



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

**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2014

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AND ITS SUBSIDIARIES  
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for the year ended 30 June 2014**



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**GENERAL NOTICE**

These annual financial statements have been audited in compliance with any applicable requirement of the Companies Act, no 71 of 2008 (as amended) and have been compiled 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:	308 Brooks Street Menlo Park Pretoria 0102
Postal address:	P O Box 35900 Menlo Park Pretoria 0102
Auditors:	PricewaterhouseCoopers Incorporated Sunninghill
Company secretary:	SJ de Beer

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**STATEMENT OF RESPONSIBILITIES BY THE BOARD OF DIRECTORS**

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 10 to 94 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 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 group.

The financial statements have been audited by the independent auditors, PricewaterhouseCoopers Incorporated, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the board. The directors believe that all 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 page 9.

The financial statements were approved by the Board of Directors on 30 September 2014 and are signed on its behalf by:



JA Janse van Rensburg  
Chairperson



D de Klerk  
Group Chief Financial Officer

**CERTIFICATE BY THE COMPANY SECRETARY**

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 2014, 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

**REPORT OF THE AUDIT COMMITTEE**

We are pleased to present our report for the financial year ended 30 June 2014.

The Audit Committee is an independent statutory committee, as appointed by the company's shareholders. Further duties are delegated to the Audit Committee by the Board of Directors of the company in the formally adopted 'Terms of Reference' as approved by the Board of Directors. This report includes both these sets of duties and responsibilities.

*Audit Committee members, meeting attendance and assessment*

The Audit Committee is independent and consists of three non-executive directors. The committee should meet at least twice per year as per the committee's terms of reference. During the year under review four meetings were held.

The Group Chief Executive Officer, Group Chief Financial officer, other members of senior management, external and internal auditors, and other assurance and/or service providers (actuarial, legal and compliance) attend meetings by invitation.

Name of member and qualifications	Date				
	appointed	25/09/2013	28/10/2013	24/02/2014	26/05/2014
T Muranda (Chairman) BCompt (Hons) CA(SA)	2013	N/a	Present	Present	Present
AS Birrell B.Bus SC, FASSA, FFA, ASA, CERA	2013	Present	Present	Present	Present
IO Greenstreet BSc (Hons), FCA	2013	N/a	Present	Present	Present
KL Craemer (previous Chairman) N.Dip Cost Accounting, N.Dip State Finance	N/a	Present	N/a	N/a	N/a
JA Janse van Rensburg LLB, BA(Law), 2010	N/a	Present	N/a	N/a	N/a

*N/A - Not applicable due to the date of appointment or resignation.*

*Duties of the committee*

The Audit Committee's role and responsibilities include statutory duties as prescribed in the Companies Act, no 71 of 2008, the Long Term Insurance Act, no 52 of 1998, as well as further responsibilities assigned to it by the board.

External auditor appointment and independence

The Audit Committee has satisfied itself that the external auditor was independent of the company, as set out in section 94(8) of the Companies Act, no 71 of 2008, which includes consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor for the company and compliance with criteria relating to independence and conflicts of interest as prescribed by the Independent Regulatory Board for Auditors.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2014 year.

Financial statements and accounting practices

The Audit Committee has reviewed the accounting policies and the financial statements of the company and is satisfied that they are appropriate and comply with International Financial Reporting Standards (IFRS).

An Audit Committee process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the company. No matters of significance have been raised in the past financial year.

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**REPORT OF THE AUDIT COMMITTEE (continued)**

*Duties assigned by the board*

Internal financial controls

The Audit Committee has overseen a process by which the internal auditors have audited the effectiveness of the company's system of internal control, including internal financial controls. The audit gives negative assurance, which means that nothing came to the attention of the internal auditors that would indicate a material breakdown in controls. The Audit Committee reported this result to the Board of Directors. For further detail, please refer to the statement of responsibilities by the Board of Directors.

Integrated report

The Audit Committee fulfils an oversight role regarding the company's integrated report and the reporting process. The Audit Committee considered the company'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 for consistency with the annual financial statements.

Going concern

The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the group. The board's statement on the going concern status of the group, as supported by the Audit Committee, is listed on page 2.

Governance of risk

The board assigned oversight of the company's financial risk management function to the Audit Committee. The Committee fulfils an oversight role regarding financial reporting risks, internal financial controls and compliance with laws and regulations.

Internal audit

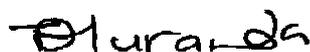
The Audit Committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority within the company to enable it to discharge its duties.

The Audit Committee has outsourced the internal audit function to KPMG. The internal audit function's annual audit plan for the new financial year was approved by the Audit Committee. KPMG is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the Audit Committee on a regular basis. KPMG has direct access to the Audit Committee, primarily through its chairperson.

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

The Audit Committee has satisfied itself that the Group Chief Financial Officer has appropriate expertise and experience.

The Audit Committee has considered, and has 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 the financial function.



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T Muranda  
Chairman: Audit Committee  
30 September 2014

The directors have pleasure in submitting the annual financial statements of Assupol Holdings Limited and its subsidiaries for the year ended 30 June 2014.

### 1. NATURE OF BUSINESS

Assupol Holdings Limited is incorporated in South Africa and acts as the ultimate investment holding company of the Assupol group of companies. During the year under review the group continued to provide a wide range of financial services to a defined niche market. For more detailed information regarding the nature of business per subsidiary, please refer to note 41 to the financial statements.

### 2. REVIEW OF OPERATIONS AND FINANCIAL POSITION

Details of the group's financial performance are set out in the financial statements and notes thereto on pages 10 to 94.

Key statistics relating to the financial position and profit of the group for the year are set out below:

	2014	2013	% change
<b>Operating results</b>			
Gross insurance premium revenue (R'm)	1 795	1 637	9.65%
Net profit attributable to ordinary shareholders (R'm)	569	267	113.11%
<b>Financial position</b>			
Total assets (R'm)	3 920	3 128	25.32%
Net asset value per share (cents)	4.71	3.52	33.81%
Return on equity (%)	35%	19%	

The Board of Directors would like to highlight the following:

- A refinement of the reinsurance modelling resulted in an increase in net assets of R278 million. Refer note 4 to the financial statements for more information.
- The investment market once again showed exceptional performance during the year. The group achieved investment returns on total assets of 12.7% (2013: 12.5%) for the year under review.
- Operating and administration expenses increased by 19% to R595.1 million. Included in this increase is a reclassification of transactions on the group scheme business amounting R78 million of the increase. The reclassification was a result of transactions being reallocated / reclassified in accordance with updated contracts signed with the respective groups. The effect of the reclassification had no impact on the reported net profit or the Statement of Financial Position. However other items impacted were insurance premium revenue, insurance benefits and claims, and expenses for the acquisition of insurance contracts. There was no effect in 2013. Focussed cost management continues to remain one of the priorities for the group.
- On 31 December 2013, free shares that were allocated to employees of the group in terms of the demutualisation scheme became unconditional. These shares vested and were transferred to the qualifying employees. Also refer note 26 to the financial statements.

### 3. SHARE CAPITAL

The share capital as at 30 June 2014 is as follows:

	2014 R'000	2013 R'000
Authorised:		
5 500 000 000 ordinary shares of R0.001 each		
200 "A" preference no par value shares		
200 000 000 class A ordinary redeemable no par value shares		
Issued:		
369 466 346 ordinary shares of R0.001 each	345	345
44 202 424 class A ordinary redeemable no par value shares	30 025	30 000
	30 370	30 345

Refer to note 25 to the financial statements for information on the shares issued during the year and the share premium.

**4. BOARD OF DIRECTORS**

The present directors of the company are:

<b>Name</b>	<b>Board committee involvement</b>	<b>Date appointed</b>	<b>Date resigned</b>
<i>Non-executive</i>			
JA Janse van Rensburg (Chairman) <sup>(1)</sup>	Chairman: Social and Ethics Committee Member: Remuneration Committee, Audit Committee <sup>(2)</sup>	30 Jul 2010	-
EDJ Ashkar	Chairman: Nomination Committee Member: Investment Committee, Social and Ethics Committee	20 Feb 2013	-
ILM Barnett	Member: Risk Committee	20 Feb 2013	-
AS Birrell	Member: Audit Committee, Remuneration Committee	7 May 2013	-
NE Gubb	Member: Investment Committee, Nomination Committee	7 May 2013	-
I Greenstreet	Member: Audit Committee, Risk Committee, Nomination Committee	7 Jun 2013	-
T Muranda	Chairman: Audit Committee, Investment Committee	30 Sep 2013	-
CJ van Dyk	Chairman: Risk Committee, Remuneration Committee Member: Investment Committee	30 Sep 2013	-
KL Craemer	Chairman: Audit Committee Member: Risk Committee, Remuneration Committee, Investment Committee <sup>(3)</sup>	30 Jul 2010	30 Sep 2013
AR Els	Chairman: Risk Committee <sup>(3)</sup>	30 Jul 2010	18 Sep 2013
<i>Executive</i>			
RF Schmidt (Chief Executive Officer)	Member: Investment Committee Invitee: Risk Committee, Audit Committee, Remuneration Committee	30 Jul 2010	-
D de Klerk (Chief Financial Officer)	Member: Investment Committee Invitee: Risk Committee, Audit Committee	30 Jul 2010	-
MB Mokwena-Halala	Member: Investment Committee Invitee: Risk Committee, Audit Committee	30 Jul 2010	-
SL Ndwalaza	Member: Social and Ethics Committee Invitee: Remuneration Committee	1 Sep 2012	-

(1) JA Janse van Rensburg was appointed as the chair of the Board of Directors in September 2013, following KL Craemer that was the acting chairman.

(2) JA Janse van Rensburg resigned as member of the Audit Committee in September 2013.

(3) KL Craemer and AR Els resigned from the various board committees in September 2013.

**5. OTHER PRESCRIBED OFFICERS**

**Name**

GFM Wessels

**6. DETAILS OF SERVICE CONTRACTS**

The group has service contracts with all the executive directors and the prescribed officer. The executive directors concluded addenda to their respective fixed term employment agreements after the financial year end to change them from fixed term employment agreements to permanent employment agreements. The contract for the prescribed officer terminates on 30 June 2017.

**7. STATUTORY ACTUARY**

In terms of the Long Term Insurance Act, no 52 of 1998, Mr RD Williams was the appointed statutory actuary of Assupol Life Limited up to 30 June 2014. Mr CR van der Riet was appointed on 1 July 2014.

**8. COMPANY SECRETARY**

The company secretary, Mr SJ de Beer, was appointed in July 2010.

**9. AUDITORS**

In accordance with section 90 of the Companies Act, no 71 of 2008, the Audit Committee, on behalf of the board, 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 that is scheduled for 19 November 2014.

**10. SUBSIDIARIES**

The group's material interest in subsidiaries are set out in note 41 to the financial statements. These companies were subsidiaries throughout the year. The group's interest in Kestrel Financial Solutions Proprietary Limited was sold on 30 June 2014. The majority of the subsidiaries are involved in the financial services industry in South Africa.

**11. ASSOCIATE**

Details of the group's associate are set out in note 21 to the financial statements.

