRS 9 - Financial instruments (effective 1 January 2018)*

This standard replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. These updates include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39 without change, except for financial liabilities that are designated at fair value through profit or loss.

A further amendment aligned hedge accounting more closely with an entity's risk management. It also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.

The Group elected to defer the implementation of this standard to coincide with the implementation of IFRS 17 as a result of an assessment performed by management in line with the deferral provisions in IFRS 9. Based on this assessment it was concluded that the Group meets these provisions due to the fact that the Group's insurance liabilities exceed 80% of total insurance related liabilities.

- *IFRS 17 - Insurance contracts (effective 1 January 2021)*

The standard eliminates inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. It also provides requirements for presentation and disclosure items to enhance comparability between entities.

The Group has established a steering committee to manage the process and various work groups to address the detailed requirements. Management is in the initial phases of understanding the impact of the changes and have not yet been determined the impact on the reported numbers reliably.

## 2.2 **Basis of consolidation**

The Group's financial statements represent the consolidated financial position and changes therein, operating results, and cash flow information of the company and all of its subsidiaries.

### 2.2.1 *Interest in subsidiaries (refer notes 5.4.1.d and 42).*

Under IFRS 10 all entities, including structured entities such as collective investment schemes, over which the Group has control are regarded as subsidiaries. The Group controls an entity when the Group is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The shares held by the Assupol Share Incentive Trust have been consolidated into the financial results of the Group as the Group has effective control over these shares.

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the stand-alone financial statements of the company.

The Group applies the acquisition method of accounting to account for the acquisition of subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are derecognised from the date that control ceases. The Group recognises identifiable assets and liabilities, and contingent liabilities acquired in its statement of financial position at their fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between companies in the Group. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Therefore, the cost of the acquisition is measured as the fair value of assets given and liabilities assumed at date of exchange and costs directly attributable to the acquisition.

The interest of non-controlling shareholders is stated at their proportionate share of the subsidiary's identifiable net assets on an acquisition-by-acquisition basis. Once the company no longer controls a subsidiary, the investment is treated as a financial instrument in terms of IAS 39.

**2.3 Foreign currency translation****2.3.1 Functional and presentation currency**

The Group presents its consolidated financial statements in South African Rand (ZAR), the functional currency of the holding company and its subsidiaries.

**2.3.2 Transactions and balances**

The Group converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. Any translation differences are included in profit or loss in the period in which the difference occurs in 'net fair value gains on financial assets'.

**2.4 Revenue recognition and other income and expenses****2.4.1 Revenue recognition**

Revenue comprises insurance premiums received, as well as commission received on outward reinsurance, fee income, investment income, and net fair value gains and losses on financial assets.

**2.4.2 Insurance premiums received**

Refer to the accounting policy on Policyholder contracts - Investment and insurance, note 2.22.

**2.4.3 Reinsurance premiums received**

Reinsurance premiums are recognised when due in accordance with the terms of each insurance contract.

**2.4.4 Fee income**

Fee income represents income from the administration of investment contracts on behalf of policyholders. A management fee is charged to manage the investments of the contracts and is recognised as revenue, as the services are transferred to the customer (i.e. over the expected duration of the contract.).

**2.4.5 Investment income**

Investment income is recognised as follows:

- Dividends are brought to account once the last date of registration has passed.
- Interest for all interest-bearing financial instruments, including financial instruments measured 'at fair value through profit or loss', is recognised within investment income, and is accounted for on the effective interest rate method.

**2.4.6 Other income**

Other income comprises mainly of levies on policyholders' loans and profit on disposal of property and equipment.

**2.4.7 Acquisition costs of insurance and investment contracts**

Acquisition costs on investment contracts with investment management services are recognised as deferred acquisition costs. The annual amortisation of the deferred acquisition costs is included in the acquisition cost expense.

Acquisition costs for the guaranteed single premium products are recognised within the fair value of the contract at initial recognition.

Acquisition costs on insurance contracts include both new business and renewal commissions as well as expenses related thereto, including sales managers' remuneration and production bonuses payable. These acquisition costs are expensed as incurred.

**2.4.8 Operating and administration expenses**

Operating and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

**2.4.9 Finance charges**

Interest expense is recognised within finance charges in profit or loss using the effective interest rate method.

## 2.5 Reinsurance contracts held

Reinsurance contracts are contracts entered into by the Group with reinsurers under which the Group is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the Group.

The expected benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due by reinsurers (classified within insurance and other receivables), as well as longer-term receivables (classified as reinsurance assets), if any, that are dependent on the present value of expected claims and benefits arising net of expected premiums payable under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured contracts and in accordance with the terms of each reinsurance contract.

### Insurance premiums received on reinsurance agreements

Insurance premiums received on reinsurance agreements are recognised when receivable. Premiums are shown before deduction of commission. Outstanding premiums are included in receivables. Commission on premiums for new policies is withheld prior to payment of the reinsurance premium.

### Insurance premiums ceded to reinsurers

Insurance premiums ceded to reinsurers are recognised when due for payment, and calculated in terms of the reinsurance contract. Premiums are shown before accrual of commission. Unpaid premiums are included in payables. Commission on premiums for new policies is withheld prior to payment of the reinsurance premium.

### Insurance claims incurred in respect of reinsurance agreements

Insurance claims incurred in respect of reinsurance agreements are recognised when the claim is received from the party that was reinsured.

### Insurance claims recovered from reinsurers

Insurance claims recovered from reinsurers are recognised in profit or loss in the same period as the related claim at the undiscounted amount receivable in terms of the contracts.

## 2.6 Taxation

### 2.6.1 *Current taxation*

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates (and laws) that have been enacted by the end of the reporting period.

Current tax includes South African corporate tax payable as well as capital gains tax.

Taxation in respect of the South African life insurance operations is determined using the 'five fund' method applicable to life insurance companies.

### 2.6.2 *Dividend withholding tax*

Dividend withholding tax is a tax on distributions to beneficial owners and levied at 20%. A beneficial owner is the person entitled to the benefit of the dividend attaching to a share. The tax is payable by the beneficial owners and not the Group.

### 2.6.3 *Deferred taxation*

The Group calculates deferred taxation using the liability method. It calculates deferred tax liabilities or assets by applying corporate enacted or substantially enacted tax rates to the temporary differences existing at each end of a reporting period between the tax values of assets and liabilities and their carrying amount in the financial statements, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets and liabilities are recovered or settled. If the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

The Group recognises deferred tax assets if the directors of the Group consider it probable that future taxable income will be available against which the unused tax losses can be utilised. The major categories of assets and liabilities giving rise to a deferred taxation balance are policyholder valuation basis on investment contracts, policyholder liabilities special transfers, deferred acquisition costs, deferred revenue liabilities, and unrealised gains on investments and intangible assets.

## 2.7 Dividend distributions

Dividend distributions to the company's shareholders are recognised in the Statement of Changes in Equity when declared. If they have not yet been paid, it is disclosed as a liability in the financial statements in the period in which the dividends were approved by the company's directors.

## 2.8 Recognition of assets, liabilities and provisions

### 2.8.1 Assets

The Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the Group.

### 2.8.2 Contingent assets

The Group discloses a contingent asset where:

- as a result of past events, it is highly likely that economic benefits will flow to it;
- the confirmation of which is subject to the occurrence or non-occurrence of one or more uncertain future events; and
- the event is not wholly within the control of the Group.

### 2.8.3 Liabilities and provisions

The Group recognises liabilities, including provisions when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

If the effect of discounting is material, provisions are discounted using an appropriate discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Group recognises a provision for onerous contracts, except on insurance contracts (for which the liability adequacy test is required), when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

### 2.8.4 Contingent liabilities

The Group discloses a contingent liability where:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are initially measured at fair value in business combinations.

## 2.9 Owner-occupied properties

Owner-occupied properties are held for utilisation as the Group's head office space. Where the Group occupies a significant portion of the property, it is classified as owner-occupied property.

### 2.9.1 Measurement

Owner-occupied properties are initially recorded at cost. Subsequently, owner-occupied properties are reflected at revalued amounts less subsequent depreciation and impairments, based on triennial valuations done by external valuers. In interim years, index-adjustments are carried out based on the advice given by the valuers. Any revaluation surpluses are accounted to a revaluation reserve.

### 2.9.2 Depreciation

Owner-occupied properties are depreciated on a straight-line basis over a period of 50 years. Land is not depreciated. Any accumulated depreciation at date of revaluation is eliminated against the gross carrying amount of the asset. The residual values and useful lives are reassessed on an annual basis.

**2.10 Property and equipment****2.10.1 Measurement**

Equipment is initially recorded at cost and subsequently measured at historical cost less accumulated depreciation and impairment.

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

The measurement of right-of-use asset: property is described in note 2.12.

**2.10.2 Depreciation**

The Group depreciates property and equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives annually to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation (for both owned and leased assets) are as follows:

- Office equipment 5 - 10 years
- Computer equipment 3 - 5 years
- Motor vehicles 5 years
- Right-of-use asset - Property 2 - 10 years

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

The Group impairs an asset to its recoverable amount when there is an impairment indicator in the carrying value of the asset.

**2.10.3 Gains and losses on disposal**

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the Statement of Comprehensive Income in 'other income'.

**2.11 Non-current assets held for sale**

Non-current assets are classified as assets held for sale when their carrying amounts are to be recovered principally through a sale transaction. This classification is only met if the sale is highly probable and the assets are available for immediate sale. The assets are stated at the lower of carrying amount and fair value less costs to sell.

**2.12 Accounting for leases - where the Group is the lessee**

Assets and liabilities arising from a lease are initially measured at present value.

Lease liabilities are determined as the net present value of the lease payments less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct cost, and restoration costs. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases, i.e. leases with a lease term of 12 months or less, and leases of low-value assets are recognised on a straight line basis as an expense in profit or loss.

Extension and termination options are included in a number of property leases. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the company and not by the respective lessor.

**2.13 Intangible assets****2.13.1 Deferred acquisition costs (DAC)**

Refer note 2.22.2 for the accounting treatment of the DAC intangible asset.

**2.13.2 Goodwill**

All business combinations are accounted for by applying the acquisition method of accounting. The cost of the business combination is the fair value of the purchase consideration due at the date of acquisition. Goodwill represents the excess of the purchase price consideration of an acquisition over the attributable fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill that arises in a business combination is not amortised, and is carried at cost less accumulated impairments.

Impairment tests are performed annually on all cash generating units to which goodwill can be allocated. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows generated by other groups of assets. Impairment losses recognised against goodwill may not be reversed.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired (including contingent liabilities) over the cost of acquisition. Negative goodwill is recognised in profit in the year in which it arises.

**2.13.3 Marketing rights**

Acquired marketing rights are initially accounted for at fair value and subsequently shown at cost less accumulated amortisation. Marketing rights are for a contractual period of 4 years and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of marketing rights over the contractual term of 4 years.

**2.13.4 Trademark and customer relationships**

Acquired trademarks and customer relationships are initially accounted for at fair value and subsequently shown at cost less accumulated amortisation. Trademarks and customer relationships have a finite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and customer relationships over their estimated useful lives of 5 years.

**2.14 Financial assets**

Financial assets carried on the Statement of Financial Position include all assets, except for property and equipment, intangible assets, current tax, deferred tax assets and non-current assets held for sale.

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

The Group classifies its financial assets into the following categories:

- Financial assets designated as 'at fair value through profit or loss'; and
- Financial assets carried 'at amortised cost'.

The Group does not currently hold any held-to-maturity or available-for-sale financial assets.

#### 2.14.1 *Financial assets designated as 'at fair value through profit or loss'*

##### Initial classification and recognition

Assets are designated on initial recognition as 'at fair value through profit or loss' to the extent that it produces more relevant information because it:

- results in the reduction of measurement inconsistency (for accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is managed as a group of financial assets and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets is provided internally to the entity's key management personnel.

Financial assets classified as 'at fair value through profit or loss' consist of local listed shares, local and global unit trusts, corporate and government bonds, debt securities in parastatals, utilities and municipalities, investment in insurance policies, deposits and money market securities.

Financial assets listed in this category are recognised initially at fair value on trade date, which is the date on which the Group assumes or transfers substantially all risks and rewards of ownership. Transaction costs are expensed as incurred.

##### Subsequent measurement

Assets in this category are subsequently measured at fair value and the fair value adjustments are recognised in the Statement of Comprehensive Income in 'investment income' or 'net fair value gains on financial assets'. No impairment test is therefore necessary on this asset class.

#### 2.14.2 *Financial assets carried 'at amortised cost'*

##### Initial classification and recognition

Financial assets in this category, are classified as loans and receivables and other financial assets, i.e. assets that do not meet the definition of loan and receivables or assets not classified 'at fair value through profit or loss'. These assets are recognised initially at fair value on trade date plus transaction costs that are directly attributable to their acquisition. The trade date is the date on which the Group commits to purchase or sell the financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

##### Subsequent measurement and impairment

Assets in this category are subsequently measured at amortised cost, using the effective interest rate method.

The impairment for financial assets in this category is recognised in accordance with 2.17.1.

#### 2.15 **Offsetting financial instruments**

The Group offsets financial assets and liabilities and reports the net balance in the Statement of Financial Position where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 2.16 Derivative financial instruments

### Initial classification and recognition

Derivatives are recognised initially at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### Subsequent measurement and impairment

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

## 2.17 Impairment of assets

### 2.17.1 *Financial assets carried at amortised cost*

At the end of a reporting period the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
  - > adverse changes in the payment status of issuers or debtors in the Group; or
  - > national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

If there is objective evidence that an impairment loss has been incurred on insurance and other receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

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 (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

#### 2.17.2 Impairment of other non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### 2.18 Loans to policyholders

Loans to policyholders are classified as 'financial assets carried 'at amortised cost'.' (refer to note 2.14.2). Loans were granted to a maximum of 75% of the cash value (the policy value less policy cost balance) of the respective policy. Interest is charged at a prime linked rate. If any bad debt arises, it is written off during the year in which it is identified. The granting of loans to policyholders was discontinued in September 2015.

#### 2.19 Cash and cash equivalents

Cash and cash equivalents comprise balances with banks, money at call, notice deposits and cash on hand, but do not include money market securities held for investment. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Instruments included in cash and cash equivalents are those with maturity dates of three months or less.

#### 2.20 Share capital

Ordinary and preference shares are classified as equity.

#### 2.21 Share-based payments

The Group has both equity-settled and cash-settled share-based payment compensation plans.

##### 2.21.1 Equity-settled share-based payments

The equity-settled share-based payments in the Group include the share incentive shares to certain qualifying employees as well as the deferred bonus scheme.

Equity-settled share-based payments to employees of the Group are measured at the fair value of the equity instruments at the grant date. The fair value of the treasury shares pertaining to the share incentive shares is the value of the options less the value of the notional loan at date of issue.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the applicable vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in the employee benefits reserve. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimate, if any, is recognised in profit or loss so that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Unvested shares relating to equity-settled share-based payments are held as treasury shares until such time as the counterparty elects to exercise their share option, at which time the treasury share and the corresponding employee benefit reserve charge are netted off against each other. In the event that the option is not exercised within the appropriate window, the respective ordinary shares and related treasury shares are cancelled.

##### 2.21.2 Cash-settled share-based payments

The cash-settled share-based payments in the Group relate to the shares issued to the executive directors and prescribed officers.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the current fair value determined at each Statement of Financial Position date. Until the liability is settled, the fair value is re-measured at each reporting date and a date of settlement with any changes in fair value recognised in profit or loss for the period.

## 2.22 Policyholder contracts - Investment and insurance

### 2.22.1 Investment and insurance contract classification

The Group issues contracts that transfer insurance risk or financial risk or, in some cases, both.

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur. Any reference to "insurance liabilities" or "policyholders liabilities" also includes policyholder assets.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

### 2.22.2 Investment contracts

The Group issues investment management contracts with fixed and guaranteed terms, and without fixed and guaranteed terms (unit linked).

#### Valuation

Investment contracts without fixed and guaranteed terms are financial liabilities of which the fair value is dependent on the fair value of the underlying financial assets and are designated at inception as 'at fair value through profit or loss'.

The Group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined by using the current unit price that reflects the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at the end of the reporting period.

Investment contract liabilities measured at fair value are taken as the maximum of the amount repayable on demand or the statutory calculated liability.

Investment contracts with fixed and guaranteed terms are financial liabilities that are initially recognised at fair value net of acquisition cost, and are designated at inception as financial liabilities held 'at amortised cost'.

#### Surrender charges

Surrender charges are levied on investment contracts which are prematurely terminated or lapse due to non-payment of premiums. This is done to recover any unrecovered expenses incurred when the contract was issued.

#### Investment management fees on investment contracts and deferred revenue liability

Investment management fees on investment contracts are recognised on an accrual basis as and when the services are transferred to the customer (i.e. over the expected duration of the contract).

Fees are charged to the customer on a monthly basis, by making a deduction from invested funds, or by deducting the fee from the premium prior to the purchase of the investment units.

A deferred revenue liability is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged when securing the investment management service contract. The deferred revenue liability is released to revenue when the services are provided, over the expected duration of the contract, and on a straight-line basis.

#### Amounts received and claims incurred on investment contracts

Amounts received under investment contracts, such as premiums and investment returns, are credited to investment contract liabilities. Claims incurred are recorded as deductions from investment contract liabilities.

#### Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are entered into or existing investment contracts are renewed. These costs, if specifically attributable to an investment contract with an investment management service element, are deferred and amortised on a straight-line basis over the average expected life of the contract, as they represent the right to receive future management fees.

A DAC asset is recognised for all applicable contracts with the amortisation being calculated per contract.

An impairment test is conducted annually at the end of the reporting period on the DAC balance on a per-policy basis, to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment contracts. An impairment is recognised when the contract is prematurely cancelled and the impairment charge is recognised in profit or loss.

### 2.22.2 Investment contracts (continued)

#### Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets at amortised cost. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in accounting policy 2.17.

### 2.22.3 Insurance contracts

#### Valuation

Defined insurance contracts may be measured under existing local practice in terms of IFRS 4 - Insurance contracts. Assupol Life have applied the Actuarial Practice Notes relating to the South African long-term insurance industry to determine the accounting policy with regards to the liabilities in respect of issued insurance contracts at the adoption of IFRS.

Policyholder liabilities/assets in terms of insurance contracts are determined on a discounted cash flow method in terms of the Financial Soundness Valuation Method and Assumptions (FSV), as contained in Actuarial Practice Notes (APN's) of the Actuarial Society of South Africa (SAP104 and APN110), which is consistent with the valuation method prescribed in the Long-term Insurance Act, no 52 of 1998. Also included in the liability are HIV/AIDS reserves as calculated in accordance with APN105.

The liability with regard to insurance business is calculated each year using assumptions that are consistent with the market value / fair value of the assets on that date. In determining the liability, based on a discounted cash flow approach, the discount rate is derived from the expected returns of the appropriate portfolio of assets supporting this business.

In the valuation of liabilities, provision is made for:

- The best estimate of future experience;
- The compulsory margins prescribed in SAP104;
- Reserves for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns, as calculated per APN110; and
- Discretionary margins are held where required to reflect possible variability in expected experience or ensure that profit or risk margins in the premium rate are not recognised before the economic benefit is likely to flow to Assupol Life.

The FSV method (as prescribed by SAP104) for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs in the insurance liability and therefore all acquisition costs on insurance contracts are expensed when incurred.

The liability assumptions are reviewed annually. Any changes in assumptions and/or other changes to the liability calculation are effected in profit or loss as they occur.

The measurement basis for the insurance contracts are divided into the following three categories, based on the nature of the contracts.

- Non-profit insurance contracts

These contracts offer defined benefits that are payable on death. These policies do not participate in annual bonus distributions.

The liability is calculated as the discounted value of the expected future benefit payments, plus the future administrative expenses that are directly related to the contract, less the discounted value of expected future premiums.

- Market related contracts

Liabilities for individual market related policies, where benefits are in part dependent on the performance of underlying investment portfolios, are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date, reduced by the excess of the present value of the expected future risk and expense charges (excluding any explicit profit charges) over the present value of the expected future risk benefits and expenses on a policy by policy cash flow basis.