Pan-African Asset Management Proprietary Limited, a subsidiary in the group, manages the portfolios under the collective investment scheme, Pan African IP Income Hunter Fund. In terms of the group's accounting policy it was assessed that Pan-African Asset Management Proprietary Limited has significant influence but not control over the fund and is therefore accounted for as an associate. Also refer note 2.2.

**12. REDEMPTION OF PREFERENCE SHARES**

On 9 December 2010 the demutualisation scheme of Assupol Life was approved by the North Gauteng High Court, Pretoria. The scheme involved the creation of Assupol Holdings Limited, and reorganisation of the entire group into its current form.

	<b>2014</b>	<b>2013</b>
	<b>R'000</b>	<b>R'000</b>
The following demutualisation related and redemption costs were incurred:		
Demutualisation cost:		
Payments to professional advisors in respect of demutualisation	214	2 813
Capital raising cost	-	13 041
Redemption cost	439	4 200
Employee cost:		
Share-based payments	10 931	16 226
	<u>11 584</u>	<u>36 280</u>

**13. SUBSEQUENT EVENTS**

**13.1 Dividend declaration**

On 30 September 2014 the Board of Directors, in terms of section 46 of the Companies Act, no 71 of 2008, declared a gross cash dividend of 30 cents per qualifying ordinary share for the year ended 30 June 2014.

The board has also declared a special dividend of 48 cents per qualifying ordinary share.

The qualifying ordinary shares as at 30 September 2014 excluded the ordinary shares issued to the Assupol Share Incentive Trust and the 'A2' ordinary shares. Refer to note 26 and 27 for more detail.

The dividends have been declared from income reserves. Secondary tax on companies' credits of R22 359 979 have been used. A dividend withholding tax of 15% 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	24 October 2014
Record date	24 October 2014
Trading ex dividend commences	27 October 2014
Dividend payment date	31 October 2014

**13.2 Financial assets - Investments**

Subsequent to the reporting date, African Bank Limited (African Bank) was placed under curatorship by the Registrar of Banks and the Minister of Finance, with effect from 10 August 2014.

At the reporting date, the group held African Bank and ABIL debt instruments to the fair value of R37.1 million. The exposure represents 1% of the total assets at the reporting date. The equity instruments held by the Assupol group were sold prior to this event. The impact of the measurements imposed by the curator on the value of the debt securities held by the group resulted in an after year-end write-down on the value to the amount of R3.9 million.

Also refer to note 42 of the financial statements.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ASSUPOL HOLDINGS LIMITED

We have audited the consolidated and separate financial statements of Assupol Holdings Limited set out on pages 10 to 94, which comprise the statements of financial position as at 30 June 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### *Directors' Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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

### *Other reports required by the Companies Act*

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2014, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.



### **PricewaterhouseCoopers Inc.**

Director: C Volschenk  
Registered Auditor  
Sunninghill  
30 September 2014

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**STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 30 June 2014**

	NOTES	CONSOLIDATED		COMPANY	
		2014 R'000	2013 R'000	2014 R'000	2013 R'000
Insurance premiums revenue		1 794 540	1 636 648	-	-
Insurance premiums ceded to reinsurers		(150 144)	(128 567)	-	-
<i>Net insurance premium revenue</i>	7	1 644 396	1 508 081	-	-
Commission received on outward reinsurance		10 560	4 318	-	-
Fee income	8	60 949	63 772	-	-
Investment income	9	123 440	108 282	175 284	298 085
Net fair value gains on financial assets	10	328 497	283 549	-	-
Other income	11	26 261	23 692	2 491	1 032
<b>Income</b>		<b>2 194 103</b>	<b>1 991 694</b>	<b>177 775</b>	<b>299 117</b>
Insurance benefits and claims		(820 629)	(896 931)	-	-
Insurance claims recovered from reinsurers		135 236	107 224	-	-
<i>Net insurance benefits and claims</i>	12	(685 393)	(789 707)	-	-
Expenses for the acquisition of insurance and investment contracts	13	(332 568)	(279 898)	-	-
Operating and administrative expenses	14	(595 100)	(500 579)	(11 472)	(28 022)
Investment management expenses		(5 606)	(10 848)	-	-
Change in insurance contract provisions	28	416 805	106 815	-	-
Fair value adjustments on investment contract liabilities	29	(192 701)	(125 443)	-	-
<b>Expenses</b>		<b>(1 394 563)</b>	<b>(1 599 660)</b>	<b>(11 472)</b>	<b>(28 022)</b>
<b>Result of operating activities</b>		<b>799 540</b>	<b>392 034</b>	<b>166 303</b>	<b>271 095</b>
Finance charges	15	(6 418)	(4 638)	(6 082)	(5 240)
Share of profit / (loss) from associate	21	185	(4)	-	-
<b>Profit before taxation</b>		<b>793 307</b>	<b>387 392</b>	<b>160 221</b>	<b>265 855</b>
Income tax expense	16	(222 845)	(119 059)	-	(3 286)
<b>PROFIT FOR THE YEAR</b>		<b>570 462</b>	<b>268 333</b>	<b>160 221</b>	<b>262 569</b>
<b>Other comprehensive income</b>					
Gains on property revaluation		2 613	1 703	-	-
Income tax relating to other comprehensive income		(732)	(477)	-	-
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1 881</b>	<b>1 226</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>572 343</b>	<b>269 559</b>	<b>160 221</b>	<b>262 569</b>
<b>Profit attributable to</b>					
Shareholders		569 052	266 719	160 221	262 569
Non-controlling interests		1 410	1 614	-	-
		<b>570 462</b>	<b>268 333</b>	<b>160 221</b>	<b>262 569</b>
<b>Total comprehensive income attributable to</b>					
Shareholders		570 933	268 151	160 221	262 569
Non-controlling interests		1 410	1 408	-	-
		<b>572 343</b>	<b>269 559</b>	<b>160 221</b>	<b>262 569</b>

**STATEMENT OF FINANCIAL POSITION  
as at 30 June 2014**

	NOTES	CONSOLIDATED		COMPANY	
		2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>ASSETS</b>					
Owner-occupied properties	17	29 945	28 250	-	-
Equipment	18	32 098	29 244	-	-
Deferred tax asset	33	45 807	45 743	-	-
Intangible assets - including insurance intangible assets	19	111 429	116 796	-	-
Investments in subsidiaries	20	-	-	644 610	622 921
Interest in associate	21	4 348	2 054	-	-
Financial assets - Investments At fair value through profit or loss	22				
Equity securities		1 328 091	1 112 725	-	-
Debt securities		1 112 480	968 011	-	-
Deposits and money market securities		376 437	306 198	-	-
Policyholder assets: Insurance contracts	28	576 267	159 462	-	-
Insurance and other receivables	23	104 082	108 645	95	606
Current taxation	35	-	9 929	603	333
Cash and cash equivalents	24	199 059	240 843	19 138	2 325
<b>TOTAL ASSETS</b>		<b>3 920 043</b>	<b>3 127 900</b>	<b>664 446</b>	<b>626 185</b>

**EQUITY**

**Capital and reserves**

Share capital	25	30 370	30 345	30 370	30 345
Share premium	25	547 176	547 270	547 176	547 270
Treasury shares	26	(78)	(27 149)	(78)	(27 149)
Employee benefits reserve	26	23 770	39 816	23 770	39 816
Black Economic Empowerment reserve	27	14 300	14 300	14 300	14 300
Retained earnings		1 326 284	756 935	22 954	(137 267)
Revaluation reserve		5 221	3 340	-	-
<b>Non-controlling interests</b>		<b>2 232</b>	<b>822</b>	<b>-</b>	<b>-</b>

<b>1 949 274</b>	<b>1 365 678</b>	<b>638 492</b>	<b>467 314</b>
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**LIABILITIES**

Policyholder liabilities: Investment contracts	29	1 285 800	1 138 581	-	-
Borrowings	30	22	133 712	-	132 768
Employee benefits	31	66 794	59 373	19 267	8 355
Deferred revenue liability	32	297	360	-	-
Deferred tax liability	33	399 006	258 711	-	-
Insurance and other payables	34	212 810	171 485	6 687	17 748
Current taxation	35	6 040	-	-	-
<b>1 970 769</b>	<b>1 762 222</b>	<b>25 954</b>	<b>158 871</b>		

**TOTAL EQUITY AND LIABILITIES**

<b>3 920 043</b>	<b>3 127 900</b>	<b>664 446</b>	<b>626 185</b>
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**STATEMENT OF CHANGES IN EQUITY  
for the year ended 30 June 2014**

	<b>SHARE CAPITAL</b>	<b>SHARE PREMIUM</b>	<b>TREASURY SHARES</b>	<b>EMPLOYEE BENEFITS RESERVE</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>COMPANY</b>				
<b>Balance at 30 June 2012</b>	469	520 953	(31 383)	23 590
Issue of shares to Share Incentive Trust	15	-	(15)	-
Issue of shares to institutional investors	208	478 542	-	-
Issue of 'A1' ordinary shares	29 684	-	-	-
Issue of 'A2' ordinary shares	316	-	-	-
Issue of ordinary shares to PIC Holdings Limited	2	3 638	-	-
Redemption of preference shares	(356)	(451 615)	-	-
Issue of ordinary shares to executive directors	10	-	-	-
Free shares of resigned employees cancelled	(3)	(4 248)	4 249	-
Cost of free shares to employees	-	-	-	8 599
Cost of incentive shares	-	-	-	7 627
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>30 345</b>	<b>547 270</b>	<b>(27 149)</b>	<b>39 816</b>
Issue of shares to Assupol Community Trust	25	-	-	-
Free shares of resigned employees cancelled	-	(94)	94	-
Cost of free shares to employees	-	-	-	4 399
Cost of incentive shares	-	-	-	6 532
Vesting of free shares to employees	-	-	26 977	(26 977)
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
<b>Balance at 30 June 2014</b>	<b>30 370</b>	<b>547 176</b>	<b>(78)</b>	<b>23 770</b>
<b>CONSOLIDATED</b>				
<b>Balance at 30 June 2012</b>	469	520 953	(31 383)	23 590
Issue of shares to Share Incentive Trust	15	-	(15)	-
Issue of shares to institutional investors	208	478 542	-	-
Issue of 'A1' ordinary shares	29 684	-	-	-
Issue of 'A2' ordinary shares	316	-	-	-
Issue of ordinary shares to PIC Holdings Limited	2	3 638	-	-
Redemption of preference shares	(356)	(451 615)	-	-
Issue of ordinary shares to executive directors	10	-	-	-
Free shares of resigned employees cancelled	(3)	(4 248)	4 249	-
Cost of free shares to employees	-	-	-	8 599
Cost of incentive shares	-	-	-	7 627
Changes in ownership in subsidiaries	-	-	-	-
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>30 345</b>	<b>547 270</b>	<b>(27 149)</b>	<b>39 816</b>
Issue of shares to Assupol Community Trust	25	-	-	-
Free shares of resigned employees cancelled	-	(94)	94	-
Cost of free shares to employees	-	-	-	4 399
Cost of incentive shares	-	-	-	6 532
Vesting of free shares to employees	-	-	26 977	(26 977)
Changes in ownership in subsidiary	-	-	-	-
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	-	-	-
<b>Balance at 30 June 2014</b>	<b>30 370</b>	<b>547 176</b>	<b>(78)</b>	<b>23 770</b>

**STATEMENT OF CHANGES IN EQUITY  
for the year ended 30 June 2014**

	<b>BEE RESERVE R'000</b>	<b>RETAINED INCOME R'000</b>	<b>REVALUATION RESERVE R'000</b>	<b>NON- CONTROLLING INTEREST R'000</b>	<b>TOTAL CAPITAL &amp; EQUITY R'000</b>
<b>COMPANY</b>					
<b>Balance at 30 June 2012</b>	-	39 187	-	-	552 816
Issue of shares to Share Incentive Trust	-	-	-	-	-
Issue of shares to institutional investors	-	-	-	-	478 750
Issue of 'A1' ordinary shares	-	-	-	-	29 684
Issue of 'A2' ordinary shares	14 300	-	-	-	14 616
Issue of ordinary shares to PIC Holdings Limited	-	-	-	-	3 640
Redemption of preference shares	-	(439 023)	-	-	(890 994)
Issue of ordinary shares to executive directors	-	-	-	-	10
Free shares of resigned employees cancelled	-	-	-	-	(2)
Cost of free shares to employees	-	-	-	-	8 599
Cost of incentive shares	-	-	-	-	7 627
Profit for the year	-	262 569	-	-	262 569
Other comprehensive income for the year	-	-	-	-	-
<b>Balance at 30 June 2013</b>	14 300	(137 267)	-	-	467 314
Issue of shares to Assupol Community Trust	-	-	-	-	25
Free shares of resigned employees cancelled	-	-	-	-	-
Cost of free shares to employees	-	-	-	-	4 399
Cost of incentive shares	-	-	-	-	6 532
Vesting of free shares to employees	-	-	-	-	-
Profit for the year	-	160 221	-	-	160 221
Other comprehensive income for the year	-	-	-	-	-
<b>Balance at 30 June 2014</b>	14 300	22 954	-	-	638 492
<b>CONSOLIDATED</b>					
<b>Balance at 30 June 2012</b>	-	930 588	2 114	5 355	1 451 686
Issue of shares to Share Incentive Trust	-	-	-	-	-
Issue of shares to institutional investors	-	-	-	-	478 750
Issue of 'A1' ordinary shares	-	-	-	-	29 684
Issue of 'A2' ordinary shares	14 300	-	-	-	14 616
Issue of ordinary shares to PIC Holdings Limited	-	-	-	-	3 640
Redemption of preference shares	-	(439 023)	-	-	(890 995)
Issue of ordinary shares to executive directors	-	-	-	-	10
Free shares of resigned employees cancelled	-	-	-	-	(2)
Cost of free shares to employees	-	-	-	-	8 599
Cost of incentive shares	-	-	-	-	7 627
Changes in ownership in subsidiary	-	(1 349)	-	(6 147)	(7 496)
Profit for the year	-	266 719	-	1 614	268 333
Other comprehensive income for the year	-	-	1 226	-	1 226
<b>Balance at 30 June 2013</b>	14 300	756 935	3 340	822	1 365 678
Issue of shares to Assupol Community Trust	-	-	-	-	25
Free shares of resigned employees cancelled	-	-	-	-	-
Cost of free shares to employees	-	-	-	-	4 399
Cost of incentive shares	-	-	-	-	6 532
Vesting of free shares to employees	-	-	-	-	-
Changes in ownership in subsidiary	-	297	-	-	297
Profit for the year	-	569 052	-	1 410	570 462
Other comprehensive income for the year	-	-	1 881	-	1 881
<b>Balance at 30 June 2014</b>	14 300	1 326 284	5 221	2 232	1 949 274

**STATEMENT OF CASH FLOWS  
for the year ended 30 June 2014**

	NOTES	CONSOLIDATED		COMPANY	
		2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>Cash flows from operating activities</b>					
Cash generated from / (utilised in) operations	36	132 999	(80 860)	(9 130)	(32 717)
Interest received	9	94 028	81 356	284	4 860
Dividends received	9	29 412	26 926	175 000	293 225
Finance charges	15	(6 418)	(4 638)	(6 082)	(5 240)
Taxation paid	37	(67 972)	(49 559)	(270)	(3 619)
<b>Net cash flows from operating activities</b>		<b>182 049</b>	<b>(26 774)</b>	<b>159 802</b>	<b>256 509</b>
<b>Cash flows from investing activities</b>					
Acquisition of equipment	18	(13 529)	(11 852)	-	-
Improvements to owner-occupied properties	17	-	-	-	-
Proceeds on disposal of property and equipment	18	2 623	1 312	-	-
Additions to intangible assets	19	-	-	-	-
Disposal of investment in subsidiary	20	(1 165)	-	-	-
Net acquisition of investment in subsidiary	20	-	-	(21 689)	(24 581)
Net acquisition of financial instruments at fair value through profit or loss	22	(101 577)	294 909	-	-
Net decrease in loan receivables	23	23 480	18 171	511	-
<b>Net cash flows from investing activities</b>		<b>(90 168)</b>	<b>302 540</b>	<b>(21 178)</b>	<b>(24 581)</b>
<b>Cash flows from financing activities</b>					
Ordinary shares issued	25	25	512 400	25	512 400
Ordinary shares cancelled	25	-	(3)	-	(3)
Preference shares redeemed	25	-	(890 995)	-	(890 995)
Vesting of employee shares	26	-	-	26 977	-
Increase in employee benefits reserve	26	-	-	(16 046)	16 226
(Decrease) / increase in borrowings	30	(133 690)	132 093	(132 768)	132 768
<b>Net cash flows from financing activities</b>		<b>(133 665)</b>	<b>(246 504)</b>	<b>(121 812)</b>	<b>(229 603)</b>
Net (decrease) / increase in cash and cash equivalents		(41 784)	29 261	16 813	2 325
Cash and cash equivalents at beginning of the year		240 843	211 581	2 325	-
Cash and cash equivalents at end of the year		199 059	240 843	19 138	2 325

**1. GENERAL INFORMATION**

Assupol Holdings Limited (Assupol Holdings) and its subsidiaries (the group) operate mainly in the financial services industry, and all products and services are offered only in South Africa.

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

The subsidiaries, Kestrel Financial Solutions Proprietary Limited (Kestrel Financial Solutions) and Cornerstone Brokers Corporate Proprietary Limited (Cornerstone Brokers) provide an intermediary service for insurance needs while Pan-African Asset Management Proprietary Limited (Pan-African Asset Management) provides asset management services. The other companies in the group include two property companies, namely Siebador Sewentien Proprietary Limited (Siebador Sewentien) and Erf 26 Menlopark Share Block Proprietary Limited (Erf 26), as well as Assupol Investment Holdings Proprietary Limited (Assupol Investment Holdings), that holds the investments in all the non-life subsidiaries.

The group's interest in Kestrel Financial Solutions was sold on 30 June 2014.

**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 group have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, no 71 of 2008, in South Africa.

IFRS comprise 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 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';
- Interest in associate designated as 'at fair value through profit or loss';
- Financial liabilities for policyholder liabilities under investment contracts; and
- Liabilities for cash-settled share-based payments.

*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 2.21.3; and
- Investments in subsidiaries are carried at cost.

**2.1.1 Standards and interpretations effective 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.

- *Amendments to IFRS 7 - Financial instruments: Disclosure (effective 1 January 2013)*

The amendment reflects the joint requirements with the FASB to enhance current offsetting disclosures. The new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**2.1.1 Standards and interpretations effective in the current year (continued)**

- **IFRS 10 - Consolidated financial statements (effective 1 January 2013)**  
This IFRS builds on existing principles by identifying the concept of control as a factor in whether an entity should be included in consolidated financial statements. It provides additional guidance to determine control where this is difficult to assess. Refer to notes 5.3.1 and 21 for more detail.
- **IFRS 11 - Joint arrangements (effective 1 January 2013)**  
The standard provides for a more realistic reflection of joint arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
- **IFRS 12 - Disclosure of interests in other entities (effective 1 January 2013)**  
The standard includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. Additional disclosures are required to enable users of the financial statements to evaluate the nature of, and risks associated with, the group's interest in other entities; and the effects of those interests on its financial position, financial performance and cash flows. Refer to note 5.3.1 and 21 for more detail.
- **IFRS 13 - Fair value measurement (effective 1 January 2013)**  
The aim of this standard is to provide a precise definition of fair value, a single source of fair value measurement, and disclosure requirements for use in all standards, that should result in improving consistency and reduce complexity in fair value measurements. Refer to note 5.3.5 for more detail.
- **Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated financial statements, joint arrangements, disclosure of interest in other entities (effective 1 January 2013)**  
The amendments provide additional transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period.
- **Amendments to IFRS 10, IFRS 12 and IAS27- Consolidated financial statements, investment entities (effective 1 January 2014)**  
The amendments provide that many funds and similar entities will be exempt from consolidating most of their subsidiaries. It will rather be measured at fair value through profit or loss. Exception will be given to entities that meet an "investment entity" definition and which display particular characteristics. Changes were also made to IFRS 12 regarding disclosures that an investment entity needs to make.
- **Amendments to IAS 19 - Employee benefits (effective 1 January 2013)**  
This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.
- **IAS 27(revised 2011) - Separate financial statements**  
This standard includes the provisions on separate financial statements that remain after the control provisions of IAS 27 have been included in the IFRS 10.
- **IAS 28 (amendment) - Investment in associates (effective 1 January 2013)**  
This standard includes the requirements for associates to be equity accounted following the issue of IFRS 11. Refer to note 21.
- **Annual improvements project 2011 (effective 1 January 2013)**  
This is a collection of amendments to IFRSs. These amendments are the result of conclusions the IASB reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs. Some amendments involve consequential amendments to other IFRSs.

In accordance with the transitional requirements of the standards, the group has provided full comparative information wherever a standard has been implemented.

**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 fall 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.

- **IFRS 9 - Financial instruments (effective 1 January 2015)**  
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and 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.
- **IFRS 10, 12 and IAS 27 - Investment entities (effective 1 January 2014)**  
These amendments seek to exempt many funds and similar entities from consolidating controlled investees and adjust the disclosure in relation to this.

**2.1.2 Standards and interpretations not yet effective (continued)**

- *IAS 32 (amendment) - Financial instruments: Presentation (effective 1 January 2014)*  
This amendment clarifies requirements for offsetting financial assets and liabilities on the statement of financial position.
- *IAS 36 (amendment) - Impairment of assets (effective 1 January 2014)*  
This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposals.
- *IAS 39 (amendment) - Financial instruments: Recognition and measurement (effective 1 January 2014)*  
The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specific conditions.
- *Annual improvements project 2012 (effective 1 January 2014)*  
This is a collection of amendments to the following statements: IFRS 2, 3, 8, and 13 as well as IAS 16, 38, 37 and 39. Some amendments involve consequential amendments to other IFRSs.
- *IFRIC 21 - Accounting for levies (effective 1 January 2014)*  
This sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognised.
- *Annual improvements project 2013 (effective 1 July 2014)*  
This is a collection of amendments to the following statements: IFRS 1, 3, 13 and IAS 40.
- *IFRS 4 Phase II - Insurance contracts (effective date not yet announced but it is expected to be issued in 2015)*  
The IASB is currently busy with Phase II of the project that will result in a new standard that will replace the current IFRS 4. The new standard will eliminate 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. Phase II will also provide requirements for presentation and disclosures items to enhance comparability between entities.