### 2.22.3 Insurance contracts (continued)

#### • Group insurance contracts

The post claim liability consists of two elements – claims that have been reported i.e. outstanding reported claims as well as claims that have not yet been reported i.e. incurred but not reported (IBNR). Outstanding reported claims are included in 'insurance and other payables'. An IBNR provision is held as part of the insurance contracts liabilities. The IBNR provisions are either based on a percentage of the premiums payable or Bornhuetter-Ferguson run-off triangles. The Bornhuetter-Ferguson method of estimating outstanding claims combines an estimated loss ratio method with a projection method, which refers to methods such as the basic chain ladder method that is based on past claim amounts and / or numbers.

#### Outstanding claims provisions

Claims that have been reported, and are not yet paid, are shown as outstanding claims and are stated gross of reinsurance.

#### Embedded derivatives

Derivatives embedded in an insurance contract are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. As such, the Group does not separately measure any embedded derivatives as they qualify for recognition as an insurance contract and are measured as insurance contracts. The liability in respect of the investment guarantees underlying maturity and death benefits on the 'Conventional with-profits' policies and some of the 'New Series Universal Business' policies are measured in accordance with the actuarial guidance note APN110. Future asset returns are projected stochastically using a recognised actuarial model, i.e. the TSM Real World model. The model has been calibrated to current market conditions in South Africa. The costs arising from the guarantees are calculated in each simulation and the liability is then calculated based on the mean present value of these costs.

#### Liability adequacy test

At each end of a reporting period the adequacy of the insurance liabilities is assessed. If the assessment shows that the carrying amount of the insurance liabilities (as measured under a prospective gross premium valuation basis), net of any related intangible present value of acquired in-force business (PVIF) assets, is inadequate in the light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as prescribed in SAP104), the deficiency is recognised in profit or loss.

#### Premium income

Premium income on insurance contracts is shown gross of outward reinsurance. Premiums are shown before deduction of commission and administration fees. Premium income received in advance is included in insurance and other payables.

Premium income originates from various sources, and is recognised as follows:

- Individual insurance contracts - recurring: when due;
- Individual insurance contracts - single: when received; and
- Group schemes: when received.

#### Insurance benefits and claims

Claims on insurance contracts that include death, disability, maturity, and surrender payments, are recognised in profit or loss when incurred, based on the estimated liability for compensation owed to policyholders. It also includes claims that arise from death and disability events that have occurred up to the end of the reporting period even if the claims were not reported to the life insurer (IBNR claims).

Reinsurance recoveries are accounted for in the same period as the related claim.

**2.23 Financial liabilities**

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities carried on the Statement of Financial Position include all liabilities except for policyholder liabilities under insurance contracts, employee benefits, deferred revenue liability, deferred taxation as well as current taxation.

A liability is derecognised when it is legally extinguished.

**2.23.1 Financial liabilities excluding policyholder liabilities under investment contracts**Initial classification and recognition

Financial liabilities are initially recognised at fair value.

Subsequent measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

**2.23.2 Policyholder liabilities under investment contracts**Initial classification and recognition

These financial liabilities are accounted for 'at fair value through profit or loss' and 'at amortised cost'.

Subsequent measurement

Refer to accounting policy 2.22.2 for a detailed description of the valuation of these contracts.

Liabilities classified at 'fair value through profit or loss' are subsequently carried at fair value and changes in fair value are recognised in the Statement of Comprehensive Income under 'fair value adjustments on investment contract liabilities'.

Financial liabilities classified 'at amortised cost' are subsequently carried at amortised cost, using the effective interest rate method.

**2.24 Employee benefits****2.24.1 Retirement fund**

The Group contributes to a defined contribution pension fund for employees. The fund is registered in terms of the Pension Funds Act, no 24 of 1956. Contributions in respect of current service cost are based on a percentage of pensionable earnings and are accounted for in profit or loss as incurred. The 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.

**2.24.2 Leave pay accrual**

The Group recognises in full employees' rights to annual leave entitlement in respect of past service.

**2.24.3 Bonus provision**

A provision is raised for employee bonuses, based on a percentage of their annual package. Bonuses arise as a result of a constructive obligation and are payable to employees at the discretion of the Board of Directors, taking cognisance of the financial results and individual key performance areas for the year under review.

A provision is raised for the cash bonuses of executive and senior management, based on the Group's bonus scheme.

In terms of the bonus scheme the deferred bonus component is issued in shares of which the right to trade is restricted for a period of 3 years. For bonuses awarded prior to the 2016 financial year, the economic benefits of the issued shares, including the receipt of dividends, were not restricted. The economic benefit of subsequent bonus shares issued is restricted for the vesting period of 3 years. The expense of the deferred bonus is recognised over the period of the restriction from the date that the bonus is awarded. The deferred bonus is accounted for as an equity-settled share-based payment - refer 2.21.1.

**2.25 Segment information**

Operating segments are reported in a manner consistent with the integral reporting provided to the chief operating decision-maker. The chief operating decision-maker empowered to make strategic decisions and which is responsible for allocating resources and assessing performance of the operating segments has been identified as the Executive Committee.

The Group discloses its operating segments according to the entities in the Group that are regularly under review by Executive Committee.

The Group's operations are analysed across three reportable operating segments. This is consistent with the way the Group manages the business. The reportable operating segments are based on the categorisation of the entities in the Group with similar business activities. The segments are life insurance, brokers, and other.

Segment information is prepared in conformity with the measure that is reported to Executive Committee. These values have been reconciled to the consolidated annual financial statements. The measures reported by the Group is in accordance with the accounting policies adopted for preparing and presenting the consolidated annual financial statements.

The segment revenue and expenses comprise of all revenue and expenses which are directly attributable to the segment, or can be allocated to the segment on a reasonable basis. Only those segment assets and liabilities that are directly attributable to the segment or can be reasonably allocated, are disclosed in the segment report.

### 3. CRITICAL ACCOUNTING ESTIMATES

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### 3.1 Policyholder liabilities / assets under long-term insurance contracts

The determination of the liabilities / assets under long-term insurance contracts is dependent on estimates made by the Group. The assumptions and estimates used to arrive at these liabilities are described in note 4 to the financial statements.

The assets under long-term insurance contracts increased by R532.9 million resulting in a net year-end asset balance of R2 428.5 million.

For further information refer notes 4.4 and 29 to the financial statements.

#### 3.2 Impairment of goodwill

Impairment tests are performed on all cash generating units to which goodwill is allocated. A cash generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows generated by other groups of assets. Impairment losses recognised against goodwill may not be reversed. In assessing a possible impairment, judgements and estimates are made of the future cash flows and the appropriate discount rates in determining the value of the cash generated unit (CGU). For further information, refer note 19 to the financial statements.

#### 3.3 Current and deferred tax

The Group is subject to tax in South Africa. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination was made. The corporate tax rate in South Africa is 28% (2017: 28%). Assupol Life have four separate tax funds namely the individual policyholders' fund (IPF) (taxed at 30% in both years), the untaxed policyholders' fund (UPF) (not taxed), risk policy fund (RPF) (taxed at 28% in both years) and the corporate fund (taxed at 28% in both years). Assupol Life has not issued any insurance contracts to corporate entities, hence does not maintain a separate corporate policyholder fund.

In the five fund approach, the RPF provide the option of a "once off election" to move risk business from the IPF to the RPF and all new risk policies are thereafter taxed in the RPF.

In terms of the taxation methodology applied in the IPF, Assupol Life has accumulated ("I-E") losses in excess of R1,9 billion as a result of the deductible expenses ("E") (being mostly commission expenses for risk policies) far exceeding the taxable income ("I") (being mostly investment income from the investment policies).

In the 2017 financial year, the Group made the election to transfer most of the individual risk business from the IPF into the RPF, leaving only certain individual risk policies and investment policies. With new business written in the IPF constituting mostly investment policies, the expectation is that the fund will start generating excess "I" over "E" resulting in the utilisation of the assessed loss.

Management has performed projections (based on a number of assumptions, including future new business levels etc.) that indicate that the recovery of some of the losses within the IPF is probable and recognised a deferred tax asset of only R43 million in terms of IAS 12: Income taxes.

Deferred tax assets are assessed for probable recoverability based on applicable estimated future business performance and related taxable projected income.

#### 3.4 Share-based payments - Expense and liability determination

The amounts expensed representing the value of equity-settled share-based payments granted to employees are determined by using various assumptions relating to the expected take up rights, the share price, dividend yields and related volatility. Details of the valuation are contained in note 27.

**3. CRITICAL ACCOUNTING ESTIMATES (continued)****3.5 Leases**

The Group entered into lease agreements for various properties. These agreements are typically for fixed periods of 1 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The extension and termination options that are included in a number of the property leases are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The company has applied IFRS 16 using a prospective approach and therefore the comparative information has not been restated. The company recognises the right-of-use asset and lease liability as at 1 July 2017. The right-of-use asset is initially measured at cost, which comprise the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The lease liability is initially measured at the present value of the lease payments that are not paid as at 1 July 2017.

The incremental borrowing rate applied to the lease liabilities on 1 July 2017 ranged between 7.03% and 9.27%. Details of the valuation are contained in note 38. Finance charges on the head office building has been determined as the rate implicit within the lease of 7.03%.

**3.6 Valuation of trademark and customer relationships**

The fair value of trademark and customer relationships is the value of future income on existing contracts held by Top Top Business Consultants. For further information, refer note 19 to the financial statements.

**4. ASSUMPTIONS AND ESTIMATES RELATING TO POLICYHOLDER (ASSETS) / LIABILITIES**

The valuation of insurance liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins as prescribed by SAP104 of the Actuarial Society of South Africa, liabilities for minimum contractual investment returns as prescribed by APN110, as well as additional allowed discretionary margins.

**4.1 Assumptions for discounted liabilities**

The key assumptions used in the calculation of the insurance liabilities are based on recent experience investigations of Assupol Life's business. Every year each assumption is reviewed based on the results of the most recent experience investigations. The intention is to arrive at a best estimate of Assupol Life's experience. Once the best estimate is determined, compulsory margins (per the Actuarial Society of South Africa's Standard of Actuarial Practice SAP104) are incorporated as described above. Where data is not credible, more prudent assumptions are used based on industry data where available. However, for the bulk of Assupol Life's business, internal data was used. To allow for the expected claims due to AIDS, the AIDS tables produced by the Actuarial Society of South Africa were used. The results of the internal mortality investigations were used to establish current levels relative to these tables.

The results of the experience investigations are briefly described below:

*Demographic: Mortality*

A detailed mortality investigation was undertaken for homogeneous groupings of business for the year ending 30 June 2018 based on the in-force data file, movements and claims in the year. These results were used to set the mortality and AIDS assumptions relative to the latest published local assured lives and AIDS tables. The impact of the changes made is disclosed in note 4.4.

*Demographic: Withdrawal*

A detailed withdrawal investigation was carried out for the year ending 30 June 2018 based on homogeneous groupings of business. Based on this investigation (and those carried out for the previous year), the withdrawal assumptions for the main classes of business were set to reflect the recent and expected future experience. The impact of the changes made is disclosed in note 4.4.

*Operational: Expenses*

- The current assumed level of future expense inflation is 6.05% (2017: 5.75%) per annum for Assupol Life. This level of inflation is supported by Assupol Life's actual expense experience, the inflation implied by the fixed and index linked yield curves, the South African Reserve Bank's long-term inflation target of between 3% and 6%, and the assumption that life companies typically suffer expense increases slightly above general inflation.
- The allocation of total expenses between initial and renewal is based on management's best estimate for both group and individual business. The analysis compares historic expenses (last year's assumptions plus inflation) and budgets.
- Once-off expenses are identified and excluded from the analysis.

*Economic: Investment returns*

The investment return assumption for all classes of business, except those where the liability has a specific asset backing it, was determined as:

- The expected return on the underlying assets backing the liabilities of the life insurer; less,
- An allowance (where appropriate) for credit risk; and adjusted with
- A compulsory margin (prescribed as being 0.25%).

The following long-term assumptions were applied for each asset class (net of any credit default allowance):

	Assupol Life	
	2018	2017
Debt securities / Other loans / Foreign investments	8.50%	8.20%
Deposits and money market securities	6.50%	6.20%
Equity securities	12.00%	11.70%
Policyholder loans	14.00%	14.20%
Loans to personnel	8.50%	8.20%
Foreign investments	7.50%	7.20%
Net current assets	0.00%	0.00%

## 4. ASSUMPTIONS AND ESTIMATES RELATING TO POLICYHOLDER (ASSETS) / LIABILITIES (continued)

4.1 Assumptions for discounted liabilities (continued)

The expected long term returns assumptions used in the valuation are:

	Assupol Life	
	2018	2017
Debt securities / Other loans	8.50%	8.20%
Non unit linked business (excluding with-profits business)	8.50%	8.20%
With-profits business	8.50%	8.20%
Unit linked business	8.90%	8.90%

*Economic : Tax*

Future taxation and taxation relief is allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act, no 58 of 1962, at the end of the reporting period. Assupol Life's current tax position is taken into account, and taxation rates, consistent with that position and the likely future changes in that position, are allowed for. In particular, the Individual Policyholder Fund is in a tax loss position and is expected to stay in that position for the foreseeable future.

The above-mentioned assumptions have been taken into account in the valuation together with inclusion of compulsory margins as prescribed by SAP104. The compulsory margins used during the year under review are as follows:

Assumption	2018 margin adjustment	2017 margin adjustment
Investment return	0.25% increase/decrease *	0.25% increase/decrease *
Mortality	7.5% increase	7.5% increase
Expenses	10.0% increase	10.0% increase
Expense inflation	10.0% increase	10.0% increase
Lapses (where relevant)	25.0% increase/decrease *	25.0% increase/decrease *
Surrenders (where relevant)	10.0% increase/decrease *	10.0% increase/decrease *

\* Depending on which change increases the liability.

4.2 Assumptions for undiscounted liabilities

IBNR provisions are calculated for the annually renewable group business. These are either based on a percentage of the premiums payable or Bornhuetter-Ferguson run-off triangles. These have been established at a level which is appropriate based on historic trends.

The Bornhuetter-Ferguson method of estimating outstanding claims combines an estimated loss ratio method with a projection method. Here, 'projection method' refers to methods such as the basic chain ladder method which are based on past claim amounts and/or numbers.

The Bornhuetter-Ferguson method therefore improves on the sole use of a loss ratio method by taking account of the information provided by the latest development pattern of the claims, whilst the addition of the loss ratio to a projection method serves to add some stability against distortions in the development pattern.

4.3 Assumptions for investment contracts

The account balance as a minimum is held in all instances and this is fully matched by the underlying assets.

**4. ASSUMPTIONS AND ESTIMATES RELATING TO POLICYHOLDER (ASSETS) / LIABILITIES (continued)****4.4 Effect of changes in assumptions**

Modelling changes and data refinements were made to the opening reserves rather than the closing reserves to improve the comparability of the expected and actual cash flows in the analysis of surplus (AOS). The main adjustments were made in respect of the following:

- The functionality of the elimination per policy was moved to Prophet;
- Modelling and data changes deriving from a modelling review conducted by an independent actuarial team;
- The removal of a legal obligation following a contract amendment for Funeral B3;
- Reinsurance for the funeral benefits were cancelled with effect from 1 April 2018;
- The operations of Cornerstone Brokers Corporate were integrated into Assupol Life with the effect from 1 July 2017. The resulting VAT savings and operational profit of the subsidiary were capitalised in policyholder (assets) / liabilities;
- Regulatory changes for causal events where the maximum surrender charge for policies sold prior 2009 is phased in from 20% to 5% over the next 10 years. The effective date for this regulatory change was 1 January 2018.

The following changes were made to the actuarial valuation basis when compared to last year's basis:

- The per policy renewal expense assumption was decreased by R21.47 (2017: R22.03) per annum;
- The mortality assumptions for Progress4Sure was strengthened;
- The withdrawal rate assumptions were updated in accordance to the most recent withdrawal experience investigation;
- The investment return assumption on the unit reserves remained at 8.9% p.a., but the investment return assumption on the non-unit reserves decreased from 8.2% p.a. to 8.5% p.a. and the expense inflation assumption decreased from 5.75% to 6.05%. The real return gap increased from 2.45% to 2.50%.

The following table quantifies the impact of changes, i.e. increase / (decrease) in policyholder (assets) / liabilities, made in the assumptions from the previous periods:

	<b>CONSOLIDATED</b>	
	<b>2018</b>	<b>2017</b>
	R'000	R'000
Modelling changes and data refinements on opening liabilities	(91 974)	(6 171)
Change in APN110 reserve	(722)	1 873
On Call Plus claim rule change	-	26 836
Change in renewal expense assumptions	(172 503)	(157 285)
Change in mortality assumptions	40 380	(132 173)
Change in withdrawal rate assumptions and not-taken-up (NTU) assumptions	3 627	14 616
Change in investment return assumptions and inflation assumptions	42 017	(32 952)
Groups	(94)	-
Change in real return gap	(11 389)	(124 416)
Modelling change in premium debtor	-	135 683
Correction in Guaranteed Rate Single Premium non-unit reserve	-	(6 755)
<b>Total change in basis</b>	<b>(190 658)</b>	<b>(280 744)</b>

## 4. ASSUMPTIONS AND ESTIMATES RELATING TO POLICYHOLDER (ASSETS) / LIABILITIES (continued)

4.5 Sensitivity analysis

The sensitivity of the insurance liabilities to the main assumptions was tested by calculating the effect of certain assumptions not being met. In each case below, one assumption changes whilst all the other assumptions remain constant. The size of the sensitivities was chosen to illustrate the impacts for changes in key variables that would have a significant impact on the insurance liabilities, as well as to facilitate comparison with the sensitivities disclosed by other major insurers.

	2018		2017	
	Total (asset) / liability R'000	Change R'000	Total (asset) / liability R'000	Change R'000
Main basis	(2 428 496)		(1 895 570)	
Renewal expenses +10%	(2 125 222)	303 274	(1 661 786)	233 784
Inflation +1%	(2 185 802)	242 694	(1 700 752)	194 818
Investment return -1%	(2 329 912)	98 584	(1 819 809)	75 761
Withdrawals +10%	(2 399 233)	29 263	(1 871 862)	23 708
Risk experience +10%	(2 020 511)	407 985	(1 669 346)	226 224

The above figures combine discounted and undiscounted liabilities. The latter is not sensitive to the assumptions as they are valued retrospectively.

The sensitivities for the total liabilities are separately disclosed for the insurance contracts and reinsurance assets below.

30 June 2018	Insurance contracts	Change	Reinsurance assets	Change
	R'000	R'000	R'000	R'000
Main basis	(2 424 981)		(3 515)	
Renewal expenses +10%	(2 121 707)	303 274	(3 515)	-
Inflation +1%	(2 182 287)	242 694	(3 515)	-
Investment return -1%	(2 325 482)	99 499	(4 431)	(916)
Withdrawals +10%	(2 395 557)	29 424	(3 676)	(161)
Risk experience +10%	(1 911 386)	513 595	(109 125)	(105 610)

30 June 2017	Insurance contracts	Change	Reinsurance assets	Change
	R'000	R'000	R'000	R'000
Main basis	(1 870 751)		(24 819)	
Renewal expenses +10%	(1 636 968)	233 783	(24 819)	-
Inflation +1%	(1 675 934)	194 817	(24 819)	-
Investment return -1%	(1 791 990)	78 761	(27 819)	(3 000)
Withdrawals +10%	(1 847 987)	22 764	(23 875)	944
Risk experience +10%	(1 441 594)	429 157	(227 752)	(202 933)

## 5. RISK MANAGEMENT

The Assupol Group has adopted a risk management framework that is based on the ISO31000 standard. The risk management framework, together with associated policies required in terms of the Governance and Operational Standards for Insurers (GOIs) and compliance with the Solvency Assessment and Management (SAM) framework of the Prudential Authority of South Africa, embody the formal risk management efforts of the Group. Management is continually reviewing and improving on the formal risk management efforts in order to further enhance the sustainability of the Group's business.

As a custodian of policyholder funds, a key risk for the Group is that the proceeds from its assets will not be sufficient to fund the obligations arising from its insurance and investment contracts. The risk arises from the presence of financial or insurance risk in the contracts issued by the Group.