**2.2 Basis of consolidation**

The group 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**

A list of the group's subsidiaries is set out in note 41.

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 deconsolidated 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 group companies. 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.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**2.2.2 Subsidiaries under common control**

Common control is defined as a business combination in which all the combining entities are ultimately controlled by the same party both before and after the business combination and control is not transitory.

The cost of an acquisition of a subsidiary under common control is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. On acquisition the carrying values of assets and liabilities are not restated to fair value. Under the principles of predecessor accounting, the group incorporates assets and liabilities at their pre-combination carrying amounts. Any excess/deficit of the purchase price over the ultimate holding company's pre-combination recorded net asset value of the subsidiary is adjusted directly to equity.

**2.2.3 Interest in associates - equity accounting**

Associates are entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The existence and effect of potential voting rights, that are currently exercisable or convertible, are considered when assessing whether the entity has significant influence over the entity.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. If the interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the entity calculates the amount of impairment as the difference between the recoverable amount of the associate and the carrying value of the interest and recognises the amount in profit or loss. Unrealised gains arising from transactions with associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, to the extent that there is no evidence of impairment.

**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.

**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 the statement of comprehensive income in the period in which the difference occurs in 'net fair value gains on financial assets'.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

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

*2.4.1 Revenue recognition*

Revenue comprises net insurance premiums received, as well as commission received on outward reinsurance, fee income, investment income (described below), 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 2.21.

*2.4.3 Reinsurance premiums received*

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

*2.4.4 Fee income*

Fee income represents income from the administration of investment contracts. A management fee is charged to manage the investments of the contracts, as the services are rendered 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 mostly administration income, commission income and profit on disposal of property and equipment.

Administration income is income earned on administration of group business. Administration income is recognised when the premiums of the group business is received and paid over to the insurer in terms of the administration agreement.

Commission income consists of commission earned from short term insurance brokerage operations. Commission income is recognised when the rights in income vest in the company, which is when the premium is paid by the policyholder.

*2.4.7 Expenses for the acquisition of insurance and investment contracts*

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

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 the statement of comprehensive income using the effective interest rate method.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**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, if any, (classified as reinsurance assets) 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 company that was reinsured.

Insurance claims recovered from reinsurers

Insurance claims recovered from reinsurers are recognised in the statement of comprehensive income 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 'four fund' method applicable to life insurance companies.

**2.6.2 Dividend withholding tax (DWT)**

Dividend withholding tax is a tax on distributions to beneficial owners and levied at 15%. 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 group's shareholders are recognised in the statement of changes in equity when declared. If it is not paid, it is disclosed as a liability in the group's financial statements in the period in which the dividends are 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 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.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**2.10 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.

*2.10.2 Depreciation*

The group depreciates 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

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 Accounting for leases - where the group is the lessee**

*2.11.1 Operating leases*

The group classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the statement of comprehensive income on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The group recognises any penalty payment to the lessor for early termination of an operating lease as an expense in the period in which termination takes place.

*2.11.2 Finance leases*

The group leases certain equipment. Leases of equipment where the group has substantially retained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term borrowings. The interest element of the finance cost is recognised in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**2.12 Intangible assets**

*2.12.1 Deferred acquisition costs (DAC)*

Refer to note 2.21.2 for the accounting treatment of the DAC intangible asset.

*2.12.2 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.

*2.12.3 Trademarks 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, currently set to 10 years.

*2.12.4 Present value of in-force business (PVIF)*

On acquisition of a portfolio of insurance contracts, either directly from another insurer or through the acquisition of a subsidiary undertaking, the group recognises an intangible asset representing the value of business acquired, gross of income tax. The value of business acquired represents the value of future profits embedded in acquired insurance contracts. The group amortises this intangible asset on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts. The estimated useful life is re-evaluated annually, and is currently set to 10 years.

*2.12.5 Customer list and contracts*

The customer list and contracts acquired as part of a business combination are capitalised at its fair value. The relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line method over the expected life, namely 4 years, of the customer relationship.

**2.13 Financial assets**

Financial assets carried on the statement of financial position include all assets, except for equipment, owner-occupied properties, intangible assets and deferred tax assets.

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
- Loans and receivables

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

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**2.13.1 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, insurance policy, deposits and money market securities, and investments in subsidiaries.

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.

Fair values for quoted investments (most likely for equities and debt securities) are based on quoted prices on a regulated exchange at the close of business on the last trading day on or before the end of the reporting period. The ruling closing price is used as the most representative price. If a quoted closing price is not available for dated instruments, the fair value is measured at the repurchase price (most likely for unit trusts).

Fair values for unquoted instruments are determined as follows:

*Unlisted instruments*

Valuations are determined by applying appropriate valuation techniques such as discounted cash flow analysis, recent arm's length market transactions in respect of the instrument, the price-earnings multiple valuation, or an industry-specific valuation. For further information, refer to note 5.3.5.

**2.13.2 Loans and receivables**

Initial classification and recognition

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include receivables (including receivables arising from insurance contracts) as well as cash and cash equivalents.

Financial assets listed in this category 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 assumes or transfers substantially all risks and rewards of ownership.

Subsequent measurement and impairment

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

An impairment for loans and receivables is recognised when there is a reasonable expectation that the group will not be able to collect all amounts due, according to the original terms and conditions of the assets in this category. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the provision is recognised in the statement of comprehensive income.

**2.14 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.

**2.15 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 the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

**2.16 Impairment of assets**

**2.16.1 Financial assets carried at amortised cost**

The group assesses at each end of a reporting period 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 the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk 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 the statement of comprehensive income.

**2.16.2 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).

**2.17 Loans to policyholders**

Loans to policyholders are classified as 'loans and receivables' (refer to accounting policy 2.13.2), and are 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 debts arise, they are written off during the year in which they are identified.

**2.18 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.

**2.19 Share capital**

Ordinary and preference shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

**2.20 Share-based payments**

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

**2.20.1 Equity-settled share-based payments**

The equity-settled share-based payments in the group include the general employee demutualisation shares (free shares) as well as the share incentive shares to certain qualifying employees.

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.

**2.20.2 Cash-settled share-based payments**

The cash-settled share-based payments in the group comprise of the shares issued to the executive directors.

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.

**2.21 Policyholder contracts - Investment and Insurance**

*2.21.1 Insurance and investment 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.

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.

*2.21.2 Investment contracts*

The group issues investment management contracts 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. Hence any negative non-unit liabilities linked to an investment contract are zeroed.

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 (DRL)

Investment management fees on investment contracts are recognised on an accrual basis as and when the services are rendered.

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 DRL 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 DRL is then 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 the statement of comprehensive income.

2.21.2 *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 the statement of comprehensive income. The group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in accounting policy 2.16.

2.21.3 *Insurance contracts*

Valuation

Defined insurance liabilities 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 the statement of comprehensive income 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.

2.21.3 *Insurance contracts (continued)*

• 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. Discretionary margins are included to allow for the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied.

• Group insurance contracts

The post claim liability consists of two elements – claims that have been reported (outstanding reported claims) and claims that have not yet been reported (Incurred but not reported – IBNR – claims) to Assupol Life. 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 APN110. The group has moved from a stochastic model that projects investment returns for various asset classes according to the estimated probability distribution based on historical observations and future expectations (referred to as a real-world model) to one that reproduces the market prices of tradable assets as closely as possible (referred to as a market-consistent model). The new model will result in investment guarantees being reflected at fair value. Future asset returns and costs arising from each guarantee are projected stochastically. The liability is then calculated based on the expected present value of the cost of each guarantee.

Liability adequacy test

At each end of a reporting period the adequacy of the insurance liabilities is assessed. If that 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, which 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. They also include claims that arise from death and disability events that have occurred up to the end of the reporting period even if they have not been reported to the life insurer (IBNR claims).

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

**2.22 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 and deferred and current taxation.

Liabilities are derecognised when they are legally extinguished.

*2.22.1 Financial liabilities excluding policyholder liabilities under investment contracts*

Initial classification and recognition

All financial liabilities (excluding policyholder liabilities under investment contracts) are initially recognised at fair value.

Subsequent measurement

All financial liabilities (excluding policyholder liabilities under investment contracts) are subsequently measured at amortised cost, using the effective interest rate method. Financial liabilities with a demand feature are valued at not less than the amount payable on demand.

*2.22.2 Policyholder liabilities under investment contracts*

Initial classification and recognition

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

Subsequent measurement

Refer to accounting policy 2.21.2 for a detailed description of the valuation of these contracts. The change in fair value is recognised in the statement of comprehensive income under 'fair value adjustments on investment contract liabilities'.

**2.23 Employee benefits**

*2.23.1 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 the statement of comprehensive income 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.

*2.23.2 Leave pay accrual*

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

*2.23.3 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.

**2.24 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 (Exco).

The group discloses its operating segments according to the entities in the group that are regularly reviewed by Exco.

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 Exco. 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 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 Assumptions and estimates relating to policyholder liabilities / assets**

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 R416 805 000 resulting in a net year-end asset balance of R576 267 000. The primary reason for this increase results from the change in reinsurance modelling, which gave rise to and increase in the net assets of R278 million.

For further information refer to notes 4.4 and 28 to the financial statements.

#### **3.2 Present value of in-force business**

The 'present value of in-force business' is the present value of future profits on existing insurance contracts, whether acquired as a result of business combinations or as a result of the sale of insurance contracts, less the required cost of capital to support these contracts. The present value is calculated using a discounted cash flow model. For further information, refer to note 19 to the financial statements.

#### **3.3 Valuation of customer list and contracts**

The fair value of customer list and contracts is the present value of future income on existing contracts held by Pan-African Asset Management. The present value is calculated using a discounted cash flow model. For further information, refer note 19 to the financial statements.

#### **3.4 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 to note 19 to the financial statements.

#### **3.5 Valuation of owner-occupied properties**

The values of the owner-occupied properties depend on a number of factors that are determined using certain assumptions. The properties - Erf 34 and Erf 26, Menlo Park, Pretoria - were valued in 2013 on an income capitalisation basis. On the recommendation of the external professional valuator, the valuation was increased by 6% in 2014.

The following assumptions were used in the valuation of the properties:

- The expected long-term rate of return on each of the properties of 9.5%;
- the average rentals for office space in the area at R125 per m<sup>2</sup> for Erf 34 and R130 per m<sup>2</sup> for Erf 26; and
- the estimated expenses relating to the buildings at 20% of the rental amount.

For further information, refer to note 17 to the financial statements.

#### **3.6 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% (2013: 28%). Assupol Life have three separate tax funds namely the individual policyholders' fund (taxed at 30% in both years), the untaxed policyholders' fund (not taxed), 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.

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

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

**3.7 Share-based payments - Expense and liability determination**

The amounts expensed representing the value of equity-settled and cash-settled share-based payments granted to employees, as well as the movement in the liability of cash-settled schemes, is 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 26.