### 5.1 Governance and Operational Standards for Insurers

The Board implemented the requirements of the standards of which the salient features are:

- The composition and governance of the Board of Directors;
- The appointment of the heads of the control functions;
- The establishment of the control functions namely risk management, compliance, internal audit and actuarial; and
- The key risk management policies, namely:
  - Fit and Proper policy
  - Remuneration policy
  - Investment policy (also incorporating asset-liability management, liquidity risk management and concentration risk as it relates to investment management)
  - Underwriting Risk Management policy
  - Reinsurance policy
  - Concentration Risk Management policy (excluding investment concentration risk)
  - Operational Risk Management policy
  - Risk Management policy
  - Insurance Fraud Risk Management policy
  - ORSA policy
  - Outsourcing policy (as required by Directive 159 A.i.)
  - Business Continuity Management policy
  - Capital Management policy, and
  - Information Technology policy.

### 5.2 Responsibility for risk management

The Board of Directors acknowledges its responsibility for establishing and communicating appropriate risk and control policies and ensuring that adequate risk management processes are in place. The Group has a number of committees which deal with the various aspects relating to policies for accepting risks, including selection and approval of risks to be insured, use of limits and avoiding undue concentrations of risk, underwriting strategies to ensure the appropriate risk classification and premium levels as detailed below:

- The Audit Committee assists the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, auditing and actuarial valuation processes applied by the long-term insurer in the day-to-day management of the Group. It also oversees the internal audit and external audit processes, and facilitates and promotes communication between the external auditors, internal auditors, statutory actuary and executive management. The committee is chaired by an independent non-executive director, comprises three non-executive directors, and must meet at least twice a year.
- The Risk Committee is tasked with ensuring that a proper risk management framework and appropriate reporting channels are implemented for the entire Assupol Group. The committee is chaired by an independent non-executive director, comprises three non-executive directors, and must meet at least twice a year.
- The Nomination Committee has the principal task of nominating non-executive directors for appointment at the Annual General Meeting. Furthermore the Committee has to evaluate the Board of Directors, the Board Committees, the individual directors, as well as the Company Secretary. The committee is chaired by a non-executive director. It comprises three non-executive directors and meets at least once a year.
- The Remuneration Committee is tasked to consider and determine the remuneration policy of all employees of the Assupol Group. The Group Remuneration Committee is chaired by an independent non-executive director. The committee comprises three non-executive directors and meets at least once a year.
- A Social and Ethics Committee was established to address the statutory duties as prescribed in regulation 43(5) of the Companies Act, no 71 of 2008. The committee is chaired by an independent non-executive director. It comprises one executive director and two non-executive directors. The committee meets at least once a year.

**5 RISK MANAGEMENT (continued)****5.2 Responsibility for risk management (continued)**

- The Investment Committee oversees the asset management process of the Assupol Group according to guidelines and objectives set by the Investment Policy document and in conjunction with the Asset Liability Matching as compiled by the statutory actuary. The committee is chaired by an independent non-executive director, comprises four non-executive directors and three executive directors. The committee meets on a quarterly basis.
- The Actuarial Committee supports the Board of Directors with its obligations under Solvency Assessment and Management (SAM), and its reporting responsibilities under IFRS. The committee also evaluates, considers and where necessary makes recommendations to the Board and management regarding actuarial assumptions and projections. The committee consists of two executive and two non-executive directors and is chaired by an independent non-executive director. The committee meets at least quarterly.
- The Growth and Innovation Committee's role is to support executive management in facilitating the delivery of proposals within an acceptable timeframe, in accordance with the Board approved strategy and business plan. The chairman of the committee is an independent non-executive director. It comprises four non-executive directors and three executive directors. The committee meets at least once a year.
- The Holdings Executive Committee (Exco) monitors the operations of all companies in the Assupol Group and the implementation of the strategic vision of the Board of Directors. The committee comprises the executive directors and the prescribed officers of Assupol Holdings and meets on a monthly basis. The committee is supported by Assupol Life's Executive Committee.
- The Executive Committee of Assupol Life performs all executive functions delegated to it by the Board of Directors and oversees the proper administration and reporting of business performance and overall sales and industry risks. The committee is chaired by the Assupol Life Chief Executive Officer and meets on a monthly basis.
- Risk management is implemented at an operational level via a number of committees that meet on an ad-hoc basis, including amongst others the Sales Committee, Credit Control Committee, Claims Committee, Procurement Committee, Group Actuarial Committee, Risk Steering Committee, Information Technology Steering Committee, Taxation Committee and Assupol Life Management Committee.

**5 RISK MANAGEMENT (continued)****5.3 Insurance risk**

Insurance risk is the risk that benefit payments and related expenses exceed those allowed for within Assupol Life's insurance liabilities. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year. 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 the expected outcome will be. A larger population of insured risks leads to more diversified insurance risks, and in turn, reduces the deviations from the base risk assumptions.

The following table analyses the contracts offered by the Group and provides an indication of where the concentration of the risk lies.

Contracts offered by the Group	Contract type	2018 % of premium	2017 % of premium
Individual insurance business	Insurance	68.5%	61.2%
Group risk business	Insurance	31.5%	38.8%
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>

The Sales Committee, comprising the Sales Executive: Sales and the regional managers in the Group, meets on a quarterly basis to discuss and monitor market, sales and product related matters. Geographical and industry statistics of policyholders are analysed and decisions are taken accordingly to ensure pro-active interventions.

The actuarial valuations department performs the following tasks for Assupol Life of which the outcome is reported at the relevant board committees.

- Monthly monitoring of solvency position;
- Quarterly experience monitoring (such as expense, mortality, withdrawal and economic experience against assumptions); and
- Quarterly analysis of surplus monitoring.

The statutory actuary is tasked with the following (in addition to the required annual statutory responsibilities):

- Quarterly parallel run confirming the statutory and financial reporting valuations produced by the in-house valuation division;
- A biennial asset liability modelling exercise as described in note 5.4.2.c; and
- Premium rates certification as described in note 5.3.1.

The Actuarial Committee supports the statutory actuary in his responsibility for the oversight of insurance risk. This responsibility will shift to the Board of Directors with the implementation of the Insurance Act, no 18 of 2017.

**5.3.1 Mortality and morbidity risk**

Underwriting processes are in place to manage exposure to death and disability risks. The most significant measures are:

- Premium rates are required to be certified by the statutory actuary as being financially sound.
- Annual experience investigations are conducted, and are supplemented by quarterly reviews, to set premium rates.
- Reinsurance arrangements are negotiated in order to limit the risk on any individual contract.
- All new premium rates are approved and authorised by the statutory actuary prior to being issued.
- New products are also reviewed and approved by the Actuarial and the Risk Committee.

Factors affecting mortality and morbidity risks:

- The most significant factors that could substantially increase the frequency of claims, resulting in more or earlier claims (mortality and morbidity risk), are:
  - > epidemics (such as AIDS or extensive drug-resistant tuberculosis - XDR TB);
  - > widespread changes in lifestyle (smoking, exercise, eating, sexual practices);
  - > the income bracket (the lower-income market is more susceptible to extreme weather conditions, and has less access to quality medical care); and
  - > the sector of employment (such as SAPS members that are exposed to the violent element of society).
- Adverse economic conditions can potentially affect the quantity of morbidity claims where benefits are determined in terms of the ability to perform an occupation.

**5. RISK MANAGEMENT (continued)****5.3.1 Mortality and morbidity risk (continued)**

The nature of risks varies depending on the class of business. The material classes of business most affected by these risks are discussed below:

**Individual insurance business**

- These are contracts providing benefits on death, disability, critical illness and accident that are sold directly to individuals.
- How risks are managed:
  - > Risk premiums on most conventional and market-related contracts may be adjusted within the terms and conditions of the contracts.
  - > Premium rates are differentiated on the basis of age, gender, socio-economic rating, smoker status level, and the results of underwriting investigations. This is done to reduce the cross-subsidisation of risks and the possibility of anti-selection. Experience investigations have shown these are reliable indicators of the risk exposure.
  - > All applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
  - > Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for specific products. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - > Underwriting is done to identify abnormal risks and, if necessary, take appropriate actions such as additional premium loadings, exclusions or alteration of benefit terms.
  - > An additional provision is held in respect of the potential deterioration of mortality experience as a result of AIDS risks using the ASSA (Actuarial Society of South Africa) AIDS model.
  - > Reinsurance arrangements are used for specific products where the single risk for a policy is high or where business does not have sufficient experience as yet. The arrangement for those products are to limit the risk of any single policy. A portion of every sum assured is reinsured up to the retention level. Sums assured above the retention level are reinsured on a renewable risk premium basis for Assupol Life. Facultative arrangements are used for sub-standard lives and large sums assured. No catastrophe cover has been purchased, as the quota share reinsurance is deemed sufficient currently. Reinsurance optimisation reviews are also performed.
  - > Frequent experience investigations are carried out to monitor the experience against actuarial assumptions. Recommendations on corrective actions are discussed at the Actuarial Committee.

The table below shows the concentration of individual insurance contract benefits by sum assured at risk.

<i>Consolidated</i>	Sum assured at risk		Before reinsurance		After reinsurance *	
	R'000		R'000	%	R'000	%
<b>30 June 2018</b>						
	0 - 20 000		25 346 606	34.18%	25 630 207	51.41%
	20 000 - 50 000		14 836 951	20.01%	16 481 388	33.06%
	50 000 - 100 000		4 113 419	5.55%	4 828 576	9.69%
	100 000 - 200 000		7 354 868	9.92%	2 565 917	5.14%
	200 000 - 500 000		9 427 083	12.71%	346 517	0.70%
	> 500 000		13 070 227	17.63%	-	0.00%
<b>Total</b>			<b>74 149 154</b>	<b>100.00%</b>	<b>49 852 605</b>	<b>100.00%</b>
<b>30 June 2017</b>						
	0 - 20 000		17 987 556	34.72%	6 729 734	50.75%
	20 000 - 50 000		6 313 415	12.19%	2 312 296	17.44%
	50 000 - 100 000		2 839 352	5.48%	2 491 945	18.79%
	100 000 - 200 000		6 885 504	13.29%	1 727 063	13.02%
	200 000 - 500 000		8 702 081	16.80%	-	0.00%
	> 500 000		9 085 098	17.52%	-	0.00%
<b>Total</b>			<b>51 813 006</b>	<b>100.00%</b>	<b>13 261 038</b>	<b>100.00%</b>

\* The sum assured at risk for each individual policy reduces when the policy is reinsured. The analysis of the "Before reinsurance" sum insured at risk and the "After reinsurance" sum insured at risk have been individually assessed as the sum insured at risk is reduced when the policy is reinsured, this will result in a movement between categories from a higher "Before reinsurance" category to a lower "After reinsurance" category.

**5. RISK MANAGEMENT (continued)****5.3.1 Mortality and morbidity risk (continued)****Group scheme and grouped individual insurance business**

- These are contracts that provide life and/or accidental death cover to members of a group of which all members have a specific commonality (e.g. clients or employees of a specific company).
- Factors specifically affecting this class:
  - > Contracts are similar to individual insurance contracts but there is a greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry.
  - > Underwriting processes may be streamlined, with cover supplied up to certain limits without underwriting.
- How risks are managed:
  - > Group rates are calculated (where reliably available) based on the rating class of the group, the historical experience of the group and, if the group is only located in a single province, then the province is evaluated as well. The rates therefore on average reflect the actual mortality experience, hence reducing mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
  - > Rates are reviewed monthly, based on scheme experience, and can be amended with a one-month notice period.
  - > Rate reviews take into account known trends such as experience due to AIDS.
  - > Regular profitability assessments are performed by management.

The table below shows the concentration of group schemes by scheme size. A significant number of group schemes were terminated during 2018 by Assupol as a risk reducing measure.

<i>Consolidated</i> Scheme size (based on number of lives covered)	2018		2017	
	Number	%	Number	%
0 - 1 000	192	79.01%	230	68.05%
1 000 - 5 000	19	7.82%	45	13.31%
> 5 000	32	13.17%	63	18.64%
<b>Total</b>	<b>243</b>	<b>100.00%</b>	<b>338</b>	<b>100.00%</b>

**5.3.2 Business retention risk**

- Policyholders generally have a right to pay reduced or no future premiums, or to terminate the contract completely before expiry of the contract term.
- Factors affecting these risks:
  - > Economic conditions and/or consumer trends can strongly influence business retention rates.
  - > A lack of affordability testing (economic power and money skill of the policyholders) by the intermediaries, especially within the lower-income market, can adversely affect business retention levels.
  - > Expenses incurred in the acquisition of contracts are expected to be recouped over the term of the policy. These may not be recovered where the premiums are reduced or the contract terminated early.
  - > Terminations can have the effect of increasing insurance risk - e.g. policyholders whose health has deteriorated are less likely on average to terminate a contract providing death benefits.
  - > The liability held for some contracts may be less than the termination benefit payable. The net group surplus will reduce if these contracts terminate early.
- How risks are managed:
  - > Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces restrict the extent to which this may be done.
  - > The business retention rates of all intermediaries are monitored monthly on an individual basis, and corrective action can be suggested and implemented, e.g. the preference of new business sources from deduction methods with improved premium recovery rates.
  - > The various premium collection methods are being evaluated for effectiveness. New premium collection methods are investigated to diversify premium recoveries. Preference is given to reliable, regulated and secure premium deduction facilities.
  - > Commission clawback terms included in contracts with intermediaries enable the Group to mitigate some of the risk of early termination.
  - > Frequent withdrawal investigations are carried out to monitor the experience against actuarial assumptions. Recommendations and corrective actions are discussed at the Actuarial Committee.
  - > The Credit Control Committee awards new intermediary contracts only to brokers that have the required experience, qualifications and industry accreditation.
  - > During the financial year, specific controls were introduced in the direct marketing division to address the improvement of persistency.

## 5. RISK MANAGEMENT (continued)

5.4 Financial risk management5.4.1 Financial risk

Financial risk is the risk that an entity will not have adequate cash flows to meet financial obligations. The Assupol Group and the company are exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that of the proceeds from the Group's financial assets being insufficient to fund the obligations arising from its insurance and investment contract liabilities. The key mitigating actions include:

- The life company within the Group matches its assets and liabilities as accurately as is practically and optimally possible. The Investment Committee reviews the asset management arrangements of the Group and monitors investment performance in terms of mandates and set benchmarks.
- An asset liability modelling exercise is performed every second year. At the quarterly meetings of the Investment Committee the actual asset allocations are monitored against strategic asset allocations for each portfolio.
- The excess assets are exposed to market fluctuations, which may reduce the value of assets supporting the capital position. This is mitigated by having clearly defined sub-portfolios within the shareholder portfolio, with an appropriate asset allocation strategy for each portfolio, so that the level of market risk is appropriate relative to the aim of the sub-portfolio.
- The main financial risks to which the Group is exposed are described below under various contract categories. Each category represents distinct financial risks. Some categories may include both insurance and investment contracts.

The table below analyses the net total policyholder liabilities between market-related and other business at the end of the reporting period.

<i>Consolidated</i>	<b>2018</b> R'000	<b>2017</b> R'000
Market-related business (refer note 30)		
Individual market-related business	2 177 393	1 817 524
Other business (refer note 29)	(2 428 496)	(1 895 570)
Conventional individual risk business	61 634	69 409
Other individual risk business	(2 554 782)	(2 029 308)
Group risk business	55 283	54 437
Liability for embedded derivatives	9 369	9 892
<b>Total net policyholder liabilities</b>	<b>(251 103)</b>	<b>(78 046)</b>

An analysis between insurance contracts and reinsurance assets of the total net policyholder liabilities as disclosed in the table above is provided below.

<b>30 June 2018</b>	<b>Insurance contracts</b> R'000	<b>Reinsurance assets</b> R'000	<b>Total</b> R'000
Market-related business			
Individual market-related business	2 177 393	-	2 177 393
Other business	(2 424 981)	(3 515)	(2 428 496)
Conventional individual risk business	61 634	-	61 634
Other individual risk business	(2 551 267)	(3 515)	(2 554 782)
Group risk business	55 283	-	55 283
Liability for embedded derivatives	9 369	-	9 369
<b>Total net policyholder liabilities</b>	<b>(247 588)</b>	<b>(3 515)</b>	<b>(251 103)</b>

<b>30 June 2017</b>	<b>Insurance contracts</b> R'000	<b>Reinsurance assets</b> R'000	<b>Total</b> R'000
Market-related business			
Individual market-related business	1 809 597	7 927	1 817 524
Other business	(1 878 697)	(16 873)	(1 895 570)
Conventional individual risk business	69 400	9	69 409
Other individual risk business	(2 012 426)	(16 882)	(2 029 308)
Group risk business	54 437	-	54 437
Liability for embedded derivatives	9 892	-	9 892
<b>Total net policyholder liabilities</b>	<b>(69 099)</b>	<b>(8 947)</b>	<b>(78 046)</b>

**5. RISK MANAGEMENT (continued)***5.4.1.a Market-related business*

- The Assupol Group holds the assets on which unit prices are based in accordance with policy terms and conditions.
- The Group is not exposed to significant market risk on these funds, as the liability moves in line with the underlying assets.
- The Group earns management fees as a percentage of the fair value of the asset portfolio. These fees are volatile to the extent that these assets are subject to interest rate and market price risk, but are always positive.
- The unit-linked investment portfolios are rebalanced on a monthly basis.

*5.4.1.b Conventional business*

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and policyholders' reasonable expectations. Bonuses are generally designated as reversionary bonuses, which can never be removed or reduced, or terminal bonuses, which can be removed or reduced.

*5.4.1.c Investment guarantees*

- Clients of Assupol Life can choose into which type of investment fund their premiums should be deposited. One of these investment funds is the 'guaranteed fund' where the capital invested (but not the growth on the fund) is guaranteed to the client. These guarantees are spread amongst the various products that offer this investment fund. The Investment Committee is charged with monitoring the 'guaranteed fund'.
- Liabilities arising from these guarantees are valued in accordance with valuation techniques described in APN110. These liabilities are sensitive to movements in interest rates and equity prices and their volatilities. The exposure is hedged through the implementation of structured products, employing derivatives to ensure that the capital is protected, while also allowing for some participation in positive market returns. These derivatives are concluded with highly rated banks. The derivatives expose the Group to credit risk (For further information refer note 5.4.2.b). The exposure is not deemed to be material in the context of Assupol Life's results.
- Assupol Life also offers guaranteed rate single premium investment products which matures after five years. In terms of these contracts investment contract holders are not entitled to receive more than the guaranteed value as determined at inception. The risk is managed by investing in assets that will provide the guaranteed value at maturity of the policy.
- Valuation of the liabilities of these guaranteed rate single premium investment products is based on the discounted cash flows using the effective guaranteed rate determined at the inception of the contract.

*5.4.1.d Investments in structured and other entities*Structured entities

The Group has assessed its interests in collective investment schemes and other entities. Judgement is required in the assessment of whether the Group has control or significant influence in terms of the variability of returns from the Group's investment in the funds.

Based on the assessment of control or significant influence on the funds in which Assupol Life has an interest in, none of these schemes have met the definition of either a subsidiary, associate, or joint venture and therefore these funds were not consolidated in the Group's results.

The instruments held in structured entities included in the table below were selected by the Investment Committee and satisfy the requirements from an Asset Liability Matching perspective. These instruments are included in financial assets at fair value through profit or loss in the statement of financial position. For further information refer to note 21.

The table below provides a summary of the relevant instruments held by Assupol Life, the strategy for obtaining these instruments, as well as the reason for not consolidating.

Instrument type and strategy	Number of instruments	Total market value of instruments R'000	Market value as % of Assupol's investment portfolio	Market capitalisation of all issuers * R'bn	Investment value as % of issuer market capitalisation *	Control or significant influence
<b>30 June 2018</b>						
Money Market Instruments						
Money Market Long	6	647 125	16.20%	69 381	0.93%	No
Debt instruments						
Debt Long	3	1 090 548	27.29%	3 136	34.78%	No
Equity instruments						
Equity Long	2	284 307	7.12%	73 891	0.38%	No

\* All inclusive price

## 5. RISK MANAGEMENT (continued)

Instrument type and strategy	Number of instruments	Total market value of instruments R'000	Market value as % of Assupol's investment portfolio	Market capitalisation of all issuers * R'bn	Investment value as % of issuer market capitalisation *	Control or significant influence
<b>30 June 2017</b>						
Money Market Instruments						
Money Market Long	6	648 618	19.36%	62 773	1.03%	No
Debt instruments						
Debt Long	3	770 921	23.01%	3 400	22.67%	No
Equity instruments						
Equity Long	5	346 892	10.35%	74 752	0.46%	No

\* All inclusive price

#### Other entities

The Group has assessed control over the three trusts that were created during the demutualisation of Assupol Life.