**4. ASSUMPTIONS AND ESTIMATES RELATING TO POLICYHOLDER 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 deterioration in 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 2014 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 2014 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.

*Economic : Expenses*

- The current assumed level of future expense inflation is 5.93% (2013: 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; less,
- 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):

	<b>Assupol Life</b>	
	<b>2014</b>	<b>2013</b>
Debt securities / Other loans / Foreign investments	7.90%	7.75%
Deposits and money market securities	5.90%	3.55%
Equity securities	11.40%	11.25%
Policyholder loans	13.00%	12.50%
Loans to personnel	6.50%	7.50%
Foreign investments	6.90%	6.75%
Net current assets	0.00%	0.00%

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

**4.1 Assumptions for discounted liabilities (continued)**

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

	<b>Assupol Life</b>	
	<b>2014</b>	<b>2013</b>
Non unit linked business (excluding with-profits business)	7.90%	7.75%
With-profits business	7.90%	7.75%
Unit linked business	8.80%	8.50%

*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:

<b>Assumption</b>	<b>2014 margin adjustment</b>	<b>2013 margin adjustment</b>
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 seems 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.

For the self-insured contracts the liability is set equal to the asset (positive) held for the schemes in the statement of financial position of Assupol Life; any negative assets are set equal to zero. In addition, a reserve of 10% of one month's premium has been set up in respect of any IBNR claims for the NBC self-insured scheme. No reserve is held for the PFA self-insured scheme.

**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.

**4.4 Effect of changes in assumptions**

Modelling changes and data corrections 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. The main adjustments were in respect of the following:

- Splits were incorporated for the smoking status of policyholders on the Progress Legacy (2009) accelerated benefits, selected Aids tables on the underwritten Progress Series products and other modelling corrections in terms of decrement tables;
- The split in the investment return assumption between income and growth was removed;
- A new inflation methodology was introduced. This change decreased the expense inflation rate assumption from 5.75% p.a. to 5.46% p.a.;
- A new surrender value methodology for the Conventional business was introduced;

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

**4.4 Effect of changes in assumptions (continued)**

- The reinsurance modelling was updated in the following manner:
  - Release in margins previously included on the reinsured proportion of the reserve calculation;
  - Release in the Aids reserve of the reinsured proportion of the reserve; and
  - Updated reinsurance rates.
- The proportion of negative reserves eliminated was increased from 75% to 85%; and
- OCAR modelling was updated to be consistent with the group's most recent Asset Liability Modelling investigation and the operational risk formula changed from EIOPA to SA QIS3.

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

- Change the APN110 reserve as a result of the recalibration of the stochastic model;
- The withdrawal rate assumptions were updated in accordance with the most recent withdrawal experience investigation;
- The NTU rate assumptions were updated in accordance to the most recent withdrawal experience investigation;
- The mortality and loss ratio assumptions were updated in accordance with the most recent experience investigations;
- The inflation rate increased from 5.46% p.a. to 5.93% p.a.;
- The investment return assumption on the unit reserves increased from 8.5% p.a. to 8.8% p.a. and the investment return assumption on the non-unit reserves increased from 7.75% p.a. to 7.9% p.a.;
- The per-policy expense assumption decreased from R333 (after allowing for one year inflation) to R326;
- The future reversionary bonus rate was increased from 2.3% to 2.5% and a special bonus of 15% on reversionary bonuses was declared on Assupol Life Conventional business;
- The compulsory margins on Cornerstone were changed and a discretionary margin of 10% on Group business was introduced; and,
- Introduced an additional reserve for unexpired risk (AURR) on partially off-site group business.

The following table quantifies the impact of changes made in the assumptions from the previous periods:

	<b>CONSOLIDATED</b>	
	<b>2014</b>	<b>2013</b>
	R'000	R'000
Modelling changes and data corrections on opening liabilities	(332 070)	(13 649)
Change in APN110 reserve	(2 671)	11 573
Change in NTU rate assumptions	763	131
Change in renewal expense assumptions	(52 254)	(8 754)
Change in mortality assumptions	(37 330)	(69 000)
Change in withdrawal rate assumptions	48 395	35 100
Change in investment return assumptions	(17 567)	(23 398)
Change in inflation assumptions	118 308	64 709
Change in compulsory margins	6 840	36 864
Addition of AURR	12 077	36 864
<b>Total change in basis</b>	<b>(255 509)</b>	<b>70 439</b>

**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 were 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.

	<b>2014</b>		<b>2013</b>	
	Liability R'000	Change R'000	Liability R'000	Change R'000
Main basis	(576 267)		(159 462)	
Renewal expenses plus 10%	(367 467)	208 800	4 114	163 576
Inflation plus 1%	(330 318)	245 949	43 083	202 545
Investment return less 1%	(449 017)	127 250	(45 123)	114 339
Investment return less 1% and reduce bonuses	(456 831)	119 436	(51 214)	108 248
Withdrawals plus 10%	(612 631)	(36 364)	(189 698)	(30 236)
Risk experience plus 10%	(429 275)	146 992	73 920	233 382

The above figures combine discounted and undiscounted liabilities. The latter is not sensitive to the assumptions as they are valued retrospectively. The investment contracts are also not sensitive to changes in assumptions since they are valued retrospectively i.e. a minimum of the account balance is held.

## **5. RISK MANAGEMENT**

This section provides information on the processes and structures in place to manage and mitigate risks identified by the group. As a custodian of policyholder funds, the 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 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 group 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 facilitates and promotes communication between the external auditors, statutory actuary and executive management. The committee is chaired by an independent non-executive director, comprises of three non-executive directors, and meets on a quarterly basis.
- A group Risk Committee has been established by the Board of Directors, and is tasked with ensuring that a proper risk management framework and appropriate reporting channels are implemented for the entire group. The committee is chaired by an independent non-executive director, comprises of three non-executive directors, and meets on a quarterly basis.
- The Board of Directors has also established separate group Nomination and Remuneration Committees. The Nomination Committee has the principal task of nominating non-executive directors for appointment at the annual general meeting, and the Remuneration Committee has the principal task of considering and determining the remuneration policy of all employees of the Assupol Group. The committees are chaired by an independent non-executive director, and comprise of three non-executive directors, and meets at least twice a year.
- As per requirement of the Companies Act, no 71 of 2008, a Social and Ethics Committee has also been established which deals with the statutory duties as prescribed in as listed in regulation 43(5) of the Companies Act. It comprised of two executive directors and one non-executive director during the year under review, and met twice during the year under review.
- The group Actuarial Committee evaluate the recommendations of the statutory actuary, evaluates and approves products, determines the level of fees and charges on policies, evaluates Assupol Life's competitiveness in the market (and takes corrective action where necessary), and examines and makes recommendations regarding the company's cost structure. The committee is chaired by the Chief Financial Officer, and meets at least on a bi-monthly basis.
- The group Investment Committee was established by the Board of Directors during the year. The Investment Committee oversees the asset management process of the Assupol group as a whole according to guidelines and objectives set by the Investment Policy document and in conjunction with the Asset Liability Model as compiled by the statutory actuary. The committee is chaired by an independent non-executive director, comprises of four non-executive directors and three executive directors. The committee meets on a quarterly basis.
- The executive committee monitors the operations of all companies in the Assupol group and the implementation of strategic vision of the Board of Directors. The committee comprises of the executive directors and the prescribed officer of Assupol Holdings and meets on a monthly basis.
- The management 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 (which meet on an ad-hoc basis), including amongst others:
  - > the credit control committee, which approves broker contracts, and monitors their relative performance and unvested commission levels.
  - > the information technology committee, which monitors information technology performance, and interacts with users of the information technology system to identify any problem areas that need to be improved.

**5 RISK MANAGEMENT (continued)**

**5.2 Insurance risk**

Insurance risk is the risk that benefit payments and related expenses exceed the carrying amount of 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 various contracts offered by the group as well as an indication of where the concentration of the risk lies.

Contracts offered by the group	Contract type	2014	2013
		% of premium	% of premium
Individual insurance business			
Conventional individual business	Insurance	0.1%	0.1%
Other individual risk business	Insurance	53.1%	50.1%
Group risk business	Insurance	46.8%	49.8%
		100.0%	100.0%

The prescribed officer and the sales managers in the group meet on a monthly basis to discuss and monitor market, sales and product related matters. Geographical and industry statistics of policyholders are analysed and decisions are taken accordingly.

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

- Quarterly statutory valuations evaluating the financial soundness of Assupol Life;
- A bi-annual analysis of surplus report detailing the source of income and expenses per business class;
- A biennial asset liability modelling exercise as described in note 5.3.2.c; and
- Premium rates certification as described in note 5.2.1.

The group actuarial support team performs the following tasks for Assupol Life:

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

The group Actuarial Committee supports the statutory actuary in his responsibility for the oversight of insurance risk.

**5.2.1 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 or group contract.
- All new premium rates are approved and authorised by the statutory actuary prior to being issued.
- New products and premium rates are also reviewed and approved by the group Actuarial 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 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 (a large portion of Assupol Life's policyholders are members of the SAPS, and as such, are exposed to the violent element of our society at present).
- 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)**

**5.2.1 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, dread disease 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.
  - > To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of age, gender, socio-economic rating, and smoker status level, and the results of underwriting investigations. 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 each product. 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) high risk Aids model.
  - > Reinsurance agreements are used to limit the risk on any single policy. Sums assured above a negotiated 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. Currently no catastrophe cover has been purchased.
  - > Frequent experience investigations are carried out to monitor the experience against actuarial assumptions. Recommendations on corrective actions are discussed at the group Actuarial Committee.

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

*Consolidated*

**30 June 2014**

Sum insured at risk	Before reinsurance		After reinsurance	
	R'000	%	R'000	%
0 - 20 000	10 215 081	32.11%	3 362 861	28.86%
20 000 - 50 000	2 817 678	8.86%	649 548	5.57%
50 000 - 100 000	1 214 187	3.82%	2 593 877	22.26%
100 000 - 200 000	4 404 177	13.85%	4 918 994	42.21%
200 000 - 500 000	6 533 783	20.54%	126 743	1.09%
> 500 000	6 624 660	20.82%	1 500	0.01%
<b>Total</b>	<b>31 809 566</b>	<b>100.00%</b>	<b>11 653 523</b>	<b>100.00%</b>

**30 June 2013**

Sum insured at risk	Before reinsurance		After reinsurance	
	R'000	%	R'000	%
0 - 20 000	8 883 902	34.59%	3 004 589	44.68%
20 000 - 50 000	2 461 664	9.59%	977 572	14.54%
50 000 - 100 000	938 794	3.66%	1 364 613	20.29%
100 000 - 200 000	3 109 596	12.11%	1 378 566	20.49%
200 000 - 500 000	5 060 404	19.70%	-	0.00%
> 500 000	5 227 440	20.35%	-	0.00%
<b>Total</b>	<b>25 681 800</b>	<b>100.00%</b>	<b>6 725 340</b>	<b>100.00%</b>

**5. RISK MANAGEMENT (continued)**

**5.2.1 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.

The table below shows the concentration of group schemes by scheme size.