It was concluded that the Group has no control or significant influence over the Assupol Members' Trust. The Assupol Members' Trust is a bewind trust where the independent trustees manage the funds of the beneficiaries for their benefit in terms of the demutualisation scheme (i.e. qualifying policyholders of Assupol Life prior to demutualisation). The trustees are approved by the financial services regulator in South Africa and the Group has no exposure or rights to variable returns from the Trust.

It was also concluded that the Group has no control or significant influence over the Assupol Community Trust. As a result of the demutualisation scheme and the 'public benefit organisation' status of the Trust, restrictions were placed on the Trust by the financial services regulator in South Africa and the South African Revenue Services in aspects such as changes to the trust deed, appointment of trustees and distributions of trust funds. The Group has no exposure or right to variable returns from the Trust.

In respect of the Assupol Share Incentive Trust the Group has control over the shares held by the Share Incentive Trust and the Trust was consolidated into the financial results of the Group. For more information refer note 27.

#### 5.4.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk, that can affect the values of the Group's financial assets and liabilities, as well as the Group's insurance contract assets and liabilities. A focus point of the Group's overall risk management programme is on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. If deemed necessary, the Group uses derivative financial instruments to hedge certain risk exposures. There are currently no derivative contracts entered into for hedging purposes.

An analysis of the components affected by financial risk factors is depicted below:

	Market risk	Credit risk	Liquidity risk	2018 R'000	2017 R'000
At fair value through profit or loss					
Equity securities	x			1 205 706	1 083 596
Debt securities	x	x	x	1 145 601	855 348
Deposits and money market securities		x		883 773	890 045
At amortised cost					
Deposits and money market securities		x	x	756 524	515 776
Insurance and other receivables	x	x		132 197	110 474
Cash and cash equivalents		x		346 698	304 718
Policyholder assets: Insurance contracts	x *	- **	x	2 424 981	1 870 751
Policyholder assets: Reinsurance assets	x *		x	3 515	24 819
Policyholder liabilities	x *		x	2 177 393	1 817 524
Insurance and other payables			x	508 855	266 779

\* The assumptions used to determine the value of the policyholder assets and liabilities are affected by the historical market experience. For a market risk sensitivity analysis of these assumptions, refer note 5.4.2.a (v).

\*\* No residual credit risk exists after applying best estimate lapse and withdrawal assumptions.

**5. RISK MANAGEMENT (continued)**

Concentration risk is the risk of loss associated with inadequately diversified asset portfolios. To manage this risk, the prudential regulations with reference to issuer limits, as stipulated in Regulation 28 of the Pension Fund Act, no 24 of 1956, was adopted as part of all the segregated mandates. In addition, the portfolios in total also need to be compliant with Regulation 28. The compliance with Regulation 28 is monitored on a regular basis by management. Breaches are reported as they occur and the required action is taken. The Investment Committee monitors the compliance on a quarterly basis. As a result the Group's exposure to any single group of companies does not exceed 4.3% (2017: 5.4%).

**5.4.2.a Market risk**

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, equity prices and interest rates.

**(i) Foreign exchange risk**

Foreign exchange risk is the risk that the Rand value of a financial instrument, as in the case of investment assets, will fluctuate due to changes in foreign exchange rates.

The Group has unit trusts which have offshore components that are all denominated in US dollars, and are listed as 'global unit trusts' in note 21. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to diversify investment exposure to international markets. The assets are held in the linked policyholder funds in order to obtain the relevant exposure for policyholders; thus no foreign currency exposure to shareholders. The currency exposure at year-end is as follows:

	2018 R'000	2017 R'000
Global unit trusts	284 307	123 284
Foreign currency amount (US\$)	20 703	9 438
Insurance policy - Global bonds	32 810	52 605
Foreign currency amount (US\$)	2 389	4 027
Closing exchange rate at year-end	13.7326	13.0624
Average exchange rate during the year	12.8553	13.6683

Overall, foreign exchange risk is considered to be within acceptable risk levels and managed effectively, as it represents only 4.2% (2017: 2.2%) of total financial assets.

**(ii) Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

The Assupol Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated Statement of Financial Position at 'fair value through profit or loss'. The Group is not directly exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Equity securities are reflected at fair values, which are susceptible to market fluctuations. The stock selection and investment analysis process is supported by the proper execution of an investment management process, which is delegated to the Investment Committee.

**(iii) Cash flow and fair value interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in interest rates, which may result in a mismatch between assets and liabilities.

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed interest rate investments included in the Group's investment portfolios are subject to changes in prevailing market interest rates. For more information on the maturity profiles of the financial assets, refer note 21 to the financial statements.

## 5. RISK MANAGEMENT (continued)

## 5.4.2.a Market risk (continued)

Investments that will be directly impacted by changes in market interest rates are analysed below. Accounts receivable where settlement is expected within 90 days and interest-free loans are not included in the analysis since the effect of interest rate risk on these balances is not considered material, given the short-term duration of the underlying cash flows.

The Group issues guaranteed rate single premium investment products which mature after five years. In terms of these contracts investment contract holders are not entitled to receive more than the value guaranteed at maturity as determined at inception of the contract. Surrender charges apply should a policyholder terminate the contract before the maturity date. This risk is managed by investing in assets that will provide the required yield at the relevant date and term.

Consolidated	Carrying value R'000	Exposed to:			Effective interest rate at year-end %
		Cash flow interest rate risk R'000	Fair value interest rate risk R'000	Both cash flow interest rate and fair value risk R'000	
<b>30 June 2018</b>					
At fair value through profit or loss					
Debt securities					
Corporate bonds	22 243	21 996	247	-	7.67%
Insurance policy - Global bonds *	32 810	-	32 810	-	N/a
Deposits and money market securities	883 773	6 296	230 350	647 127	8.03%
Unit trusts	1 090 548	-	-	1 090 548	N/a
At amortised cost					
Deposits and money market securities	756 524	-	-	756 524	8.56% - 10.39%
Receivables (interest-bearing)	81 840	69 436	12 404	-	12.18%
Receivables (provision for impairment)					
Premiums receivable	(42 010)	-	-	-	0.00%
Sundry insurance receivables	(59 957)	-	-	-	0.00%
Receivables (non interest-bearing)	152 324	-	-	-	0.00%
Cash and cash equivalents	346 698	346 698	-	-	5.43%
Policyholder liability - Investment contracts	(727 797)	-	-	(727 797)	8.56% - 10.39%
<b>Total</b>	<b>2 536 996</b>	<b>444 426</b>	<b>275 811</b>	<b>1 766 402</b>	
<b>30 June 2017</b>					
At fair value through profit or loss					
Debt securities					
Corporate bonds	31 822	29 692	2 130	-	8.75%
Insurance policy - Global bonds *	52 605	-	52 605	-	N/a
Deposits and money market securities	890 045	3 271	238 155	648 618	6.29%
Unit trusts	770 921	-	-	770 921	N/a
At amortised cost					
Deposits and money market securities	515 776	-	-	515 776	8.88% - 10.39%
Receivables (interest-bearing)	54 088	50 517	3 571	-	12.68%
Receivables (provision for impairment)					
Premiums receivable	(29 339)	-	-	-	0.00%
Sundry insurance receivables	(45 830)	-	-	-	0.00%
Receivables (non interest-bearing)	131 555	-	-	-	0.00%
Cash and cash equivalents	304 718	304 718	-	-	6.09%
Policyholder liability - Investment contracts	(506 207)	-	-	(506 207)	8.88% - 10.39%
<b>Total</b>	<b>2 170 154</b>	<b>388 198</b>	<b>296 461</b>	<b>1 429 108</b>	

\* Global bond exposure is obtained through the insurance policy and not by holding the underlying instruments. The insurance policy can be terminated with 30 days' notice.

**5. RISK MANAGEMENT (continued)***5.4.2.a Market risk (continued)**(iv) Hedging*

There are currently no derivative contracts entered into by the Group for hedging purposes.

*(v) Market risk sensitivity analysis*

The table below summarises the impact of each possible change to the risk variables outlined in the risk management section of this report to the Group's profit or loss (after corporate taxation) and to the total policyholder liabilities. The changes are affecting the financial assets and liabilities, as well as insurance assets and liabilities. This is a management estimate (based on market information available, understanding of the business and the consequent impact of possible changes) and not a earnings forecast.

Positive numbers in the table below represent an increase to policyholders' liabilities and profit after taxation respectively, and correspondingly, negative numbers indicate a decrease. The size of the changes were chosen to facilitate comparison with the sensitivities disclosed by other major insurers. In each case below, one assumption changes whilst all the other assumptions remain constant. As the economic assumptions relate to both policyholder liabilities under insurance and investment contracts, there is no added benefit in splitting the disclosures.

The non-market long-term assumptions address possible changes as a result of insurance risks identified and described in notes 4.1 and 5.3. The economic assumptions address possible changes as a result of market risks identified and described in note 5.4.2.a.

<i>Consolidated</i>	Change in variable	Impact to total policyholders' liabilities		Impact on ordinary shareholders' equity and attributable profit after tax	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Assumption description	%				
<b>Non-market long-term assumptions</b>					
Mortality and morbidity	+10%	407 581	225 962	(293 458)	(162 693)
	-10%	(419 234)	(233 494)	301 848	168 116
Withdrawals	+10%	27 103	21 856	(19 514)	(15 736)
	-10%	(16 699)	(12 762)	12 024	9 188
Renewal expense per policy	+10%	309 586	237 954	(222 902)	(171 327)
	-10%	(308 297)	(237 903)	221 974	171 290
<b>Economic assumptions</b>					
Interest rate	+1%	(64 672)	(49 050)	39 402	35 316
	-1%	102 543	78 040	(66 123)	(56 188)
Inflation	+1%	246 483	196 973	(182 241)	(147 915)
	-1%	(209 667)	(168 571)	155 733	127 465
Equity prices	+10%	92 622	86 670	(62 110)	(62 403)
	-10%	(92 594)	(86 653)	64 077	62 390

## 5. RISK MANAGEMENT (continued)

## (v) Market risk sensitivity analysis (continued)

Possible changes on the 2018 policyholders' liabilities are separately disclosed for insurance contracts and reinsurance assets below.

Assumption description	Change in variable %	Impact to policyholders' liabilities		Impact on ordinary shareholders' equity and attributable profit after tax	
		Insurance contracts	Reinsurance assets	Insurance contracts	Reinsurance assets
		R'000	R'000	R'000	R'000
<b>30 June 2018</b>					
Non-market long-term assumptions					
Mortality and morbidity	+10%	513 191	(105 610)	(369 498)	76 039
	-10%	(527 037)	107 803	379 467	(77 618)
Withdrawals	+10%	27 264	(161)	(19 630)	116
	-10%	(16 894)	195	12 164	(140)
Renewal expense per policy	+10%	309 586	-	(222 902)	-
	-10%	(308 297)	-	221 974	-
Economic assumptions					
Interest rate	+1%	(65 002)	790	46 802	(569)
	-1%	102 964	(916)	(74 134)	659
Inflation	+1%	246 483	(0)	(177 468)	0
	-1%	(209 667)	(0)	150 960	0
Equity prices	+10%	92 196	11	(66 381)	(8)
	-10%	(92 167)	(12)	66 360	8
<b>30 June 2017</b>					
Non-market long-term assumptions					
Mortality and morbidity	+10%	428 895	(202 933)	(308 804)	146 112
	-10%	(440 999)	207 504	317 519	(149 403)
Withdrawals	+10%	20 912	(944)	(15 057)	680
	-10%	(11 765)	996	8 471	(717)
Renewal expense per policy	+10%	237 954	(0)	(171 327)	0
	-10%	(237 903)	(0)	171 290	0
Economic assumptions					
Interest rate	+1%	(51 701)	(2 652)	37 225	1 909
	-1%	81 039	3 000	(58 348)	(2 160)
Inflation	+1%	196 973	(0)	(147 047)	0
	-1%	(168 571)	(0)	126 597	0
Equity prices	+10%	86 655	(15)	(62 392)	11
	-10%	(86 638)	16	62 379	(11)

**5. RISK MANAGEMENT (continued)****5.4.2.b Credit risk**

Credit risk is the risk that a counterparty will fail to discharge an obligation on an asset held and cause the Group to incur a financial loss.

Balances where the Group has exposure to credit risk include all financial assets (excluding equity securities).

Fair values of investments may be affected by the creditworthiness of the issuer of securities. The investment policy formally defines that the exposure to any institution in which the Group has placed deposits, or to which it has credit risk exposure, is limited to the provisions of the Long Term Insurance Act, no 52 of 1998. Provisions of the Long Term Insurance Act have the effect of limiting exposure to individual issuers due to the inadmissibility of assets for regulatory purposes if specified limits are breached. The investment mandates include provisions to limit the exposure to a single issuer. Bonds and cash exposure are diversified through this process.

Amounts receivable in terms of long-term insurance business are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

The Group is exposed to credit risk in any reinsurance assets held. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder. Reinsurance is placed with reputable international companies. The credit rating of the reinsurer is assessed by Assupol Life on an annual basis and on a change in the status of the reinsurer. The credit rating of the current reinsurers are AA- as per the external rating agency, S&P.

No significant credit risk exists with policy loans as the policy will lapse should the loan exceed the value of the contract.

**(i) Credit risk on investments**

The Investment Committee is charged with managing credit risk relating to investments. An investment policy has been compiled to describe the investment process and mandates given to the investment managers.

These mandates are given taking the following requirements into consideration:

- Limits in each asset class
  - > The percentage of assets invested in an asset class is fixed and will be determined by the Investment Committee and the investment mandate agreed upon.
- Percentage limits in a single holding
  - > Investment managers mandates are issued in accordance with limitations set by the Long Term Insurance Act, 52 of 1998, and regulation 28 of the Pension Fund Act, 24 of 1956.
- Quality of holdings
  - > Investment managers are only allowed to invest in listed shares, including listed property shares, that fall within their investment mandates. Where an investment becomes unlisted whilst included in the mandate, the manager may retain the shares only if it cannot be sold.
  - > Investment managers are only allowed to invest in A to AAA rated local listed bonds. For non South African assets the rating must be investment grade. Credit risk is reduced by only investing in the bonds that are rated at these levels by an accredited rating agency operating in South Africa, or the equivalent ratings of any accredited international rating agency.
  - > Investments in money market instruments must have a short term rating of at least F1 and a long term rating of at least A, as rated by an accredited rating agency.
- Collective investment instruments
  - > Collective investments can include any investment through a life license or investment through a unit trust. Investments of this type must only be through a vehicle that is registered with the financial services regulator in South Africa and are subject in all respects to the requirements of the Unit Trust Control Act, no 54 of 1981, or Long Term Insurance Act, 52 of 1998, or the Collective Investment Schemes Control Act, 45 of 2002.

## 5. RISK MANAGEMENT (continued)

## 5.4.2.b Credit risk (continued)

The exposure to credit risk from the financial assets at the end of the reporting period was:

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
At fair value through profit or loss				
Debt securities				
Corporate bonds	22 243	31 822	-	-
Parastatals and utilities	-	-	-	-
Insurance policy - Global bonds	32 810	52 605	-	-
Unit trust	1 090 548	770 921	-	-
Deposits and money market securities	883 773	890 045	-	-
At amortised cost				
Deposits and money market securities	756 524	515 776	-	-
Insurance receivables				
Premium receivables - Insurance contracts	12 256	12 256	-	-
Premium receivables - Other	14 523	7 887	-	-
Sundry insurance receivables	17 648	17 119	-	-
Reinsurance recoveries	36 302	49 459	-	-
Loans to policyholders - Insurance contracts	3 000	3 762	-	-
Loans to policyholders - Other	(2 353)	(2 727)	-	-
Other receivables:				
Other sundry receivables	27 024	19 147	863	2 873
Loans to personnel and other loans	23 797	3 571	-	-
Cash and cash equivalents	346 698	304 718	37 398	43 053
<b>Total</b>	<b>3 264 793</b>	<b>2 676 361</b>	<b>38 261</b>	<b>45 926</b>
Analysis per credit ratings				
Local debt securities (National long term rating)	1 112 791	802 744	-	-
AAA	247	849	-	-
AA+, AA, AA-	1 090 548	770 922	-	-
A+, A, A-	21 996	-	-	-
BB, BBB+	-	30 973	-	-
Deposits and money market securities (National long term rating)	1 640 297	1 405 821	-	-
AAA	871 159	31 428	-	-
AA+, AA, AA-	648 837	1 374 393	-	-
A+, A, A-	120 301	-	-	-
Cash and cash equivalents (National long term rating)	346 698	304 718	16 342	15 047
AA+, AA, AA-	346 698	304 718	16 335	15 040
A+, A, A-	-	-	7	7
Unrated	132 197	110 474	21 919	30 879
Cash and cash equivalents	-	-	21 056	28 006
Insurance receivables	81 376	87 756	-	-
Other receivables	50 821	22 718	863	2 873
Global debt securities (Long term issuer default rating - Local currency)	32 810	52 604		
AAA	15 137	6 725	-	-
AA+, AA, AA-	5 810	26 767	-	-
A+, A, A-	6 804	10 598	-	-
BBB+, BBB, BBB-	5 059	8 514	-	-
<b>Total</b>	<b>3 264 793</b>	<b>2 676 361</b>	<b>38 261</b>	<b>45 926</b>

## 5. RISK MANAGEMENT (continued)

## 5.4.2.b Credit risk (continued)

Credit rating used:

The rating used for local assets is the National Long Term rating issued by rating agencies. This rating gives a relative credit quality for the issuer and/or entity in relation to the government of the Republic of South Africa. The rating used for global assets is the Long Term Issuer Default rating (Local currency) issued by rating agencies. If there is no rating available from a rating agency an internal model is used. The internal rating scale is based on internal definitions and influenced by definitions published by mainly the external rating agency Moody's. Other external rating agencies such as S&P and GCR are considered where necessary.

Rating definition:

AAA	Highest quality: An extremely strong capacity to meet its financial obligations.
AA+, AA, AA-	Very high quality: A very strong capacity to meet its financial obligations.
A+, A, A-	High quality: A strong capacity to meet its financial obligations but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.
BBB+, BBB, BBB-	Good quality: The expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

The analysis of overall credit risk exposure indicates that the Group has policyholder receivables that are impaired at the end of the reporting period. The assets, that include both outstanding premium debtors and policyholder loans, are analysed below:

		CONSOLIDATED		COMPANY	
		2018 R'000	2017 R'000	2018 R'000	2017 R'000
Policyholder receivables	<i>Gross</i>	69 436	50 517	-	-
	<i>Impairment provision</i>	(42 010)	(29 339)	-	-
	<i>Net</i>	27 426	21 178	-	-

The table below provides information regarding the credit quality of assets which expose the Group to credit risk.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Debt securities	1 145 601	855 348	-	-
Neither past due, nor impaired	1 145 601	855 348	-	-
Deposits and money market securities	1 640 297	1 405 821	-	-
Neither past due, nor impaired	1 640 297	1 405 821	-	-
Insurance receivables	81 376	87 756	-	-
Neither past due, nor impaired	74 920	81 577	-	-
Past due				
0 to 2 months	17 789	16 755	-	-
3 to 5 months	7 251	9 544	-	-
More than 5 months	86 590	58 573	-	-
Impairment provisions	(105 175)	(78 692)	-	-
Other receivables	50 821	22 718	863	2 873
Neither past due, nor impaired	33 628	13 595	863	2 873
Past due				
0 to 2 months	15 095	6 459	-	-
More than 5 months	2 098	2 664	-	-
Cash and cash equivalents	346 698	304 718	37 398	43 053
Neither past due, nor impaired	346 698	304 718	37 398	43 053
<b>Total</b>	<b>3 264 793</b>	<b>2 676 361</b>	<b>38 261</b>	<b>45 926</b>

**5. RISK MANAGEMENT (continued)***5.4.2.b Credit risk (continued)**(ii) Collateral coverage*

None of the entities in the Group has any collateral coverage on their financial assets.

*5.4.2.c Liquidity risk*

Liquidity risk is the risk that cash may not be available to pay obligations when due. Refer to the maturity profiles included in the note to policyholder liabilities (note 29).

- Liquidity requirements and cash resources are monitored by the Investment Committee.
- The statutory actuary performs an asset liability modelling exercise to ensure that the asset mix of Assupol Life is appropriate. This involves looking at the asset / liability profile and the appropriateness of the assets vis-à-vis the liabilities, bearing in mind issues of volatility, liquidity and the expected future cash flows of the business. Unitised funds are invested in accordance with the mandate of the individual portfolios. The results of this model are incorporated in the ongoing investment strategy of Assupol Life to ensure that policyholder expectations and liquidity requirements are met.
- Appropriate assets back the Group's liabilities. The Group has significant liquid resources and continues to experience positive net cash flows.

*(i) Liquidity risks arising out of obligations to policyholders*

The undiscounted expected positive / (negative) cash flows on contract liabilities, as the basis of how liquidity is managed, are depicted below.

<i>Consolidated</i>	<b>INSURANCE CONTRACTS</b>		<b>INVESTMENT CONTRACTS</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<i>Unit liabilities</i>				
Within 1 year	56 278	53 500	116 701	111 521
2 to 5 years	118 030	122 975	369 170	327 730
6 to 10 years	88 353	101 043	361 126	331 962
11 to 20 years	43 106	50 917	439 978	395 102
Over 20 years	23 885	21 439	150 648	133 116
<b>Total unit liabilities</b>	<b>329 652</b>	<b>349 874</b>	<b>1 437 623</b>	<b>1 299 431</b>
<i>Non-unit liabilities</i>				
Within 1 year	37 025	26 375	1 577	1 282
2 to 5 years	17 019	11 716	660 479	422 214
6 to 10 years	(114 022)	(64 447)	3 249	2 858
11 to 20 years	(363 395)	(208 208)	869	819
Over 20 years	(2 050 116)	(1 201 429)	809	552
<b>Total</b>	<b>(2 473 489)</b>	<b>(1 435 993)</b>	<b>666 983</b>	<b>427 725</b>
Effect of discounting cash flows	(1 942 652)	(1 848 984)	44 227	55 212
Effect of compulsory margins	1 602 266	984 685	28 560	35 156
Undiscounted liabilities (including IBNR reserves)	55 727	54 848	-	-
<b>Total non-unit liabilities</b>	<b>(2 758 148)</b>	<b>(2 245 444)</b>	<b>739 770</b>	<b>518 093</b>
<b>TOTAL</b>				
Within 1 year	93 303	79 875	118 278	112 803
2 to 5 years	135 049	134 691	1 029 649	749 944
6 to 10 years	(25 669)	36 596	364 375	334 820
11 to 20 years	(320 289)	(157 291)	440 847	395 921
Over 20 years	(2 026 231)	(1 179 990)	151 457	133 668
Effect of discounting cash flows	(1 942 652)	(1 848 984)	44 227	55 212
Effect of compulsory margins	1 602 266	984 685	28 560	35 156
Undiscounted liabilities (including IBNR reserves)	55 727	54 848	-	-
<b>Total policyholder liabilities</b>	<b>(2 428 496)</b>	<b>(1 895 570)</b>	<b>2 177 393</b>	<b>1 817 524</b>

**5. RISK MANAGEMENT (continued)***5.4.2.c Liquidity risk (continued)*

The unit liabilities above are calculated based on the value of the assets below as these assets are invested in accordance with the mandate chosen by the policyholder:

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Equity securities	906 055	822 221	-	-
Debt securities	337 884	303 729	-	-
Deposits and money market securities	523 336	523 355	-	-
<b>Total</b>	<b>1 767 275</b>	<b>1 649 305</b>	<b>-</b>	<b>-</b>

The expected liquidity requirement for undiscounted expected cash flows for unit liabilities for the next year is R173 million. The Group has sufficient cash and cash equivalents to cover this risk.

The expected liquidity requirement for undiscounted expected cash flows for non-unit liabilities for the next year is an outflow of R39 million and therefore no provision is needed for liquidity purposes due to sufficient cash equivalents.

The table below indicates the composition of the insurance and investment policyholder contracts as well as the related reinsurance based on the underlying portfolios.

<i>Consolidated</i>	INSURANCE CONTRACTS		INVESTMENT CONTRACTS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Policyholder assets	(3 736 618)	(2 720 746)	-	-
Policyholder liabilities	1 311 637	849 994	2 177 393	1 817 524
Reinsurance assets	(3 515)	(24 818)	-	-
<b>Total net policyholder (assets) / liabilities</b>	<b>(2 428 496)</b>	<b>(1 895 570)</b>	<b>2 177 393</b>	<b>1 817 524</b>

The table below shows the carrying value of policyholder liabilities and the cash surrender value that relate to the respective policies.

<i>Consolidated</i>	CARRYING VALUE		SURRENDER VALUE	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Insurance contracts				
Linked and conventional business	389 750	419 292	324 350	347 749
Other business	(2 814 731)	(2 290 044)	-	-
Reinsurance assets	(3 515)	(24 818)	-	-
Investment contracts	2 177 393	1 817 524	2 076 182	1 709 471
<b>Total policyholder liabilities</b>	<b>(251 103)</b>	<b>(78 046)</b>	<b>2 400 532</b>	<b>2 057 221</b>

*(ii) Liquidity risks arising out of obligations on financial liabilities (excluding policyholder liabilities)*

The table below analyses the settlement value for financial liabilities (excluding policyholder liabilities) differentiating between relevant maturity groupings, based on the remaining period at the end of the reporting period to the contractual maturity date.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Insurance and other payables	508 855	266 779	18 985	25 514
Contractual undiscounted cash flows				
Within 1 year	146 896	122 050	-	-
Open ended	361 959	144 729	18 985	25 514
<b>Total</b>	<b>508 855</b>	<b>266 779</b>	<b>18 985</b>	<b>25 514</b>

**5. RISK MANAGEMENT (continued)****5.4.3 Capital risk management****5.4.3.a Capital management policies and objectives**

The Group's capital management philosophy is:

- To optimise the return on capital within the overarching risk tolerance ranges including all regulatory requirements;
- To ensure a sustainable business and providing shareholders with appropriate returns at an acceptable risk; and
- To ensure that the strategy of the Group can be executed successfully.

The capital management plan also ensure alignment of capital to risks and ensures that the reward is commensurate the risk taken.

**5.4.3.b Capital adequacy requirement**

Assupol Life is required to maintain available capital equivalent to the capital adequacy requirement (CAR), as determined by the Long Term Insurance Act, 1998. This is available to meet obligations in the event of substantial deviations from the main experience assumptions affecting the Group's investment and insurance contract business.

The CAR is determined in accordance with Board Notice 14 (as issued by the Registrar of Long Term Insurance). It is a risk-based capital measure that is intended to provide a 95% confidence level that Assupol Life will be able to meet its existing liabilities.

The CAR includes provisions and scenario tests for a number of risks including:

- adverse selective mass termination of contracts;
- risk that long-term insurance and financial assumptions (such as lapse and withdrawal rates) are not realised;
- financial risk arising from mismatches between assets and liabilities, including specific provision for mismatches between assets backing liabilities in respect of embedded derivatives and the liabilities themselves; and
- fluctuations in experience for mortality, morbidity and expenses.

The CAR is calculated as the greater of the Minimum Capital Adequacy Requirement (MCAR), the Termination Capital Adequacy Requirement (TCAR) and the Ordinary Capital Adequacy Requirement (OCAR). For Assupol Life the TCAR exceeded OCAR and MCAR. The minimum capital requirements must be maintained at all times during the year. The minimum accumulated funds requirement for the life office and the available accumulated funds (qualifying capital) for insurance and investment contract business held are listed below:

	2018	2017
Available qualifying capital (R'm)	1 268.7	1 001.5
Statutory capital adequacy requirement (R'm)	653.6	528.8
CAR coverage ratio	1.94	1.89

The following management actions have been allowed for in the CAR calculation:

- Reducing bonus rates on the with profit business if investment returns deteriorate. It was assumed that bonus rates would be reduced in the event that investment returns would be lower than expected; and
- Increasing group funeral rates in case of adverse claims experience. It was assumed that within three months of any adverse claims experience on group business, Assupol Life would increase premium rates to compensate for the adverse claims experience.

The Board of Directors has approved the implementation of these management actions if adverse experiences necessitate it.

There have been no material changes in the Group's management of capital during the period. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

## 5. RISK MANAGEMENT (continued)

5.4.4 Fair value estimation

The tables below analyse each class of financial instrument and insurance contracts, per category, as well as provide the fair values, where applicable for both the Group and the company.

R'000	Financial assets and liabilities at FVTPL on initial recognition	Financial assets at amortised cost	Financial liabilities at amortised cost	Total carrying amount	Fair value
<b>Consolidated 2018</b>					
Local listed shares	921 399	-	-	921 399	921 399
Unit trusts					
Global	284 307	-	-	284 307	284 307
Debt securities					
Corporate bonds	22 243	-	-	22 243	22 243
Insurance policy	32 810	-	-	32 810	32 810
Unit trust	1 090 548	-	-	1 090 548	1 090 548
Deposits and money market securities	883 773	756 524	-	1 640 297	1 631 261
Insurance receivables	-	12 170	-	12 170 *	12 170
Other receivables	-	50 821	-	50 821 *	50 821
Cash and cash equivalents	-	346 698	-	346 698	346 698
Investment contract liabilities	1 449 596	-	727 797	2 177 393	2 173 253
Deferred revenue liability	511	-	-	511	511
Other payables	-	-	256 991	256 991 *	256 991
<b>Consolidated 2017</b>					
Local listed shares	960 312	-	-	960 312	960 312
Unit trusts					
Global	123 284	-	-	123 284	123 284
Debt securities					
Corporate bonds	31 822	-	-	31 822	31 822
Insurance policy	52 605	-	-	52 605	52 605
Unit trust	770 921	-	-	770 921	770 921
Deposits and money market securities	890 045	515 776	-	1 405 821	1 404 714
Insurance receivables	-	5 160	-	5 160 *	5 160
Other receivables	-	22 718	-	22 718 *	22 718
Cash and cash equivalents	-	304 718	-	304 718	304 718
Investment contract liabilities	1 311 317	-	506 207	1 817 524	1 814 916
Deferred revenue liability	458	-	-	458	458
Other payables	-	-	53 977	53 977 *	53 977

\* For receivables and payables where payment terms are less than 90 days the carrying value approximates fair value. Furthermore policyholder loans are secured by an underlying cash value of the policy on which the loan is granted.

**5. RISK MANAGEMENT (continued)****5.4.4 Fair value estimation (continued)**

R'000	Financial assets and liabilities at FVTPL on initial recognition	Financial assets at amortised cost	Financial liabilities at amortised cost	Total carrying amount	Fair value
<b>Company 2018</b>					
Other receivables	-	863	-	863	863
Cash and cash equivalents	-	37 398	-	37 398	37 398
Other payables	-	-	18 985	18 985	18 985
<b>Company 2017</b>					
Other receivables	-	2 873	-	2 873	2 873
Cash and cash equivalents	-	43 053	-	43 053	43 053
Other payables	-	-	25 514	25 514	25 514

**5.4.5 Fair value hierarchy**

The table below shows the Group's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique on a recurring basis. The Group does not have any held-for-sale financial asset or liabilities subject to non-recurring fair value measurement. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair values of accounts receivable, cash equivalents and accounts payable approximate their carrying values due to their short-term nature and are as a result not measured at fair value nor analysed by valuation technique. Refer notes 22, 23 and 34 for further information on these assets and liabilities.

The measurement at fair value, grouped into levels 1 to 3, is based on the degree to which the fair value is observable.

- Level 1: Valued with reference to quoted prices (unadjusted) in active markets for identical assets or liabilities. The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, additional work is required during the valuation process to obtain assurance that the transaction price provides evidence of the fair value or to determine the adjustments to transaction prices that are necessary.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The valuation techniques and assumptions applied for purposes of measuring fair value of financial assets and liabilities are determined as follows:

For level 1:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

For level 2:

- The fair value of other financial assets and financial liabilities (excluding derivatives) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Observable inputs generally used to measure the fair value of securities classified as level 2 include benchmark yields, reported secondary trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. The specific inputs used are:
  - > Real risk free rate: 2.79%
  - > Nominal risk free rate: 6.51% to 7.24%
  - > Credit spread: 5.30%
- The fair value of derivatives is calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from the market-based credit information and the amount of loss, given the default.

## 5. RISK MANAGEMENT (continued)

## 5.4.5 Fair value hierarchy (continued)

For level 3:

- When classifying fair value measures within level 3 of the valuation hierarchy the determining factors are generally based on the significance of the unobservable factors when compared to the overall fair value measurement. The Group applies various due diligence procedures, as considered appropriate, to validate the underlying information used in the valuations.

R'000	Level 1	Level 2	Level 3	TOTAL
<b>Consolidated 2018</b>				
<u>Financial assets designated as 'at fair value through profit or loss'</u>				
Local listed shares	909 862	-	-	909 862
Derivatives				
Equity options	-	11 537	-	11 537
Bond options	-	247	-	247
Unit trusts				
Global	284 307	-	-	284 307
Debt securities				
Corporate bonds	12 928	9 068	-	21 996
Insurance policy - Global bonds	32 810	-	-	32 810
Unit trusts	-	1 090 548	-	1 090 548
Deposits and money market securities*	653 423	977 838	-	1 631 261
Insurance receivables	-	12 170	-	12 170
Other receivables	-	50 821	-	50 821
<b>Total financial assets</b>	<b>1 893 330</b>	<b>2 152 229</b>	<b>-</b>	<b>4 045 559</b>
<u>Financial liabilities designated as 'at fair value through profit or loss'</u>				
Net investment contract liabilities*	-	2 173 253	-	2 173 253
Other payables	-	256 991	-	256 991
<b>Total financial liabilities</b>	<b>-</b>	<b>2 430 244</b>	<b>-</b>	<b>2 430 244</b>
<b>Consolidated 2017</b>				
<u>Financial assets designated as 'at fair value through profit or loss'</u>				
Local listed shares	774 570	179 231	-	953 801
Derivatives				
Equity options	-	6 511	-	6 511
Bond options	-	850	-	850
Unit trusts				
Global	123 284	-	-	123 284
Debt securities				
Corporate bonds	22 255	8 717	-	30 972
Insurance policy - Global bonds	52 605	-	-	52 605
Unit trusts	-	770 921	-	770 921
Deposits and money market securities*	651 890	752 824	-	1 404 714
Insurance receivables	-	5 160	-	5 160
Other receivables	-	22 718	-	22 718
<b>Total financial assets</b>	<b>1 624 604</b>	<b>1 746 932</b>	<b>-</b>	<b>3 371 536</b>
<u>Financial liabilities designated as 'at fair value through profit or loss'</u>				
Net investment contract liabilities*	-	1 814 916	-	1 814 916
Other payables	-	53 977	-	53 977
<b>Total financial liabilities</b>	<b>-</b>	<b>1 868 893</b>	<b>-</b>	<b>1 868 893</b>

\* Includes financial instruments designated as 'at amortised cost' as the the fair values have been estimated in accordance with note 5.4.4.

**5. RISK MANAGEMENT (continued)****5.4.5 Fair value hierarchy (continued)**

The table below shows the transfer between the various levels.

R'000	From level 1 to level 2	From level 2 to level 1
<b>Consolidated 2018</b>		
Change in validity of quoted prices - Corporate bonds	-	-
<b>Consolidated 2017</b>		
Change in validity of quoted prices - Corporate bonds	8 717	15 612

**5.5 Other risks****5.5.1 Intermediary debt exposure**

It is industry practice to pay intermediaries in advance for business submitted to the insurer after receipt of the first premium. As a result, there is an unvested portion of commission payments which is repayable to the insurer should the individual policies lapse or be cancelled. The cumulative effect of poor quality and low quantities of business could result in the intermediary owing money to the insurer, as the clawbacks exceed the commission earnings. These levels are monitored on a monthly basis by the Credit Control Committee and corrective action can be taken should the need arise. There is a risk of non-recovery of amounts owing to the insurer. For further information, refer note 22 to the financial statements.

**5.5.2 Compliance and regulatory risk**

The financial services industry has undergone several regulatory changes during the past few years. More changes are expected and this could have a significant impact on the range and affordability of products that the Group is able to offer to our lower-income clients.

The Compliance department evaluates and monitors all compliance issues in order to minimise the risk of financial loss or reputational loss as a result of non-compliance. This department provides services to the entire Group and reports to the Risk Committee.

**5.5.3 Expense risk**

The risk is that the actual operating expenses of Assupol Life exceeds those reserved for in the valuation of policyholder liabilities (as recommended by the statutory actuary). The Executive Committee monitors expense and policy volumes on a quarterly basis. The expense budget is controlled through guidelines as set down by the Group's Financial Administration Policy.

## 6. SEGMENT INFORMATION

The Group's operating segments are based on the legal entities within the Group and are categorised according to similar business activities. The chief operating decision maker makes decisions about resource allocation on the performance of an entity and financial information is provided on that basis.

- Life insurance: This operating segment pertains to Assupol Life that provides life insurance and investment solutions to the group's clients.

- Intermediaries: This segment includes the companies in the Group that sells funeral cover to the pensioner market and provides administrative services to other intermediaries.

- Other: This segment consists of the remaining smaller operating entities in the Assupol Group which include the property company as well as companies that are in the process of being wound down.

- Reporting adjustments: The information in the segment report is presented on the same basis as reported to management. Reporting adjustments are those accounting reclassifications and entries that are required to produce IFRS compliant results. These adjustments also include the results of the holding company of the Group as well as the company that holds the investments of all the non-life subsidiaries in the Group.