<i>Consolidated</i>	<b>2014</b>		<b>2013</b>		
	Scheme size (based on number of lives covered)	Number	%	Number	%
	0 - 1 000	368	82.70%	339	79.39%
	1 000 - 5 000	57	12.81%	59	13.82%
	> 5 000	20	4.49%	29	6.79%
<b>Total</b>		<b>445</b>	<b>100.00%</b>	<b>427</b>	<b>100.00%</b>

**5.2.2 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 group Actuarial Committee.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**5. RISK MANAGEMENT (continued)**

5.3 Financial risk management

5.3.1 Financial risk

Financial risk is the risk that a company will not have adequate cash flows to meet financial obligations. Assupol Life is 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 life company within the group match its assets and liabilities as accurately as is practically 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. The reported benchmark allocations against actual experience for each asset class are monitored by the Investment Committee and aligned with the mandates.
- The excess assets are exposed to the risk of fluctuations in the value of assets supporting surplus capital.
- 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 reconciles the liabilities for each category to the total policyholder liability at the end of the reporting period.

<i>Consolidated</i>	<b>2014</b>		<b>2013</b>	
	Net liability at year-end R'000	Proportion of total liabilities %	Net liability at year-end R'000	Proportion of total liabilities %
Market-related business				
Individual market-related business	1 285 800	181.22%	1 138 581	116.29%
Other business	(576 267)	(81.22%)	(159 462)	(16.29%)
Conventional individual risk business	108 999	15.36%	124 161	12.68%
Other individual risk business	(817 436)	(115.21%)	(424 550)	(43.36%)
Group risk business	113 629	16.01%	119 716	12.23%
Liability for embedded derivatives	18 541	2.62%	21 211	2.16%
<b>Total policyholder liability</b>	<b>709 533</b>	<b>100%</b>	<b>979 119</b>	<b>100%</b>

5.3.1.a *Market-related business*

- The 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 liabilities are compared to the assets on a monthly basis. Transactions are created where the assets and liabilities do not match.

5.3.1.b *Other 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.

5.3.1.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 to note 5.3.2.b). The exposure is not deemed to be material in the context of Assupol Life's results.

**5. RISK MANAGEMENT (continued)**

*5.3.1.d Investments in structured and other entities*

Structured entities

The group has assessed its interests in collective investment schemes in which the group has the irrevocable asset management agreement over the funds and in which the group has invested significantly. 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 debt instruments are invested in accordance to segregated mandate provided to the asset manager by the Investment Committee. The equity instruments are invested through a collective investment scheme that was selected by the Investment Committee and are invested in accordance to the rules of the scheme. 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 22 to the financial statements.

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 investee funds	Total market value of instruments R'000	Market value as % of Investment portfolio	Investment value as % of issuer market capitalisation *	Market capitalisation of all issuers * R'm	Control or significant influence
Debt instruments						
Debt Long	3	25 361	0.90%	26 434	0.73%	No
Equity instruments						
Equity Long	1	120 014	4.27%	47 691	0.25%	No

\* All inclusive price

The collective investment scheme, Pan African IP Income Hunter Fund, that is managed by Pan-African Asset Management was assessed as an associate. For more information refer note 21.

Other entities

Management has assessed control over the three trusts that were created during the demutualisation of the Assupol group. 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 Board of South Africa and the group has no exposure or rights to variable returns from the trust.

Similarly it was 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 Board of South Africa and the South African Revenue Services in areas 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.

With regard to the Assupol Share Incentive Trust the group has control and significant influence 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 26.

*5.3.2 Financial risk factors*

The group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk, and can affect the values of the group's financial assets and liabilities, as well as the group's insurance contract assets and liabilities. The group's overall risk management programme focuses 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.

**5. RISK MANAGEMENT (continued)**

**5.3.2 *Financial risk factors (continued)***

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

	Market risk	Credit risk	Liquidity risk	2014 R'000	2013 R'000
At fair value through profit or loss					
Equity securities	x			1 328 091	1 112 725
Debt securities	x	x	x	1 112 480	968 011
Deposits and money market securities	x	x		376 437	308 252
Interest in associates - equity accounting	x	x		4 348	2 054
Loans and receivables					
Insurance and other receivables	x	x		104 082	108 645
Cash and cash equivalents	x	x		199 059	240 843
Policyholder assets	x *		x	576 267	159 462
Policyholder liabilities	x *		x	1 285 800	1 138 581
Borrowings			x	22	133 712
Insurance and other payables			x	212 810	171 485

\* The assumptions used to determine the value of the policyholder assets and liabilities are effected by the historical market experience. For a market risk sensitivity analysis of these assumptions, refer to note 5.3.2.a (v).

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 daily 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 7.1%.

**5.3.2.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. In addition, in light of the group's investment in investment properties, there is exposure to fluctuation in property values.

**(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 22. 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 currency exposure at year-end is as follows:

	2014 R'000	2013 R'000
Global unit trusts	120 014	101 938
Foreign currency amount (US\$)	11 290	10 328
Closing exchange rate at 30 June	10.6303	9.8700
Average exchange rate during the year	10.3603	8.8400

Overall, foreign exchange risk is considered to be within acceptable risk levels and managed effectively, as it represents only 3.3% (2013: 3.5%) 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 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.

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**5. RISK MANAGEMENT (continued)**

*5.3.2.a Market risk (continued)*

(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 to note 22 to the financial statements.

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 policyholder asset has the characteristics of a financial liability as this is negative policyholder liabilities determined by the actuaries and is not included below.

<i>Consolidated</i>	Carrying value	Exposed to cash flow interest rate risk	Exposed to fair value interest rate risk	Effective interest rate at year-end
<b>30 June 2014</b>	R'000	R'000	R'000	%
At fair value through profit or loss				
Debt securities				
Corporate bonds	640 978	361 512	279 466	7.87%
Government bonds	141 667	-	141 667	9.15%
Parastatals and utilities	270 591	22 738	247 853	8.85%
Municipalities	9 424	-	9 424	9.43%
Insurance policy - Global bonds *	49 820	-	49 820	N/a
Deposits and money market securities	376 437	62 805	313 632	6.10%
Loans and receivables				
Insurance and other receivables (interest-bearing)	69 030	63 158	5 872	12.44%
Insurance and other receivables (provision for impairment)				
Premiums receivable	(30 413)	-	-	0.00%
Sundry insurance receivables	(15 378)	-	-	0.00%
Insurance and other receivables (non interest-bearing)	80 843	-	-	0.00%
Cash and cash equivalents	199 059	199 059	-	4.13%
	<b>1 792 058</b>	<b>709 272</b>	<b>1 047 734</b>	

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

**30 June 2013**

At fair value through profit or loss				
Debt securities				
Corporate bonds	388 289	169 803	218 486	7.22%
Government bonds	310 203	-	310 203	7.37%
Parastatals and utilities	212 539	-	212 539	7.21%
Municipalities	13 052	-	13 052	8.66%
Insurance policy - Global bonds *	43 928	-	-	N/a
Deposits and money market securities	308 251	65 979	242 272	5.58%
Loans and receivables				
Insurance and other receivables (interest-bearing)	93 312	85 722	7 590	12.24%
Insurance and other receivables (provision for impairment)				
Premiums receivable	(27 209)	-	-	0.00%
Sundry insurance receivables	(13 866)	-	-	0.00%
Insurance and other receivables (non interest-bearing)	56 408	-	-	0.00%
Cash and cash equivalents	240 843	240 843	-	3.01%
	<b>1 625 750</b>	<b>562 347</b>	<b>1 004 142</b>	

**NOTES TO THE FINANCIAL STATEMENTS  
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**5. RISK MANAGEMENT (continued)**

*5.3.2.a Market risk (continued)*

(iv) *Hedging*

There are no derivative contracts entered into purely for speculative purposes. All hedging transactions are to hedge the exposure to changes in the fair value of recognised assets or liabilities.

Hedges on interest-bearing instruments are used by investment managers to reposition Assupol Life's views on credit risk, interest rate risk or to change the shape of a yield curve of different instruments. Derivatives are exchange traded, i.e. are listed and valued by an independent exchange, and margined on a daily basis.

All limitations and approvals as set by the Long Term Insurance Act, no 52 of 1998, are met at all times.

(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 represent an increase to policyholders' liabilities and profit after taxation, and correspondingly, negative numbers indicate a decrease to policyholders' liabilities and profit after taxation. 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 5.2. The economic assumptions address possible changes as a result of market risks identified and described in note 5.3.2.a.

Assumption description	Change in variable %	Impact to total policyholders' liabilities		Impact on ordinary shareholders' equity and attributable profit after tax	
		2014	2013	2014	2013
		R'000	R'000	R'000	R'000
<i>Consolidated</i>					
Non-market long-term assumptions					
Mortality and morbidity	+10%	146 843	233 241	(105 727)	(167 933)
	-10%	(144 442)	(317 729)	103 998	228 765
Withdrawals	+10%	(38 194)	(32 016)	27 500	23 051
	-10%	46 698	38 861	(33 622)	(27 980)
Renewal expense per policy	+10%	213 545	168 135	(153 752)	(121 057)
	-10%	(213 187)	(188 114)	153 494	135 442
Economic assumptions					
Interest rate	+1%	(88 721)	(80 312)	63 879	57 825
	-1%	129 201	116 285	(93 024)	(83 725)
Inflation	+1%	248 017	204 501	(180 609)	(148 233)
	-1%	(205 565)	(169 987)	150 044	123 383
Rand exchange rate	+10%	-	-	12 228	10 502
	-10%	-	-	(12 228)	(10 502)
Equity prices	+10%	96 648	92 558	23 058	5 021
	-10%	(96 639)	(92 532)	(23 078)	(5 021)

**5. RISK MANAGEMENT (continued)**

*5.3.2.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 is formally defined such 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 management process uses a multi-manager philosophy to reduce risk to a single investment manager. Equity, bonds and cash exposure is 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 when placing the business and when there is a change in the status of the reinsurer.

No significant credit risk exists with policy loans as the policy will exit 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.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

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 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 bonds, government and government guaranteed bonds and related securities. Credit risk is reduced by only investing in the bonds and securities that are rated at these levels by Fitch Ratings, or the equivalent ratings of any accredited international rating agency. The rating used is the National Long Term rating as provided by Fitch.
  - > Investment managers are only allowed to invest in A1+ and A1 rated (long-term) and F1+ and F1 rated (short-term) money market instruments, as rated by Fitch Ratings, an accredited international rating agency.
  - > Investment managers are allowed to invest in any listed property vehicle at their own discretion, subject to the applicable limitations set out by regulation 28. Investment in physical property is not allowed, and must be authorised by Assupol Life's Board of Directors on recommendation of the Investment Committee.
- 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 Board 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.