## 6.1 Segment earnings

	Life insurance R'000	Interme- diaries R'000	Other R'000	Reporting adjustments R'000	Total R'000
<b>For the year ended 30 June 2018</b>					
Net insurance premium revenue	2 699 280	-	-	-	2 699 280
Commission received on outward reinsurance	7 222	-	-	-	7 222
Fee income	66 653	-	-	-	66 653
Investment income and net fair value gains on financial assets	375 483	2 356	526	4 475	382 840
Other income	(571)	-	184	14	(373)
<b>Income</b>	<b>3 148 067</b>	<b>2 356</b>	<b>710</b>	<b>4 489</b>	<b>3 155 622</b>
Net insurance benefits and claims	(752 099)	-	-	-	(752 099)
Commission expenses	(631 277)	-	-	-	(631 277)
Operating and administrative expenses	(963 308)	(289)	(688)	(13 247)	(977 532)
Investment management expenses	(10 790)	-	-	-	(10 790)
Change in insurance contract provisions	532 926	-	-	-	532 926
Fair value adjustments on investment contracts liabilities	(123 475)	-	-	-	(123 475)
<b>Expenses</b>	<b>(1 948 023)</b>	<b>(289)</b>	<b>(688)</b>	<b>(13 247)</b>	<b>(1 962 247)</b>
<b>Result of operating activities</b>	<b>1 200 044</b>	<b>2 067</b>	<b>22</b>	<b>(8 758)</b>	<b>1 193 375</b>
Finance charges	(14 213)	(6)	(2)	-	(14 221)
<b>Profit / (loss) before taxation</b>	<b>1 185 831</b>	<b>2 061</b>	<b>20</b>	<b>(8 758)</b>	<b>1 179 154</b>
Income tax expense	(331 535)	(576)	(46)	(103)	(332 259)
<b>Profit / (loss) for the year</b>	<b>854 296</b>	<b>1 486</b>	<b>(26)</b>	<b>(8 861)</b>	<b>846 895</b>
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income / (loss) for the year</b>	<b>854 296</b>	<b>1 486</b>	<b>(26)</b>	<b>(8 861)</b>	<b>846 895</b>

## 6. SEGMENT INFORMATION (continued)

## 6.1 Segment earnings (continued)

	Life insurance R'000	Interme- diaries R'000	Other R'000	Reporting adjustments R'000	Total R'000
<b>For the year ended 30 June 2017</b>					
Net insurance premium revenue	2 451 801	-	-	-	2 451 801
Commission received on outward reinsurance	11 624	-	-	-	11 624
Fee income	77 842	-	-	-	77 842
Investment income and net fair value gains on financial assets	134 259	1 312	417	2 741	138 729
Other income	368	58 603	2 218	(59 752)	1 437
<b>Income</b>	<b>2 675 894</b>	<b>59 915</b>	<b>2 635</b>	<b>(57 011)</b>	<b>2 681 433</b>
Net insurance benefits and claims	(786 883)	-	-	-	(786 883)
Commission expenses	(587 146)	(8 013)	-	58 607	(536 552)
Operating and administrative expenses	(806 807)	(30 831)	(230)	(3 674)	(841 542)
Investment management expenses	(12 661)	-	-	-	(12 661)
Change in insurance contract provisions	579 107	-	-	-	579 107
Fair value adjustments on: investment contracts liabilities	(19 068)	-	-	-	(19 068)
<b>Expenses</b>	<b>(1 633 458)</b>	<b>(38 844)</b>	<b>(230)</b>	<b>54 934</b>	<b>(1 617 599)</b>
<b>Result of operating activities</b>	<b>1 042 436</b>	<b>21 070</b>	<b>2 405</b>	<b>(2 077)</b>	<b>1 063 834</b>
Finance charges	-	(25)	(0)	(1)	(26)
<b>Profit / (loss) before taxation</b>	<b>1 042 436</b>	<b>21 046</b>	<b>2 405</b>	<b>(2 078)</b>	<b>1 063 808</b>
Income tax expense	(285 908)	(5 694)	(681)	(341)	(292 624)
<b>Profit / (loss) for the year</b>	<b>756 528</b>	<b>15 352</b>	<b>1 724</b>	<b>(2 419)</b>	<b>771 184</b>
Other comprehensive income	-	-	-	(3 647)	(3 647)
<b>Total comprehensive income / (loss) for the year</b>	<b>756 528</b>	<b>15 352</b>	<b>1 724</b>	<b>(6 066)</b>	<b>767 537</b>

## 6. SEGMENT INFORMATION (continued)

## 6.2 Other financial detail per operating segment

	Life insurance R'000	Interme- diaries R'000	Other R'000	Reporting adjustments R'000	Total R'000
<b>For the year ended 30 June 2018</b>					
Financial assets - Investments	3 991 604	-	-	-	3 991 604
Policyholder assets	2 428 496	-	-	-	2 428 496
Total other assets	671 841	51 730	13 437	133 285	870 293
Policyholder liabilities	2 177 393	-	-	-	2 177 393
Total other liabilities	1 381 210	3 177	364	43 985	1 428 736
Additions to non-current assets	227 555	-	-	-	227 555
Depreciation	44 715	-	-	-	44 715
Amortisation of intangible assets	-	-	-	-	-
Impairment of intangible assets	6 782	-	-	-	6 782
<b>For the year ended 30 June 2017</b>					
Financial assets - Investments	3 344 765	-	-	-	3 344 765
Policyholder assets	1 895 570	-	-	-	1 895 570
Total other assets	434 712	57 225	17 685	139 724	649 346
Policyholder liabilities	1 817 524	-	-	-	1 817 524
Total other liabilities	1 007 962	3 730	4 170	111 873	1 127 735
Additions to non-current assets	36 453	1 465	-	-	37 918
Depreciation	13 062	699	-	-	13 760
Amortisation of intangible assets	1 667	-	-	-	1 667
Impairment of intangible assets	10 303	-	-	-	10 303

## 6.3 Segment information from geographical areas

All of the entities in the Group operates within the Republic of South Africa only. No revenue is generated in foreign

## 6.4 Segment information per product classification

The Group has no exposure to a single customer that exceeds 10% of the total customer base. A customer is defined as a single policyholder. The customer base of Assupol Life is illustrated by the type of contracts that the company offers as a percentage of premium.

	2018	2017
Individual insurance business	68.5%	61.2%
Group risk business	31.5%	38.8%
Total	100.0%	100.0%

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>7. NET INSURANCE PREMIUM REVENUE</b>				
Gross individual premiums received				
Recurring premiums	2 069 020	1 718 402	-	-
Gross group scheme and grouped individual premiums received	826 325	932 788	-	-
Gross inward reinsurance premiums received	38 188	38 433	-	-
Outward reinsurance premiums paid	(234 253)	(237 822)	-	-
<b>Total net insurance premium revenue</b>	<b>2 699 280</b>	<b>2 451 801</b>	<b>-</b>	<b>-</b>
<b>8. FEE INCOME</b>				
Investment management fee charges	57 849	68 412	-	-
Surrender charges	8 675	9 282	-	-
Amortisation of deferred revenue	129	148	-	-
<b>Total fee income</b>	<b>66 653</b>	<b>77 842</b>	<b>-</b>	<b>-</b>
<b>9. INVESTMENT INCOME</b>				
At fair value through profit or loss				
Interest received (refer note 21)	153 535	136 121	-	-
Dividends received	16 213	16 342	184 413	165 714
At amortised cost				
Interest received (refer note 21)	64 436	19 344	-	-
Interest received on insurance and other receivables				
Policyholder loans	214	659	-	-
Housing and car loans	754	520	-	-
Cash and cash equivalents	18 294	14 840	3 064	1 338
<b>Total investment income</b>	<b>253 446</b>	<b>187 826</b>	<b>187 477</b>	<b>167 052</b>
<b>10. NET FAIR VALUE GAINS / (LOSSES) ON FINANCIAL ASSETS</b>				
At fair value through profit or loss				
From equity securities				
Local listed shares	68 748	(26 714)	-	-
Global unit trusts	37 001	7 860	-	-
From debt securities				
Local debt securities	19 583	(5 312)	-	-
Global debt securities	1 553	(6 926)	-	-
Structured products	2 509	(18 005)	-	-
<b>Total net fair value gains / (losses) on financial assets</b>	<b>129 394</b>	<b>(49 097)</b>	<b>-</b>	<b>-</b>

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>11. OTHER INCOME</b>				
(Loss) / profit on disposal of property and equipment	(575)	790	-	-
Other	202	647	152	536
<b>Total other income</b>	<b>(373)</b>	<b>1 437</b>	<b>152</b>	<b>536</b>
<b>12. NET INSURANCE BENEFITS AND CLAIMS</b>				
Individual benefits	412 616	317 296	-	-
Death and disability claims	447 717	330 894	-	-
Accident and dread disease claims	13 660	9 262	-	-
Maturities	92 460	97 346	-	-
Surrenders	48 459	56 664	-	-
Inward reinsurance claims	34 963	31 945	-	-
Outward reinsurance recoveries	(224 643)	(208 815)	-	-
Group scheme and grouped individual benefits	339 483	469 587	-	-
<b>Total net insurance benefits and claims</b>	<b>752 099</b>	<b>786 883</b>	<b>-</b>	<b>-</b>
<b>13. COMMISSION EXPENSES</b>				
Insurance contracts				
Commission paid	620 897	528 117	-	-
Investment contracts				
Amortisation of intangible asset (DAC)	10 380	8 435	-	-
<b>Total commission expenses</b>	<b>631 277</b>	<b>536 552</b>	<b>-</b>	<b>-</b>

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>14. OPERATING AND ADMINISTRATIVE EXPENSES</b>				
Office costs	358 551	321 602	545	517
Employee costs	366 310	333 048	-	-
Advertising and promotions	119 111	65 610	-	-
Provision for impairments on receivables	12 671	15 501	-	-
Training and development costs	11 452	8 566	-	-
Share register and trading cost	4 565	4 637	4 565	4 637
Strategic projects	7 379	-	7 379	-
Other	97 493	92 578	3 798	3 822
<b>Total operating and administrative expenses</b>	<b>977 532</b>	<b>841 542</b>	<b>16 287</b>	<b>8 976</b>
Operating and administrative expenses include the following:				
Depreciation on property and equipment	44 715	13 760	-	-
Owned computer equipment	10 117	7 617	-	-
Motor vehicles	4 425	3 436	-	-
Office equipment	3 361	2 707	-	-
Right-to-use asset: Property	26 812	-	-	-
Auditors' remuneration	5 159	5 462	541	510
Audit fees - current year	2 024	2 278	-	-
Audit fees - prior years	3 135	3 184	541	510
Repairs and maintenance	16 735	10 235	-	-
Professional services	23 711	19 947	138	987
Actuarial services	7 347	6 925	-	-
Legal	4 423	3 857	-	683
Information technology	4 936	1 340	-	-
Professional and consulting	7 005	7 825	138	304
Lease rentals - Short term contracts	15 629	27 789	-	-
Office equipment	206	475	-	-
Office buildings	15 423	27 314	-	-
Amortisation of intangible assets (excluding DAC)	-	1 667	-	-
Marketing rights	-	1 667	-	-
Impairment of intangible assets (refer note 19)	6 782	10 303	-	-
Deferred acquisition cost (DAC) <sup>(1)</sup>	6 782	5 303	-	-
Marketing rights	-	5 000	-	-

(1) The impairment of the deferred acquisition cost is effected when any of the underlying contracts where a deferred acquisition cost asset has been recognised become inactive, and no further recovery of the deferred cost is possible.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>14. OPERATING AND ADMINISTRATIVE EXPENSES (continued)</b>				
Employee costs <sup>(1)</sup>	366 310	333 048	-	-
Salaries and wages	246 649	214 861	-	-
Leave pay	1 947	4 030	-	-
Bonus	58 458	63 157	-	-
Pension costs - defined contribution plan	23 935	19 155	-	-
Equity-settled share-based payments:				
Share incentive scheme	200	644	-	-
Deferred bonus	33 276	23 876	-	-
Other share incentive	1 845	4 234	-	-
Cash-settled share-based payments	-	3 091	-	-
Total directors' emoluments <sup>(2)</sup>	58 528	68 839	3 032	2 225
Executive directors (including the prescribed officers)	50 470	62 154	-	-
Non-executive directors	8 058	6 685	3 032	2 225

(1) The number of permanent salaried staff, contract and temporary workers at 30 June 2018 was 813 (30 June 2017: 638).

(2) The emoluments of the executive directors and prescribed officers are included in the employee costs above. All executive directors are eligible for an annual performance bonus. Performance related bonuses are based on the financial performance and indicators of the Group. For more information, refer note 39 and Annexure A to the annual financial statements.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>15. FINANCE CHARGES</b>				
Lease liability (refer notes 3.5, 34 and 38)	(14 213)	-	-	-
Financiers	(8)	(26)	-	(1)
Total interest expense	(14 221)	(26)	-	(1)

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>16. INCOME TAX EXPENSE</b>				
Current tax	(153 015)	(143 426)	265	-
Security transfer tax	(10)	(26)	(10)	(26)
Deferred tax (note 33)	(179 234)	(149 172)	-	-
<b>Total income tax expense - South African normal tax</b>	<b>(332 259)</b>	<b>(292 624)</b>	<b>255</b>	<b>(26)</b>

**Reconciliation of tax rate**

Tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	CONSOLIDATED		COMPANY	
	2018 %	2017 %	2018 %	2017 %
Standard rate of taxation	28.00	28.00	28.00	28.00
Adjusted for:				
Non taxable income	(12.05)	(11.57)	(30.14)	(29.25)
Non deductible expenses	1.84	2.72	2.18	1.27
Capital gains not subject to tax	(0.33)	0.15	-	-
Amounts not credited to profit or loss <sup>(1)</sup>	10.75	8.04	-	-
Overprovision of prior years	(0.34)	0.01	(0.15)	-
Unutilised tax losses	(0.01)	-	(0.04)	-
Non-income generating expenses	0.32	0.16	-	-
<b>Effective tax rate</b>	<b>28.18</b>	<b>27.51</b>	<b>(0.15)</b>	<b>0.02</b>

(1) This adjustment includes transactions relating to investment contracts that are not recognised in profit or loss.

	CONSOLIDATED	
	2018 R'000	2017 R'000
<b>17. GROUP EARNINGS PER SHARE</b>		
Total earnings attributable to ordinary shareholders	846 895	771 184
Effect of restricted share plans	25 431	22 814
<b>Total diluted earnings attributable to ordinary shareholders</b>	<b>872 326</b>	<b>793 998</b>
Weighted average number of shares in issue	366 492	342 891
Effect of restricted share plans	18 164	24 721
Effect of BEE transaction	28 361	28 361
<b>Diluted average number of shares in issue</b>	<b>413 017</b>	<b>395 973</b>
Group earnings per share:		
Basic	2.31	2.25
Diluted	2.11	2.01

The basic earnings per share is the basic earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue, assuming the conversion of all issued shares with dilutive potential.

The shares relating to the restricted share plans and BEE transaction are excluded from the weighted average number of shares in issue as it was either issued at no or little consideration or are subject to recall. It is included in the diluted average number of shares in issue as it is considered that the conditions were satisfied at the end of reporting period assuming that the end of the current reporting period was the end of the contingency period.

<i>Consolidated</i>	<b>Office equipment</b> R'000	<b>Computer equipment</b> R'000	<b>Motor vehicles</b> R'000	<b>Right-of-use asset: Property <sup>(1)</sup></b> R'000	<b>Total</b> R'000
<b>18. PROPERTY AND EQUIPMENT</b>					
<b>For the year ended 30 June 2018</b>					
Net book value at beginning of year	21 143	32 150	14 509	-	67 802
Additions	5 709	13 211	7 037	201 598	227 555
Acquisition of subsidiary	56	129	1 974	-	2 159
Disposals	(915)	(280)	(907)	-	(2 102)
Depreciation charge	(3 361)	(10 117)	(4 425)	(26 812)	(44 715)
Net book value at end of year	22 632	35 093	18 188	174 786	250 699
<b>At 30 June 2018</b>					
Cost	42 122	79 533	29 726	201 598	352 979
Accumulated depreciation	(19 490)	(44 440)	(11 538)	(26 812)	(102 280)
<i>Non-current asset</i>	22 632	35 093	18 188	174 786	250 699
<b>For the year ended 30 June 2017</b>					
Net book value at beginning of year	16 385	14 497	14 007	-	44 889
Additions	7 624	25 352	4 942	-	37 918
Disposals	(159)	(82)	(1 004)	-	(1 245)
Depreciation charge	(2 707)	(7 617)	(3 436)	-	(13 760)
Net book value at end of year	21 143	32 150	14 509	-	67 802
<b>At 30 June 2017</b>					
Cost	38 923	67 318	21 893	-	128 499
Accumulated depreciation	(17 780)	(35 168)	(7 384)	-	(60 697)
<i>Non-current asset</i>	21 143	32 150	14 509	-	67 802

(1) Refer note 38.

<i>Consolidated</i>	Goodwill <sup>(1)</sup> R'000	Deferred acquisition cost (DAC) <sup>(2)</sup> R'000	Marketing rights <sup>(3)</sup> R'000	Trademark and customer relationships <sup>(4)</sup> R'000	Total R'000
<b>19. INTANGIBLE ASSETS</b>					
<b>For the year ended 30 June 2018</b>					
Net carrying amount at beginning of year	75 134	27 622	-	-	102 756
Additions	-	-	-	27 881	27 881
New business	-	24 193	-	-	24 193
Impairment	-	(6 782)	-	-	(6 782)
Amortisation charge	-	(10 380)	-	-	(10 380)
Net carrying amount at end of year	75 134	34 653	-	27 881	137 668
<b>At 30 June 2018</b>					
Cost	85 608	62 237	-	27 881	175 726
Accumulated depreciation	(10 474)	(27 584)	-	-	(38 058)
Net carrying amount at end of year	75 134	34 653	-	27 881	137 668
Non-current asset	75 134	24 489	-	22 305	121 928
Current asset	-	10 164	-	5 576	15 740
<b>For the year ended 30 June 2017</b>					
Net carrying amount at beginning of year	75 134	22 074	6 667	-	103 875
New business	-	19 286	-	-	19 286
Impairment	-	(5 303)	(5 000)	-	(10 303)
Amortisation charge	-	(8 435)	(1 667)	-	(10 102)
Net carrying amount at end of year	75 134	27 622	-	-	102 756
<b>At 30 June 2017</b>					
Cost	85 608	43 682	8 000	-	137 290
Accumulated depreciation	(10 474)	(16 060)	(8 000)	-	(34 534)
Net carrying amount at end of year	75 134	27 622	-	-	102 756
Non-current asset	75 134	19 298	-	-	94 432
Current asset	-	8 324	-	-	8 324

(1) Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the business segment. During the financial year the goodwill that was previously reflected in Cornerstone Brokers, was transferred to Assupol Life as a result of the integration of the business of Cornerstone Brokers into Assupol Life. The recoverable amount of a CGU is determined based on value-in-use calculations which is supported the embedded value in Assupol Life of the Cornerstone policy book. The embedded value is equal to the adjusted net worth of Assupol Life, plus the value of the future profits from the in-force covered business, less the cost of required capital. The risk discount rate used to determine the value of the in-force profits is 12.0% (2017: 11.7%). There are sufficient compulsory margins to support the value of goodwill (refer to the assumptions in note 4).

(2) The impairment relates to policies that have lapsed or have been cancelled during the current and prior years. As the policies are now inactive, the Group will not receive any future fees on the policies. The net value of the impairment is R6.782m (2017: R5.303m).

(3) The intangible asset is the contractual right to utilise and brand mobile kiosks. The amortisation period was set in accordance to the contractual period of 4 years. The intangible asset was fully impaired in the previous financial year as no future economic benefits are envisaged to flow to the entity.

(4) The trademark and customer relationships are an intangible asset which have been separately identified during the acquisition of Top Top Business Consultants (Pty) Ltd. This asset has an estimated life of 5 years and is amortised over that period.

	COMPANY	
	2018 R'000	2017 R'000
<b>20. INVESTMENTS IN SUBSIDIARIES (Unlisted)</b>		
Balance at beginning of year	733 799	701 953
Equity-settled share-based payments		
Share incentive scheme - Assupol Life	200	644
Deferred bonus - Assupol Life	33 277	23 876
Other share incentives - Assupol Life	1 845	4 234
Cash-settled share-based payment liability - Assupol Life (note 31)	-	3 092
<i>Non-current asset</i> - unlisted equity investments	769 121	733 799
Unlisted equity investments, valued at cost, comprise the following:	769 121	733 799
Assupol Life	696 577	661 255
Assupol Investment Holdings	72 544	72 544

For detail of the ownership interest in each subsidiary, refer note 42.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>21. FINANCIAL ASSETS - INVESTMENTS</b>				
<b>At fair value through profit or loss</b>				
Equity securities - quoted and listed	1 205 706	1 083 596	-	-
Local listed shares	921 399	960 312	-	-
Global unit trusts	284 307	123 284	-	-
Total equity securities	1 205 706	1 083 596	-	-
Debt securities - quoted and listed (local) <sup>(1)</sup>	1 112 791	802 743	-	-
Corporate bonds	22 243	31 822	-	-
Unit trusts	1 090 548	770 921	-	-
Insurance policy - Global bonds <sup>(2)</sup>	32 810	52 605	-	-
Total debt securities	1 145 601	855 348	-	-
Deposits and money market securities	883 773	890 045	-	-
Total at fair value through profit or loss	3 235 080	2 828 989	-	-
<b>At amortised cost</b>				
Deposits and money market securities <sup>(3)</sup>	756 524	515 776	-	-
Total at amortised cost	756 524	515 776	-	-
Total financial assets - investments	3 991 604	3 344 765	-	-
<i>Non-current asset</i>				
Debt securities - quoted and listed (local)	21 996	30 877	-	-
Deposits and money market securities	756 524	515 776	-	-
<i>Current asset</i>				
Equity securities - quoted and listed	1 205 706	1 083 596	-	-
Debt securities - quoted and listed (local)	1 123 605	824 471	-	-
Deposits and money market securities	883 773	890 045	-	-

(1) Listed debt securities in this category include floating-rate instruments and other debt securities. Corporate bonds paid a fixed interest rate that varied between 7.67% and 8.81% (2017: 6.37% and 11.57%).

(2) The insurance policy was entered into to obtain global bond exposure as required for certain savings and investments products the Group sells. The policy relates only to the linked liabilities.

(3) These financial assets relate to the guaranteed rate single premium products. The interest rate varied between 8.56% and 10.39% (2017: 8.88% and 10.39%).