**NOTES TO THE FINANCIAL STATEMENTS  
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**5. RISK MANAGEMENT (continued)**

*5.3.2.b Credit risk (continued)*

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
The maximum exposure to credit risk from the financial assets at the end of the reporting period was:				
At fair value through profit or loss				
Debt securities				
Corporate bonds	640 978	388 289	-	-
Government bonds	141 667	310 203	-	-
Parastatals and utilities	270 591	212 539	-	-
Municipalities	9 424	13 052	-	-
Insurance policy - Global bonds	49 820	43 928	-	-
Deposits and money market securities	376 437	306 198	-	-
Loans and receivables				
Insurance receivables				
Premium receivables - Insurance contracts	8 676	10 856	-	-
Premium receivables - Other	8 088	4 854	-	-
Sundry insurance receivables	8 488	5 131	-	-
Reinsurance recoveries	37 988	23 482	-	-
Loans to policyholders - Insurance contracts	14 741	25 442	-	-
Loans to policyholders - Other	1 240	143	-	-
Other receivables:				
Other sundry receivables	13 589	30 170	95	606
Loans to personnel and other loans	11 272	8 567	-	-
Cash and cash equivalents	199 059	240 843	19 138	2 325
Interest in associates - equity accounting	4 348	2 054	-	-
<b>Total</b>	<b>1 796 406</b>	<b>1 625 751</b>	<b>19 233</b>	<b>2 931</b>

The assets listed above are analysed in the table below using Fitch ratings, and where not available, Fitch equivalent ratings:

Local debt securities	1 062 660	924 083	-	-
AAA, F1+	330 850	384 150	-	-
AA+, AA, AA-, F1	456 217	336 232	-	-
A+, A, A-	275 593	202 696	-	-
Unrated	-	1 005	-	-
Deposits and money market securities	376 142	306 198	-	-
AAA, F1+	80 162	49 607	-	-
AA+, AA, AA-, F1	200 585	151 904	-	-
A+, A, A-	95 395	104 687	-	-
Cash and cash equivalents	199 059	240 843	19 138	2 325
AAA	632	10 370	-	-
AA+, AA, AA-	198 427	227 699	19 138	2 325
A+, A, A-	-	2 774	-	-
Unrated	104 377	108 645	95	606
Deposits and money market securities	295	-	-	-
Insurance receivables	79 221	69 908	-	-
Other receivables	24 861	38 737	95	606
Global debt securities	49 820	43 928		
AAA, F1+	24 711	3 458	-	-
AA+, AA, AA-, F1	4 534	39 736	-	-
A+, A, A-	19 828	511	-	-
BBB+, BBB, BBB-	747	223	-	-
Interest in associates - equity accounting				
Unrated	4 348	2 054	-	-
<b>Total</b>	<b>1 796 406</b>	<b>1 625 751</b>	<b>19 233</b>	<b>2 931</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**5. RISK MANAGEMENT (continued)**

**5.3.2.b Credit risk (continued)**

Fitch rating used :

The rating used for local assets is the National Long Term rating as provided by Fitch. 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) as provided by Fitch.

Meaning of Fitch or Fitch equivalent ratings :

The rating used is the National Long Term rating as provided by Fitch. This rating gives a relative credit quality for the issuer and/or entity in relation to the government of the Republic of South Africa.

AAA, F1+	Highest quality - An extremely strong capacity to meet its financial obligations.
AA+, AA, AA-, F1	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	
		2014 R'000	2013 R'000	2014 R'000	2013 R'000
Policyholder receivables	<i>Gross</i>	63 158	68 504	-	-
	<i>Impairment provision</i>	(30 413)	(27 209)	-	-
	<i>Net</i>	32 745	41 295	-	-

The following table provides information regarding the credit quality of assets which expose the group to credit risk:

Debt securities	1 112 480	968 011	-	-
Neither past due, nor impaired	1 112 480	968 011	-	-
Impairment provisions	-	-	-	-
Deposits and money market securities	376 437	306 198	-	-
Neither past due, nor impaired	376 437	306 198	-	-
Impairment provisions	-	-	-	-
Insurance receivables	79 221	69 908	-	-
Neither past due, nor impaired	70 307	64 265	-	-
Past due				
0 to 2 months	6 160	4 216	-	-
3 to 5 months	2 927	7 305	-	-
More than 5 months	45 618	35 197	-	-
Impairment provisions	(45 791)	(41 075)	-	-
Other receivables	24 861	38 737	95	606
Neither past due, nor impaired	22 602	35 870	95	606
Past due				
0 to 2 months	312	571	-	-
3 to 5 months	129	304	-	-
More than 5 months	1 818	1 993	-	-
Impairment provisions	-	-	-	-
Cash and cash equivalents	199 059	240 843	19 138	2 325
Neither past due, nor impaired	199 059	240 843	19 138	2 325
Impairment provisions	-	-	-	-
Interest in associates - equity accounting				
Neither past due, nor impaired	4 348	2 054	-	-
<b>Total</b>	<b>1 796 406</b>	<b>1 625 751</b>	<b>19 233</b>	<b>2 931</b>

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**5. RISK MANAGEMENT (continued)**

**5.3.2.b Credit risk (continued)**

(ii) *Collateral coverage*

The following table discloses the financial effect that collateral has on the group's maximum exposure to credit in relation to financial assets:

2014	R'000	Unsecured *	Secured	Total Exposure	Exposure after netting **	Collateral coverage relative to secured exposure greater than 100%
Debt securities	820 502	291 978	1 112 480	1 112 480	-	
Corporate bonds	610 891	30 086	640 977	640 977	-	
Government bonds	-	141 668	141 668	141 668	-	
Parastatals and utilities	150 367	120 224	270 591	270 591	-	
Municipalities	9 424	-	9 424	9 424	-	
Insurance policy - Global bonds	49 820	-	49 820	49 820	-	
Deposits and money market securities	376 437	-	376 437	376 437	-	
Insurance receivables	57 368	21 853	79 221	79 221	-	
Other receivables	24 861	-	24 861	24 861	-	
Cash and cash equivalents	199 059	-	199 059	199 059	-	
Interest in associates- equity accounting	4 348	-	4 348	4 348	-	
	<b>1 482 575</b>	<b>313 831</b>	<b>1 796 406</b>	<b>1 796 406</b>	<b>-</b>	

\* The unsecured portion of insurance receivables includes an impairment provision of R45 791 000.

\*\* The group has no netting agreements in place.

**2013**

Debt securities	605 698	362 313	968 011	968 011	-	
Corporate bonds	380 937	7 352	388 289	388 289	-	
Government bonds	-	310 203	310 203	310 203	-	
Parastatals and utilities	167 781	44 758	212 539	212 539	-	
Municipalities	13 052	-	13 052	13 052	-	
Insurance policy - Global bonds	43 928	-	43 928	43 928	-	
Deposits and money market securities	304 686	1 512	306 198	306 198	-	
Insurance receivables	36 733	33 175	69 908	69 908	-	
Other receivables	38 737	-	38 737	38 737	-	
Cash and cash equivalents	240 843	-	240 843	240 843	-	
Interest in associates- equity accounting	2 054	-	2 054	2 054	-	
	<b>1 228 751</b>	<b>397 000</b>	<b>1 625 751</b>	<b>1 625 751</b>	<b>-</b>	

\* The unsecured portion of insurance receivables includes an impairment provision of R41 075 000.

**5.3.2.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 28).

- Liquidity requirements and cash resources are monitored by the group Investment Committee and the Actuarial Committee.
- The statutory actuary performs a biennial 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 into the ongoing investment strategy of Assupol Life to ensure that policyholder expectations and liquidity requirements are met.
- Appropriate assets back the group's liabilities and it has significant liquid resources.

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**5. RISK MANAGEMENT (continued)**

*5.3.2.c Liquidity risk (continued)*

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

The following are the undiscounted expected cash flows on contract liabilities, as this is the basis of how liquidity is managed:

<i>Consolidated</i>	<b>INSURANCE CONTRACTS</b>		<b>INVESTMENT CONTRACTS</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<i>Unit liabilities</i>				
Within 1 year	71 322	54 904	38 983	3 413
2 to 5 years	162 810	165 193	170 306	157 501
6 to 10 years	184 430	183 407	334 721	298 382
11 to 20 years	134 300	177 840	472 829	429 660
Over 20 years	43 719	47 779	234 493	216 020
<b>Total unit liabilities</b>	<b>596 581</b>	<b>629 123</b>	<b>1 251 332</b>	<b>1 104 976</b>
<i>Non-unit liabilities</i>				
Within 1 year	(515 841)	(360 560)	(16 955)	(19 663)
2 to 5 years	(1 699 870)	(1 128 775)	(53 979)	(54 441)
6 to 10 years	(653 475)	(397 882)	(37 317)	(29 607)
11 to 20 years	(931 448)	35 775	(30 982)	(20 236)
Over 20 years	1 876 153	2 012 684	(7 135)	(5 362)
<b>Total</b>	<b>(1 924 481)</b>	<b>161 242</b>	<b>(146 368)</b>	<b>(129 309)</b>
Effect of discounting cash flows	(242 893)	(1 539 010)	174 506	156 294
Effect of compulsory margins	904 610	514 812	6 330	6 620
Undiscounted liabilities (including IBNR reserves)	89 916	74 371	-	-
<b>Total non-unit liabilities</b>	<b>(1 172 848)</b>	<b>(788 585)</b>	<b>34 468</b>	<b>33 605</b>
<b>TOTAL</b>				
Within 1 year	(444 519)	(305 656)	22 028	(16 250)
2 to 5 years	(1 537 060)	(963 582)	116 327	103 060
6 to 10 years	(469 045)	(214 475)	297 404	268 775
11 to 20 years	(797 148)	213 615	441 847	409 424
Over 20 years	1 919 872	2 060 463	227 358	210 658
Effect of discounting cash flows	(242 893)	(1 539 010)	174 506	156 294
Effect of compulsory margins	904 610	514 812	6 330	6 620
Undiscounted liabilities (including IBNR reserves)	89 916	74 371	-	-
<b>Total policyholder liabilities</b>	<b>(576 267)</b>	<b>(159 462)</b>	<b>1 285 800</b>	<b>1 138 581</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**5. RISK MANAGEMENT (continued)**

*5.3.2.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	
	2014	2013	2014	2013
	R'000	R'000	R'000	R'000
Equity securities	1 226 388	1 079 177	-	-
Debt securities	440 540	645 250	-	-
Deposits and money market securities	290 866	134 727	-	-
<b>Total</b>	<b>1 957 793</b>	<b>1 859 154</b>	<b>-</b>	<b>-</b>

The expected liquidity requirement for undiscounted expected cash flows for unit liabilities for the next year is R110 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 inflow of R533 million and therefore no provision is needed for liquidity purposes.

The following table shows the policyholder liability and the cash surrender value that relates to the respective policies.