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>21. FINANCIAL ASSETS - INVESTMENTS (continued)</b>				
Analysis of movements in financial assets - investments:				
Balance at beginning of year	3 344 765	2 699 605	-	-
Additions				
At fair value through profit or loss	313 272	188 326	-	-
At amortised cost	176 312	496 432	-	-
Disposals at carrying value	(206 323)	(162 308)	-	-
Net fair value gains / (losses)	129 394	(49 097)	-	-
Accrued interest				
At fair value through profit or loss	153 535	136 121	-	-
At amortised cost	64 436	19 344	-	-
Accrued dividends	16 213	16 342	-	-
Balance at end of year	3 991 604	3 344 765	-	-

Contractual maturity profile for financial assets - investments:

<i>Consolidated</i>	Open-ended R'000	0 to 1 year R'000	2 to 5 years R'000	6 to 10 years R'000	> 10 years R'000	TOTAL R'000
<b>30 June 2018</b>						
Equity securities						
Local listed shares	921 399	-	-	-	-	921 399
Local and global unit trusts	284 307	-	-	-	-	284 307
Debt securities						
Corporate bonds						
Fixed rate	-	247	-	-	-	247
Floating rate	-	-	12 928	9 068	-	21 996
Unit trust	1 090 548	-	-	-	-	1 090 548
Insurance policy						
Global bonds	32 810	-	-	-	-	32 810
Deposits and money						
market securities						
Fixed rate	-	230 351	756 524	-	-	986 875
Floating rate	-	6 297	-	-	-	6 297
Unit trust	647 125	-	-	-	-	647 125
<b>Total</b>	<b>2 976 189</b>	<b>236 895</b>	<b>769 452</b>	<b>9 068</b>	<b>-</b>	<b>3 991 604</b>

**30 June 2017**

Equity securities						
Local listed shares	960 312	-	-	-	-	960 312
Local and global unit trusts	123 284	-	-	-	-	123 284
Debt securities						
Corporate bonds						
Fixed rate	-	945	1 185	-	-	2 130
Floating rate	-	-	20 975	8 717	-	29 692
Unit trust	770 921	-	-	-	-	770 921
Insurance policy						
Global bonds	52 605	-	-	-	-	52 605
Deposits and money						
market securities						
Fixed rate	-	238 157	515 776	-	-	753 933
Floating rate	3 254	16	-	-	-	3 270
Unit trust	648 618	-	-	-	-	648 618
<b>Total</b>	<b>2 558 994</b>	<b>239 118</b>	<b>537 936</b>	<b>8 717</b>	<b>-</b>	<b>3 344 765</b>

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>22. INSURANCE AND OTHER RECEIVABLES</b>				
Premiums receivable	26 779	20 143	-	-
Gross premiums outstanding	68 789	49 482	-	-
Provision for impairment	(42 010)	(29 339)	-	-
Sundry insurance receivables	17 648	17 119	-	-
Gross receivables outstanding	77 605	62 949	-	-
Provision for impairment	(59 957)	(45 830)	-	-
Other sundry receivables	27 024	19 147	863	2 873
Reinsurance recoveries	36 302	49 459	-	-
Loans to personnel	12 404	3 571	-	-
Other loans	11 393	-	-	-
Loans to policyholders	647	1 035	-	-
<b>Total insurance and other receivables</b>	<b>132 197</b>	<b>110 474</b>	<b>863</b>	<b>2 873</b>
<i>Non-current asset</i>	8 535	10 898	-	-
<i>Current asset</i>	123 662	99 576	863	2 873
<i>Interest bearing receivables</i>	81 840	54 088	-	-
<i>Provisions</i>	(101 967)	(75 169)	-	-
<i>Non-interest bearing receivables</i>	152 324	131 555	863	2 873
Total insurance and other receivables consist of:				
Insurance receivables	81 376	87 756	-	-
Premiums receivable - insurance contracts	12 256	12 256	-	-
Premiums receivable - other	14 523	7 887	-	-
Sundry insurance receivables	17 648	17 119	-	-
Reinsurance recoveries	36 302	49 459	-	-
Loans to policyholders	3 000	3 762	-	-
Loans to policyholders - Provision for impairment	(2 353)	(2 727)	-	-
Other receivables	50 821	22 718	863	2 873
Other sundry receivables	27 024	19 147	863	2 873
Loans to personnel	12 404	3 571	-	-
Other loans	11 393	-	-	-
<b>Total insurance and other receivables</b>	<b>132 197</b>	<b>110 474</b>	<b>863</b>	<b>2 873</b>
Movements in provision for impairment of premiums receivable:				
Balance at beginning of year	29 339	22 965	-	-
Recognised in profit or loss	12 671	6 374	-	-
<b>Balance at end of year</b>	<b>42 010</b>	<b>29 339</b>	<b>-</b>	<b>-</b>

The provision for impairment of premiums receivable relates to premiums on policies on which the premium in arrears exceeds the cash value less any outstanding policy loan balance.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>22. INSURANCE AND OTHER RECEIVABLES (continued)</b>				
Movements in the provision for impairment of sundry insurance receivables:				
Balance at beginning of year	45 830	36 703	-	-
Recognised in profit or loss	14 127	9 127	-	-
Balance at end of year	59 957	45 830	-	-

The provision for impairment of sundry insurance receivables mainly relates to broker clawback debtors. The debtors are impaired based on an assessment of the recoverability of each debtor, taking into consideration the activity level of each debtor.

Loans to personnel in respect of vehicle finance are provided to the sales managers of Assupol Life. Housing loans and vehicle finance are no longer granted to other staff but the balance still includes outstanding balances of loans previously granted. Loans to personnel are measured at amortised cost. Interest on housing loans is charged at 8.0% per annum. Vehicle finance loans bear interest at the official interest rate in accordance with the Income Tax Act, 58 of 1962.

The granting of loans to policyholders was terminated during the previous financial year. These loans were limited to, and secured by, the underlying value of the unpaid policy benefits. The loans attracted interest at prime rate + 4% for the Assupol Life book and 14.5% fixed rate for the old Prosperity Life book. The directors are satisfied that at initial recognition the value of the loan granted approximates the fair value of the loan, as the loan is guaranteed by the underlying value of the contract. This also reduces credit risk, as the loan is effectively secured. On subsequent recognition, the loans are measured at amortised cost using the effective interest method.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>23. CASH AND CASH EQUIVALENTS</b>				
Bank balances	346 694	304 717	37 398	43 053
Cash on hand	4	1	-	-
Balance at end of year ( <i>Current asset</i> )	346 698	304 718	37 398	43 053

The effective interest rate on all short-term bank accounts during the year was 5.43% (2017: 6.09%) for the Group. All cash balances are available on demand.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>24. NON-CURRENT ASSETS HELD FOR SALE</b>				
Balance at beginning of year	13 570	26 229	-	-
Sold during the year	(13 570)	(12 659)	-	-
Balance at end of year ( <i>Current asset</i> )	-	13 570	-	-
Assets held for sale consist of:				
Owner-occupied properties	-	13 167	-	-
Equipment (note 18)	-	403	-	-
Balance at end of year	-	13 570	-	-

The properties on Erf 26 and Erf 34, Menlo Park, Pretoria, were sold in July 2016 and April 2018 respectively.

**25. SHARE CAPITAL (Consolidated and company)***Authorised share capital*

5 500 000 000 ordinary shares with a par value of R0.001 each  
 200 000 000 'A' ordinary redeemable no par value shares  
 200 'A' preference no par value shares  
 100 000 000 'B' no par value shares

*Rights, preferences and restrictions attached to classes of shares***Ordinary shares**

Holders of ordinary shares have the right to participate and vote on any matter at any meeting of the shareholders. Furthermore shareholders have a right to receive a distribution if declared by the company, and a right to a portion of the remaining total net assets in the case of liquidation.

**'A' ordinary redeemable no par value shares**

These shares are issued at an issue price determined by the Board of Directors. This class of shares has been created to allow the company to implement BEE structures that can be funded partially or in whole by way of a notional funding mechanism. The shares are subject to a directors' determination regarding certain matters, including the interest rate that will accrue in respect of the outstanding notional balance from time to time, as well as the notional price at which the share are issued.

Holders of Class A ordinary shares have the right to vote on any matter that the ordinary shareholders are entitled to vote. Refer note 28 for the directors' determination in respect of these shares.

These shares are only redeemable if a material breach occurs prior to the notional date or if there is an outstanding notional amount after the notional date.

**'A' preference no par value shares**

This class of shares was authorised without specifying associated preferences, rights, limitations or other terms. The Board of Directors determines the associated terms before shares are issued.

**'B' no par value shares**

'B' shares were authorised without specifying associated preferences, rights, limitations or other terms. The Board of Directors determines the associated terms before shares are issued subject to the prior written approval of the main shareholders. 'B' shares can be designated upon issue as 'B1' and so forth.

*Issued share capital*

	Number of shares '000	Shares R'000	Share premium R'000	Total R'000
<b>Ordinary shares</b>				
Balance at beginning of year	411 517	30 367	542 598	572 965
Repurchase and cancellation of ordinary shares	(362)	-	-	-
Adjustment of redemption of preference shares	-	-	888	888
Balance at 30 June 2018	411 155	30 367	543 486	573 853
<b>'B' no par value shares</b>				
Balance at 30 June 2017	4 820	28 843	-	28 843
Balance at 30 June 2018	4 820	28 843	-	28 843
<b>'B1' no par value shares</b>				
Issued during the year	6 000	36 742	-	36 742
Balance at 30 June 2018	6 000	36 742	-	36 742

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>26. TREASURY SHARES (other than share-based payments)</b>				
Balance at beginning of year	(10 329)	-	-	-
Shares acquired by Assupol Investment Holdings	(198)	(10 329)	-	-
Shares sold by Assupol Investment Holdings	8 022	-	-	-
Balance at end of year	(2 505)	(10 329)	-	-
<b>27. SHARE-BASED PAYMENTS</b>				
<b>A. Treasury shares<sup>(1)</sup></b>				
<i>Share incentive scheme</i>	(16)	(24)	(16)	(24)
Balance at beginning of year	(24)	(30)	(24)	(30)
Share incentive options exercised	8	6	8	6
<i>Deferred bonus</i>	(65 585)	(28 843)	(65 585)	(28 843)
Balance at beginning of year	(28 843)	-	(28 843)	-
'B' shares issued during the year	(36 742)	(28 843)	(36 742)	(28 843)
Balance at end of year - Unvested shares	(65 601)	(28 867)	(65 601)	(28 867)
<b>B. Employee benefits reserve<sup>(2)</sup></b>				
<i>Share incentive scheme</i>	31 168	30 976	31 168	30 976
Balance at beginning of year	30 976	30 338	30 976	30 338
Cost of share incentive scheme	200	644	200	644
Options exercised	(8)	(6)	(8)	(6)
<i>Deferred bonus</i>	72 571	39 294	72 571	39 294
Balance at beginning of year	39 294	15 418	39 294	15 418
Cost of deferred bonus scheme	33 277	23 876	33 277	23 876
<i>Other share incentives</i>	63 746	4 234	63 746	4 234
Balance at beginning of year	4 234	-	4 234	-
Cost of share incentives	1 845	4 234	1 845	4 234
Transfer from employee benefit liability (refer note 31)	57 667	-	57 667	-
Balance at end of year - Employee benefits reserve	167 485	74 504	167 485	74 504

(1) The treasury shares represent the unvested ordinary shares in terms of share-based payments as described below. These shares are held on behalf of the employees until the restrictions are lifted.

(2) The employee benefits reserve consists of the cumulative share-based payment expenses of any unvested shares and share options that are granted to staff of the Assupol Group.

**27. SHARE-BASED PAYMENTS (continued)**

Details of the share-based transactions in the company are provided below:

**i. Share incentive scheme (Equity-settled)**

Qualifying employees were given an option to subscribe to ordinary shares that were allotted to the Assupol Share Incentive Trust. The share options were allocated based on a court-approved formula determined during demutualisation. In terms of the trust deed the right to received dividends and other distributions from the company will be suspended as long as such shares remain shares of the Assupol Share Incentive Trust.

	Number of shares issued '000	Number of options allocated '000
Options outstanding at 30 June 2016	22 923	17 282
Net options exercised	(6 148)	(6 533)
Shares transferred as deferred bonus shares	(5 339)	-
Options outstanding at 30 June 2017	11 435	10 749
Net options exercised	(8 159)	(8 480)
Shares transferred as deferred bonus shares and for other purposes	(745)	-
Options outstanding at 30 June 2018	2 531	2 269

*Information on options granted*

Type of arrangement                      Share incentive scheme  
Vesting conditions                      Vesting in 3 tranches over 3, 4 and 5 years, should the employee not resign or be dismissed

The options were granted at different dates, namely:

Grant date	Contractual life	Number of shares issued '000	Options allocated '000	Fair value of options granted	Options exercised '000	Remaining options '000
31 December 2010	10 years	54 548	54 548	R1.58	54 386	162
31 October 2011	10 years	8 243	8 243	R1.88	8 243	-
16 August 2012	10 years	15 039	5 765	R2.06	5 765	-
14 February 2014	10 years	n/a	1 800	R2.97	1 000	800

*Fair value of options granted*

In terms of the demutualisation, an independent valuator was required to determine the fair market value of the shares to be issued to the Assupol Share Incentive Trust. The primary valuation methodology used was the 'Embedded Value' methodology and adjustments for risk factors specific to the Group were made.

The options that have vested and that can be exercised are calculated in terms of the formula in the Share Incentive Scheme Trust Deed. The taxable value of the shares transferred to the shareholders is equal to the 90-day volume-weighted average price (VWAP) of the shares trades on the exchange.

**27. SHARE-BASED PAYMENTS (continued)****ii. Deferred bonus scheme (Equity-settled)**

The executive directors and senior management participate in a bonus structure that consists of a cash and deferred component. The bonus is determined by the Remuneration Committee in terms of the agreed bonus structure. The deferred component is issued in ordinary shares ('bonus shares') in the company at the date when the bonus is determined and awarded to the employee. The right to trade the bonus shares is restricted for a period of 3 years.

*Arrangement in respect of the 2014 and 2015 financial years*

The economic benefits of the bonus shares issued, including the receipt of dividends, accrued to the beneficiaries. The proceeds of any dividends are paid to the shareholders who in turn are required to acquire additional shares ('dividend shares') from the proceeds. The right to trade in the dividend shares is restricted for the same period as the related bonus shares. The deferred bonus of the 2014 financial year vested during the financial year.

*Arrangement in respect of the 2016 and subsequent financial years*

'B' shares are issued as bonus shares and the economic benefits of these shares, including the receipt of dividends, are restricted. A new block of shares is issued for a specific financial year, e.g. 'B' shares in 2016 and 'B1' shares in 2017. These bonus shares will convert to ordinary shares after the restricted period. The affected employees will receive a cash bonus from their employer at the end of the restricted period where the value of the bonus will equal the total value of dividends declared on ordinary shares during the restricted period.

In accordance with the accounting policy (refer notes 2.21 and 2.24) the cost of the deferred component is recognised over the period of restriction.

*Analysis of movement in deferred bonus component*

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Balance at beginning of year	(72 054)	(63 593)	-	-
New allocation	(41 048)	(32 508)	-	-
Adjustment to prior year allocation	(4 018)	171	-	-
Recognised in profit or loss	33 277	23 876	-	-
Balance at end of year	(83 843)	(72 054)	-	-

*Information on share allocations granted*

The allocations were granted annually when the annual financial statements of the preceding financial year are approved by the Board.

Grant date	Value of deferred bonus R'000	Number of shares allocated '000	'Dividend shares' allocated '000	Recognised in profit or loss	
				Total to date '000	Future recognition '000
30 September 2014	8 756	2 384	844	8 756	-
22 September 2015	41 241	5 366	1 017	37 804	3 437
27 September 2016	28 843	4 820	-	16 825	12 018
15 September 2017	36 526	6 000	-	9 186	27 340
14 September 2018	41 048	4 324	-	-	41 048
Balance at end of year					83 843

*Fair value of share allocations granted*

At date of allocation the fair value of the shares was determined as the 30-day volume-weighted average price (VWAP) of the share trades on the exchange.

**iii. Shares of the executive directors (Cash-settled)**

The company issued 10 000 000 shares to the executive directors and a prescribed officer in terms of their employment- and restraint of trade agreements. The agreements commenced with effect from 1 July 2012. The directors and officer became entitled to the shares on 30 June 2017.

**27. SHARE-BASED PAYMENTS (continued)****iii. Shares of the executive directors (Cash-settled) (continued)**

The agreements provided for a liquidity put option against the company. The put option terminated ten business days after 30 June 2017. A director / officer was entitled to request the company to purchase the director's / officer's incentive shares at a price equal to the market value of those shares. The market value of those shares was determined as the most recent available valuation per share as required in the Assupol Share Incentive Trust deed, namely the 30-day volume-weighted average price (VWAP) of the share trades on the company's trading platform. The liability that related to these put options was transferred to the employee benefit reserve when the liability was extinguished (refer note 31).

**iv. Other share incentives (Equity-settled)**

The company issued shares to prescribed officers in terms of their employment- and restraint of trade agreements. The officers are not entitled to pledge, cede or dispose of the incentive shares unless they have become unrestricted. The officers became entitled to all the economic benefits and rights, including dividends, at the date of issue. Should their agreements terminate prior to the expiry their employment agreements, various terms and conditions will apply to the officers' entitlement on unrestricted and restricted shares at that date.

*Information on share allocations granted*

The share allocations were granted when the employment agreements of the specific prescribed officers were concluded.

Grant date	Vesting conditions	Contractual life	Number of shares
1 September 2015	25% of the shares vest annually from 1 September 2017	5 years	1 000 000
1 January 2017	33% of the shares vest annually from 1 January 2020	5 years	260 290

*Fair value of share allocations granted*

At date of allocation the fair value of the shares was determined as the 30-day volume-weighted average price (VWAP) of the share trades on the exchange.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>28. BLACK ECONOMIC EMPOWERMENT RESERVE</b>				
Balance at beginning and end of year	14 300	14 300	14 300	14 300

On 15 October 2012 the company concluded a Broad-Based Black Economic Empowerment transaction with WDB Investment Holdings Proprietary Limited, the investment arm of the WDB Group. The transaction resulted in WDB Investment Holdings acquiring a 10% shareholding in Assupol Holdings.

The agreement determined that 12 629 424 'A1' ordinary shares be issued at R2.35 per share with no notional amount and 31 573 561 'A2' ordinary shares be issued at R0.01 each with a notional amount of R3.17 per share.

In terms of the agreement the commitment date of the 'A1' ordinary shares was on 17 October 2017 (notional date) where after the shares rank *pari passu* with ordinary shares in all respects.

The rights, preferences and restrictions attached to the 'A2' shares are:

Notional amount per share:	R3.17
Price per share:	R0.01
Notional rate:	80% of prime rate
Notional date:	17 October 2019
Commitment date:	17 October 2019
Transfer restrictions:	Non-transferable until the commitment date

The agreement includes a subscription option whereby WDB Investment Holdings can subscribe to new A shares with a Rnil notional amount at any time after 17 October 2017. The number of option shares shall be equal to the number of 'A2' shares held on the date of exercise. Partial exercise is permitted. The subscription price per option share shall be equal to the notional outstandings per 'A2' share on that date.

The value of the option per share was determined at R0.4536 per share. The call option was recognised during the 2013 financial year as a once-off BEE expense of R14 300 000 in the financial statements of the Group and of Assupol Life.

An 'A2' share will not be entitled to participated in any dividends declared by the company until the notional loan is settled in full.

In terms of the agreement WDB Investment Holdings undertook that there shall be no change in control or transfer / cession of the relevant shares during the restricted period. If a material breach occurs, Assupol shall have the right to redeem the number of 'A' shares (as calculated in the manner set out in the agreement) up until the commitment date of an 'A' share.

	CONSOLIDATED		COMPANY	
	2018	2017	2018	2017
	R'000	Restated R'000	R'000	R'000
<b>29. POLICYHOLDER (ASSETS) / LIABILITIES UNDER INSURANCE CONTRACTS</b>				
<b>Insurance contracts</b>				
<i>Discounted liabilities</i>	(2 505 351)	(1 948 243)	-	-
Balance at beginning of year	(1 948 242)	(1 324 179)	-	-
Opening modelling adjustments	(108 121)	(18 000)	-	-
Expected interest on insurance liabilities	(141 647)	(91 103)	-	-
Expected premiums on insurance liabilities	2 053 434	1 497 783	-	-
Expected claims, expiries and lapses	(736 768)	(427 562)	-	-
Expected expenses, commission and charges	(400 837)	(371 997)	-	-
Expected profits	(320 684)	(229 199)	-	-
Additional unit linked returns (policyholders)	(19 396)	(22 307)	-	-
Experience variations	12 340	(13 099)	-	-
Changes in estimates (renewal business only)	(62 162)	(257 466)	-	-
New business added during the year	(833 268)	(691 114)	-	-
<i>Undiscounted liabilities</i>	80 370	77 492	-	-
Balance at beginning of year	77 492	92 183	-	-
Withdrawals during the year	2 343	(16 391)	-	-
New business added during the year	3 835	4 143	-	-
Changes in estimates (renewal business only)	(140)	(9)	-	-
Elimination of negative Bonus Stabilisation Reserve	-	(2 434)	-	-
Modelling changes	(3 160)	-	-	-
<b>Total insurance contracts</b>	<b>(2 424 981)</b>	<b>(1 870 751)</b>	<b>-</b>	<b>-</b>
<b>Reinsurance contracts</b>				
<i>Discounted liabilities</i>	(3 515)	(24 819)	-	-
Balance at beginning of year	(24 819)	(84 467)	-	-
Opening modelling adjustments	17 583	127	-	-
Expected amortisation on liabilities	3 406	1 093	-	-
Changes in estimates (renewal business only)	988	63 824	-	-
New business added during the year	(673)	(5 396)	-	-
<b>Total reinsurance assets</b>	<b>(3 515)</b>	<b>(24 819)</b>	<b>-</b>	<b>-</b>
<b>Total insurance (assets) / liabilities</b>	<b>(2 428 496)</b>	<b>(1 895 570)</b>	<b>-</b>	<b>-</b>
<b>Reconciliation of total insurance (assets) liabilities:</b>				
Balance at beginning of year	(1 895 570)	(1 316 463)	-	-
Recognised in statement of comprehensive income	(532 926)	(579 107)	-	-
<b>Balance at end of year</b>	<b>(2 428 496)</b>	<b>(1 895 570)</b>	<b>-</b>	<b>-</b>
<i>Non-current (asset) / liability</i>	(2 534 602)	(1 998 690)	-	-
<i>Current (asset) / liability</i>	106 106	103 120	-	-
<b>Maturity profile - Insurance contract liabilities</b>				
	0 to 1 year R'000	2 to 5 years R'000	> 5 years R'000	TOTAL R'000
Consolidated - 30 June 2018	106 106	144 398	(2 679 000)	(2 428 496)
Consolidated - 30 June 2017	103 120	150 444	(2 149 134)	(1 895 570)

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>30. POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS</b>				
Balance at beginning of year	1 817 524	1 298 259	-	-
Premiums received	510 666	808 176	-	-
Interest accrued to policyholders	53 836	17 506	-	-
Payments of death, surrender and other terminations	(261 583)	(247 791)	-	-
Fees deducted from account balances	(66 524)	(77 694)	-	-
Fair value adjustment to liabilities	123 474	19 068	-	-
<b>Balance at end of year</b>	<b>2 177 393</b>	<b>1 817 524</b>	<b>-</b>	<b>-</b>
At fair value through profit or loss	1 449 596	1 311 317	-	-
At amortised cost	727 797	506 207	-	-
<b>Balance at end of year</b>	<b>2 177 393</b>	<b>1 817 524</b>	<b>-</b>	<b>-</b>
<i>Non-current liability</i>	2 058 943	1 704 450	-	-
<i>Current liability</i>	118 450	113 074	-	-
<i>Maturity profile - Investment contract liabilities</i>	0 to 1 year R'000	2 to 5 years R'000	> 5 years R'000	TOTAL R'000
Consolidated - 30 June 2018	118 450	1 101 727	957 216	2 177 393
Consolidated - 30 June 2017	113 074	839 148	865 302	1 817 524

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>31. EMPLOYEE BENEFITS</b>				
Accrual for leave pay	14 242	13 032	-	-
Balance at beginning of year	13 032	10 194	-	-
Utilised during the year	(737)	(1 192)	-	-
Recognised in profit or loss	1 947	4 030	-	-
Provision for bonuses	65 259	62 817	-	-
Balance at beginning of year	62 817	42 840	-	-
Utilised during the year	(56 016)	(43 180)	-	-
Recognised in profit or loss Cash bonus component	58 458	63 157	-	-
Cash-settled share-based payment liability (Refer note 27)	-	57 667	-	57 667
Balance at beginning of year	57 667	54 575	57 667	54 575
Transfer to employee benefit reserve <sup>(1)</sup>	(57 667)	-	(57 667)	-
Recognised in profit or loss	-	3 092	-	3 092
<b>Total employee benefits</b>	<b>79 501</b>	<b>133 516</b>	<b>-</b>	<b>57 667</b>
<i>Non-current liability</i>	-	57 667	-	57 667
<i>Current liability</i>	79 501	75 849	-	-

(1) The cash-settled share-based payment liability related to a put option that terminated 10 working days after 30 June 2017. Refer note 27. The liability was extinguished and transferred to the employee benefit reserve.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>32. DEFERRED REVENUE LIABILITY</b>				
Balance at beginning of year	458	346	-	-
Deferred revenue relating to new business	182	260	-	-
Amortisation of deferred revenue	(129)	(148)	-	-
Balance at end of year	511	458	-	-
<i>Non-current liability</i>	661	321	-	-
<i>Current liability</i>	(150)	137	-	-

The deferred revenue liability is up-front fees received from investment policyholders as a prepayment for asset management and related services. These amounts are non-refundable, and are released to income as the services are rendered.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>33. DEFERRED TAX ASSET / (LIABILITY)</b>				
Deferred income taxes are calculated on all temporary differences under the liability method, using applicable tax rates.				
Balance at beginning of year	(662 687)	(513 514)	-	-
Movements during year attributable to:	(177 182)	(149 173)	-	-
Temporary differences				
Deferred acquisition costs	(1 953)	(1 523)	-	-
Other timing differences	165	(16)	-	-
Unrealised gains	(4 388)	4 796	-	-
Capital loss carried forward	(228)	2 475	-	-
Policyholder liabilities difference between statutory and accounting basis	(170 778)	(154 905)	-	-
Special transfer credit	-	-	-	-
Balance at end of year	(839 869)	(662 687)	-	-
The deferred tax balance consists of the following:				
Temporary differences				
Deferred acquisition costs	(11 776)	(9 823)	-	-
Other timing differences	2 334	2 169	-	-
Unrealised gains	(18 318)	(13 930)	-	-
Capital loss carried forward	4 600	4 828	-	-
Policyholder liabilities difference between statutory and accounting basis	(859 738)	(688 960)	-	-
Assessed loss	43 029	43 029	-	-
<i>Non-current liability</i>	(839 869)	(662 687)	-	-
The offset amounts are: <sup>(1)</sup>				
Deferred tax assets	49 963	50 026	-	-
Deferred tax liabilities	(889 832)	(712 713)	-	-

(1) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets of R43m (2017: R43m) have been recognised by the company. This amount is only a portion of the total assessed loss available for utilisation. Additional deferred tax assets have not been raised on a further assessed loss of R1 831m (2017: R1 819m) as profits to recover these losses is not considered to be probable.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>34. INSURANCE AND OTHER PAYABLES</b>				
Accounts payable	67 029	53 977	14 945	9 284
Lease liabilities (refer note 38)	189 962	-	-	-
Sundry insurance payables	104 968	90 752	-	-
Outstanding claims and benefits payable				
On insurance contracts	116 321	92 698	-	-
On investment contracts	16 686	16 994	-	-
Premiums received in advance	13 889	12 358	-	-
Amounts due to subsidiaries	-	-	4 040	16 230
<b>Total insurance and other payables</b>	<b>508 855</b>	<b>266 779</b>	<b>18 985</b>	<b>25 514</b>
<i>Non-current liability</i>	240 471	-	-	-
<i>Current liability</i>	268 384	266 779	18 985	25 514
Insurance and other payables consist of:				
Insurance payables	251 864	212 802	-	-
Sundry insurance payables	104 968	90 752	-	-
Outstanding claims and benefits payable:				
- Insurance contracts	116 321	92 698	-	-
- Other	16 686	16 994	-	-
Premiums received in advance	13 889	12 358	-	-
Other payables	256 991	53 977	18 985	25 514
Accounts payable	67 029	53 977	14 945	9 284
Lease liability	189 962	-	-	-
Amounts due to subsidiaries <sup>(1)</sup>	-	-	4 040	16 230
<b>Total insurance and other payables</b>	<b>508 855</b>	<b>266 779</b>	<b>18 985</b>	<b>25 514</b>

(1) The short term loan due to Assupol Life amounts to R4.0million (2017: R16.2million), and is unsecured. It is repayable on demand and bears no interest.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>35. CURRENT TAXATION</b>				
Balance at beginning of year	(14 269)	10 613	71	(23)
Transferred (from) / to statement of comprehensive income	(153 025)	(143 452)	255	(26)
Taxation paid during the year (note 37)	170 325	118 570	36	120
<b>Total current taxation</b>	<b>3 031</b>	<b>(14 269)</b>	<b>362</b>	<b>71</b>

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>36. CASH GENERATED FROM OPERATIONS</b>				
Reconciliation of profit before tax to cash generated from operations:				
Profit before taxation	1 179 154	1 063 808	171 342	158 611
Movement in policyholder assets / liabilities:	(173 057)	(59 842)	-	-
Insurance contracts (note 29)	(532 926)	(579 107)	-	-
Investment contracts (note 30)	359 869	519 265	-	-
Items disclosed separately:	(198 800)	(187 482)	(187 477)	(167 051)
Interest received (note 9)	(172 797)	(152 140)	(3 064)	(1 338)
Dividends received (note 9)	(16 213)	(16 342)	(184 413)	(165 714)
Finance charges (note 15)	14 221	26	-	1
Deferred acquisition cost on new business (note 19)	(24 193)	(19 286)	-	-
Fee income deferred on new business (note 32)	182	260	-	-
Non-cash items:	(32 287)	111 078	1 750	-
Net fair value (gains)/losses on financial assets (note 10)	(129 394)	49 097	-	-
Depreciation of property and equipment (note 14)	44 715	13 760	-	-
Loss/(profit) on sale of property and equipment (note 11)	575	(790)	-	-
Amortisation of intangible assets (note 19)	10 380	10 102	-	-
Impairment of intangible assets (note 19)	6 782	10 303	-	-
Adjustment of redemption of preference shares	1 750	-	1 750	-
Amortisation of deferred revenue liability (note 32)	(129)	(148)	-	-
Deferred tax on property and held for sale	(2 287)	-	-	-
Share based payments	35 321	28 754	-	-
Changes in working capital:	9 496	11 721	(4 519)	8 812
Insurance and other trade receivables (note 22)	(21 698)	(9 256)	2 010	(2 485)
Employee benefits (note 31 )	3 652	25 907	-	-
Insurance and other payables (note 34)	27 542	(4 930)	(6 529)	11 297
Cash generated from operations	784 506	939 283	(18 904)	372
<b>37. TAXATION PAID</b>				
Total current tax	(170 325)	(118 570)	(26)	(94)
Receivable at beginning of the year	(14 269)	10 613	71	(23)
Recognised in profit or loss	(153 025)	(143 452)	265	-
(Receivable) / payable at end of the year	(3 031)	14 269	(362)	(71)
Security transfer tax	-	-	(10)	(26)
Recognised in profit or loss	-	-	(10)	(26)
Total taxation paid	(170 325)	(118 570)	(36)	(120)

**38. CHANGES IN ACCOUNTING POLICIES**

The impact of the adoption of IFRS 15 - Revenue from contracts with customers and IFRS 16 - Leases on the Group's annual financial statements is explained in this note.

**IFRS 15 - Revenue from contracts with customers**

The Group adopted IFRS 15 from 1 July 2017. In accordance with the transition provisions in the standard the Group has adopted the new rules prospectively and has not restated comparatives for the previous financial year.

The standard applies to the following revenue streams that are categorised as fee income in note 8.

- Investment management fee charges;
- Surrender charges; and
- Amortisation of Deferred revenue.

The adoption of the standard had no impact on the recognition or disclosure of fee income.

**IFRS 16 - Leases**

The Group adopted the standard prospectively from 1 July 2017. The comparatives were not restated as permitted under in the transition provisions of the standard.

With the adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2017.

The incremental borrowing rate applied to the lease liabilities on 1 July 2018 ranged between 7.03% and 9.27%.

The lease liability recognised as at 1 July 2017 is included under other payables (note 34) to an amount of R201.6 million. The associated right-of-use assets for property leases were measured on a prospective basis at an amount equal to the lease liability. The value as at 1 July 2017 is included in note 18.

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted in the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2017 as short-term leases.
- It was assumed that all leases that were previously classified under IAS17 are leases in terms of IFRS16.

A reconciliation between the operating lease commitments under IAS17 and lease liability under IFRS16 is as follows:

	<b>2018</b> <b>R'000</b>
Operating lease commitments disclosed as at 1 July 2017	284 903
Operating lease commitments discounted using incremental borrowing rate	212 512
Short-term leases recognised as an expense	(1 658)
VAT not capitalised in the IFRS16 liability	(9 256)
Lease liability recognised as at 1 July 2017	201 598

**39. RELATED PARTY TRANSACTIONS****Related parties defined**

All subsidiaries in the Assupol Group, their key management (including immediate family members as defined in IAS 24), as well as entities that have a significant influence over the Group, are deemed related parties.

**Key management**

No salaries for key management of the subsidiaries are paid by the holding company. Assupol Life pays the salaries of key management of Assupol Holdings Limited. Key management is defined as executive and non-executive directors of any subsidiary in the Group.

The directors of the companies in the Group declared that they did not have any material interest in any contract signed by the Group during the year.

Information pertaining to the remuneration, directors fees and securities held by directors and prescribed officers are disclosed in Annexure A to the financial statements.

## 39. RELATED PARTY TRANSACTIONS (continued)

	CONSOLIDATED	
	2018 R'000	2017 R'000
<b>Loans to key management (included in note 22)</b>		
Balance at end of year	8 854	-
Loans advanced during the year	8 333	-
Interest charged	521	-

Assupol Life granted a loan to an executive director for the purchase of shares in Assupol Holdings. This was approved as required by the Companies Act, no 71 of 2008, and the Long Term Insurance Act, no 52 of 1998. The loan bears interest at the official prime rate of interest levied by the bankers of Assupol Life, and is repayable over 5 years. The Group has sufficient security over this loan.

	CONSOLIDATED	
	2018 R'000	2017 R'000
<b>Aggregate details of contracts between the Group and key management</b>		
<u>Insurance contracts</u>		
Aggregate insured cover	3 842	3 821
Premiums received	89	78
Claims paid	(18)	-
Surrender value	55	46
<u>Investment contracts</u>	655	665
Fund value at beginning of year	665	702
Premiums received	51	50
New (resignations) / contracts	(85)	25
Investment returns credited net of charges	24	(101)
Commission and other transaction fees	-	(11)
Surrender value	655	695

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<b>Balances with related parties</b>				
Total amounts due to subsidiaries as detailed in note 34				
<i>Operational account with Assupol Life</i>	-	-	(4 040)	(16 230)
Balance at beginning of year	-	-	(16 230)	(786)
Repayments	-	-	(31 184)	(31 184)
Transactions funded during the year	-	-	43 374	15 740
Shareholding in Assupol Holdings (note 26)				
Assupol Investment Holdings (Pty) Ltd	2 505	10 329	-	-

**40. BUSINESS COMBINATION**

On 30 June 2018, the Group acquired 100% of the issued share capital of Top Top Business Consultants, a financial services provider registered in terms of the Financial Advisory and Intermediary Services Act, for a total consideration of R34.3 million. As a result of the acquisition the Group expanded its financial service distribution offerings in an effort to diversify its income stream.

As the business was acquired on 30 June 2018, it contributed no revenues or net profit to the Group for the current financial year. If the acquisition had occurred on 1 July 2017, the increase in group profit (before the elimination of group transactions) would have been R1.8 million and group revenue R25.0 million. These amounts have been calculated by pro-rating eight months of the company's audited financial results for its financial year ending 28 February 2017 and adding the four month's audited financial results for the period ending 30 June 2018. No adjustments in terms of the group accounting policies were necessary.

Details of the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	R'000
Total consideration consist of:	
Initial purchase consideration on closing date	10 000
Second payment on first anniversary of effective date	5 000
Third payment on second anniversary of effective date at present value	3 834
Additional contingent consideration at present value	15 415
	<u>34 249</u>

The additional contingent consideration is dependent on the future income performance in respect of business resulting directly from the business combination.

	R'000
Identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	4 124
Property and equipment	2 159
Current tax receivable	579
Trade and other receivables	25
Trade and other payables	(520)
	<u>6 367</u>

The following table summarises the purchase price allocation for Top Top Business Consultants and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	R'000
Total consideration	34 249
Less identifiable net assets	(6 367)
Less: Value of Trademark and customer relationships	(27 882)
Goodwill	<u>-</u>

The value of trademark and customer relationships was recognised as as intangible assets at fair value (refer note 19).

**41. COMMITMENTS***Lease commitments*

The Group leases property under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure is recognised in profit or loss (refer note 14).

The future minimum lease payments under non-cancellable leases are set out in the table below.

	CONSOLIDATED		COMPANY	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
<i>Property</i>				
• Due in 1 year or less	29 170	28 032	-	-
• Due between 1 and 5 years	139 119	108 319	-	-
• Due after 5 years	88 283	148 552	-	-
<b>Total</b>	<b>256 572</b>	<b>284 903</b>	<b>-</b>	<b>-</b>

**42. INTERESTS IN SUBSIDIARIES**

Subsidiary name	Issued share capital R'000	Effective holdings		Interest of holding company	
		2018 %	2017 %	2018 R'000	2017 R'000
<i>Subsidiaries of Assupol Holdings Limited</i>					
Assupol Life Limited <sup>(1)</sup>	490 019	100%	100%	696 577	621 961
Assupol Investment Holdings Proprietary Limited <sup>(2)</sup>	70 431	100%	100%	72 544	72 544
<i>Subsidiaries of Assupol Investment Holdings</i>					
Cornerstone Brokers Corporate Proprietary Limited <sup>(3)</sup>	9 273	100%	100%	40 805	40 800
Erf 26 Menlopark Share Block Proprietary Limited <sup>(4)</sup>	-	-	100%	-	1 019
Siebador Sewentien Proprietary Limited <sup>(4)</sup>	1	100%	100%	4 525	4 525
Top Top Business Consultants Proprietary Limited <sup>(5)</sup>	1 000	100%	0%	34 249	-
<i>Other consolidated entities</i>					
Assupol Share Incentive Trust <sup>(6)</sup>	Trust	-	-	-	-

The subsidiaries are unlisted and incorporated in South Africa. Transactions between subsidiaries are listed in note 39 to the annual financial statements.

*Nature of business*

- (1) A registered long term insurer in terms of the Long Term Insurance Act, 52 of 1998.
- (2) An investment holding company that holds the investments in all of the non-life subsidiaries of the Group.
- (3) Financial services provider in terms of the Financial Advisory and Intermediary Services Act, 37 of 2002. The company's operations to sell funeral insurance to pensioners and life insurance products to the general public were sold to Assupol Life on 1 July 2018. It is management's intention to deregister the company in the near future. The shareholding of the company is held through Cornerstone Brokers Holdings 2 Proprietary Limited that is dormant and only acts as conduit for distributions declared by Cornerstone Brokers Corporate Proprietary Limited.
- (4) Property company earning primarily rental income. Erf26 Menlopark Share Block Proprietary Limited was deregistered on 17 May 2018. The property of Siebador Sewentien Proprietary Limited was sold during the year. It is management's intention to deregister the company in the near future.
- (5) Financial services provider in terms of the Financial Advisory and Intermediary Services Act, 37 of 2002. The company's operations are to sell insurance products to the general public and to provide administration services to other intermediaries. A 100% interest was obtained in the company on 30 June 2018.
- (6) Trust - refer note 27 (i.)

**43. EVENTS AFTER REPORTING DATE****Dividend declaration**

On 27 September 2018 the Board of Directors declared a cash dividend of 54 cents per qualifying ordinary share and a special dividend of 42 cents per qualifying ordinary share for the year ended 30 June 2018. The dividend is payable on 15 October 2018 to qualifying shareholders registered on 12 October 2018.

The qualifying ordinary shares at the date that these financial statements were approved excluded the ordinary shares issued to the Assupol Share Incentive Trust and the 'A2' ordinary shares. Refer notes 27 and 28 for more detail.

The dividends have been declared from retained earnings. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

Annexure A is available on request from Mr SJ de Beer, the Company Secretary, at [samueld@assupol.co.za](mailto:samueld@assupol.co.za).