<i>Consolidated</i>	CARRYING VALUE		SURRENDER VALUE	
	2014	2013	2014	2013
	R'000	R'000	R'000	R'000
Insurance contracts				
Linked and conventional business	179 531	173 207	658 089	707 168
Other business	(755 798)	(332 669)	-	-
Investment contracts	1 285 800	1 138 581	1 152 806	1 002 981
<b>Total policyholder liabilities</b>	<b>709 533</b>	<b>979 119</b>	<b>1 810 895</b>	<b>1 710 149</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	
	2014	2013	2014	2013
	R'000	R'000	R'000	R'000
Borrowings	22	133 712	-	132 768
Contractual undiscounted cash flows				
Within 1 year	-	133 236	-	132 768
2 to 5 years	22	476	-	-
More than 5 years	-	-	-	-
Open ended	-	-	-	-
Insurance and other payables	212 810	171 485	6 687	17 748
Contractual undiscounted cash flows				
Within 1 year	103 742	79 274	-	-
2 to 5 years	-	-	-	-
More than 5 years	-	-	-	-
Open ended	109 068	92 211	6 687	17 748
<b>Total</b>	<b>212 832</b>	<b>305 197</b>	<b>6 687</b>	<b>150 516</b>

**5. RISK MANAGEMENT (continued)**

**5.3.3 *Capital risk management***

**5.3.3.a *Capital management policies and objectives***

The group's capital management objectives are:

- To comply with the insurance regulatory capital requirements in Assupol Life;
- To ensure the group's ability to continue as a going concern; and
- To continue to provide acceptable returns for policyholders and shareholders.

The board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating value for policyholders and shareholders.

The group considers capital to be the share capital in conjunction with retained earnings of the subsidiaries.

**5.3.3.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:

	<b>2014</b>	<b>2013</b>
	R'm	R'm
Available qualifying capital	821.1	736.3
Statutory capital adequacy requirement	302.3	372.9
CAR coverage ratio	2.72	1.97

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

- Reducing bonus rates if investment returns drop. 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 experience 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)**

**5.3.4 Fair value estimation**

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

R'000	Financial assets and liabilities at FVTPL on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Total carrying amount	Fair value
<b>Company 2014</b>						
Investments in subsidiaries	644 610				644 610	644 610
Other receivables	-	95	-	-	95 *	95
Cash and cash equivalents	-	19 138	-	-	19 138	19 138
Borrowings	-	-	-	-	-	-
Other payables	-	-	6 687	-	6 687 *	6 687
<b>Company 2013</b>						
Investments in subsidiaries	622 921	-	-	-	622 921	622 921
Other receivables	-	606	-	-	606 *	606
Cash and cash equivalents	-	2 325	-	-	2 325	2 325
Borrowings	-	132 768	-	-	132 768	132 768
Other payables	-	-	17 748	-	17 748 *	17 748

\* These items are shown at nominal value.

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**5. RISK MANAGEMENT (continued)**

**5.3.4 Fair value estimation (continued)**

R'000	Financial assets and liabilities at FVTPL on initial recognition	Loans and receivables	Financial liabilities at amortised cost	Insurance contract assets and liabilities	Total carrying amount	Fair value
<b>Consolidated 2014</b>						
Local listed shares	1 208 077	-	-	-	1 208 077	1 208 077
Unit trusts						
Local	-	-	-	-	-	-
Global	120 014	-	-	-	120 014	120 014
Debt securities						
Corporate bonds	640 978	-	-	-	640 978	640 978
Government bonds	141 667	-	-	-	141 667	141 667
Parastatals and utilities	270 591	-	-	-	270 591	270 591
Municipalities	9 424	-	-	-	9 424	9 424
Insurance policy	49 820	-	-	-	49 820	49 820
Deposits and money market securities	376 437	-	-	-	376 437	376 437
Insurance receivables	-	9 328	-	69 893	79 221 *	79 221
Other receivables	-	24 861	-	-	24 861 *	24 861
Cash and cash equivalents	-	199 059	-	-	199 059	199 059
Insurance contract assets	-	-	-	576 267	576 267	576 267
Investment contract liabilities	1 285 800	-	-	-	1 285 800	1 285 800
Borrowings	-	22	-	-	22	22
Deferred revenue liability	297	-	-	-	297	297
Insurance payables	-	-	-	158 954	158 954 *	158 954
Other payables	-	-	53 856	-	53 856 *	53 856
<b>Consolidated 2013</b>						
Local listed shares	1 010 787	-	-	-	1 010 787	1 010 787
Unit trusts						
Local	-	-	-	-	-	-
Global	101 938	-	-	-	101 938	101 938
Debt securities						
Corporate bonds	388 289	-	-	-	388 289	388 289
Government bonds	310 203	-	-	-	310 203	310 203
Parastatals and utilities	212 539	-	-	-	212 539	212 539
Municipalities	13 052	-	-	-	13 052	13 052
Insurance policy	43 928	-	-	-	43 928	43 928
Deposits and money market securities	306 198	-	-	-	306 198	308 252
Insurance receivables	-	4 997	-	64 911	69 908 *	69 908
Other receivables	-	38 737	-	-	38 737 *	38 737
Cash and cash equivalents	-	240 843	-	-	240 843	240 843
Insurance contract liabilities	-	-	-	159 462	159 462	159 462
Investment contract liabilities	1 138 581	-	-	-	1 138 581	1 138 581
Borrowings	-	133 712	-	-	133 712	133 712
Deferred revenue liability	360	-	-	-	360	360
Insurance payables	-	-	-	125 246	125 246 *	125 246
Other payables	-	-	46 239	-	46 239 *	46 239

\* These items are shown at nominal value. Furthermore policyholder loans are secured by an underlying cash value of the policy on which the loan is granted.

5. RISK MANAGEMENT (continued)

5.3.5 *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 to note 23, 24 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 values of other financial assets and financial liabilities (excluding derivatives) are 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:
  - > Risk free rate: Ranging from 1.7% to 8.95%
  - > Credit spread: Ranging from 0.53% and 1.68%
  - > Inflation linked bond rate: 2.2%
  - > Liquidity premium: Ranging from 0.05% to 0.25%
- The fair values of derivatives are 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.

For level 3:

- When classifying fair value measures within levels 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.

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**5. RISK MANAGEMENT (continued)**

**5.3.5 Fair value hierarchy (continued)**

R'000	Level 1	Level 2	Level 3	TOTAL
<b>Consolidated 2014</b>				
<u>Financial assets designated as 'at fair value through profit or loss'</u>				
Local listed shares	1 185 782	22 295	-	1 208 077
Unit trusts				
Local	-	-	-	-
Global	120 014	-	-	120 014
Debt securities				
Corporate bonds	531 552	109 426	-	640 978
Government bonds	141 368	299	-	141 667
Parastatals and utilities	258 258	12 333	-	270 591
Municipalities	8 203	1 221	-	9 424
Insurance policy - Global bonds	49 820	-	-	49 820
Deposits and money market securities	62 911	313 526	-	376 437
<b>Total financial assets</b>	<b>2 357 908</b>	<b>459 100</b>	<b>-</b>	<b>2 817 008</b>
<u>Financial liabilities designated as 'at fair value through profit or loss'</u>				
Net investment contract liabilities	-	1 285 800	-	1 285 800
<b>Total financial liabilities</b>	<b>-</b>	<b>1 285 800</b>	<b>-</b>	<b>1 285 800</b>
<b>Consolidated 2013</b>				
<u>Financial assets designated as 'at fair value through profit or loss'</u>				
Local listed shares	1 002 668	8 119	-	1 010 787
Unit trusts				
Local	-	-	-	-
Global	101 938	-	-	101 938
Debt securities				
Corporate bonds	356 323	31 966	-	388 289
Government bonds	221 022	89 181	-	310 203
Parastatals and utilities	179 527	33 012	-	212 539
Municipalities	13 052	-	-	13 052
Insurance policy - Global bonds	43 928	-	-	43 928
Deposits and money market securities	306 198	-	-	306 198
<b>Total financial assets</b>	<b>2 224 656</b>	<b>162 278</b>	<b>-</b>	<b>2 386 934</b>
<u>Financial liabilities designated as 'at fair value through profit or loss'</u>				
Net investment contract liabilities	-	979 119	-	979 119
<b>Total financial liabilities</b>	<b>-</b>	<b>979 119</b>	<b>-</b>	<b>979 119</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**5. RISK MANAGEMENT (continued)**

**5.3.5 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 2014</b>		
Change in validity of quoted prices		
Corporate bonds	54 344	19 039
Municipalities	1 221	-
Change in classification		
Structured products - Local listed shares exposure	6 865	-
Structured products - Money market exposure	74 604	-
<b>Consolidated 2013</b>		
There were no transfers between the various levels during this reporting period.		
	<b>2014</b>	<b>2013</b>
	<b>R'000</b>	<b>R'000</b>
<b>Reconciliation of assets measured at fair value through profit or loss on Level 3</b>		
Opening and closing balance	-	-

**5.4 Other risks**

**5.4.1 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 weekly 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 to note 23 to the financial statements.

**5.4.2 Compliance and regulatory risk**

There are a multitude of laws that the group needs to comply with. 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 Audit Committee.

The financial services industry has undergone several regulatory changes over 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.

**5.4.3 Expense risk**

Assupol Life recovers its operating expenses by receiving an allowance for each new policy that is accepted, as well as a monthly expense allowance for each in-force policy. The risk is that the actual operating expenses of Assupol Life exceeds the recoveries from the allowances (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.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2013**

**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 includes Assupol Life that provides life insurance and investment solutions to the group's clients.

- Brokers: The group owns an insurance broker that sells funeral cover to the pensioner market. The short term insurance broker was sold on 30 June 2014.

- Other: This segment consists of the remaining smaller operating entities in the Assupol group that include two property companies, an asset manager, the collective investment scheme over which the asset manager has significant influence, 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 in all the non-life subsidiaries in the group.

	<b>Life insurance</b>	<b>Brokers</b>	<b>Other</b>	<b>Reporting adjustments</b>	<b>Total</b>
	R'000	R'000	R'000	R'000	R'000
<b>6.1 Segment earnings for the year ended 30 June 2014</b>					
Net insurance premium revenue	1 644 396	-	-	-	1 644 396
Commission received on outward reinsurance	10 560	-	-	-	10 560
Fee income	60 949	-	-	-	60 949
Investment income and net fair value gains on financial assets	450 302	439	2 481	(1 285)	451 937
Other income	2	57 445	19 835	(51 020)	26 261
<b>Income</b>	<b>2 166 209</b>	<b>57 883</b>	<b>22 317</b>	<b>(52 306)</b>	<b>2 194 103</b>
Net insurance benefits and claims	(685 393)	-	-	-	(685 393)
Expenses for the acquisition of insurance and investment contracts	(364 800)	(10 863)	-	43 094	(332 568)
Operating and administrative expenses	(530 660)	(38 421)	(8 868)	(17 151)	(595 100)
Investment management expenses	(14 614)	-	-	9 008	(5 606)
Change in insurance contract provisions	416 805	-	-	-	416 805
Fair value adjustments on investment contracts liabilities	(192 701)	-	-	-	(192 701)
<b>Expenses</b>	<b>(1 371 363)</b>	<b>(49 284)</b>	<b>(8 868)</b>	<b>34 952</b>	<b>(1 394 563)</b>
<b>Result of operating activities</b>	<b>794 845</b>	<b>8 600</b>	<b>13 448</b>	<b>(17 354)</b>	<b>799 540</b>
Finance charges	-	(67)	(583)	(5 768)	(6 418)
Share of profit from associate	-	-	185	-	185
<b>Profit before taxation</b>	<b>794 845</b>	<b>8 533</b>	<b>13 050</b>	<b>(23 122)</b>	<b>793 307</b>
Income tax expense	(216 970)	(2 722)	(3 346)	194	(222 845)
<b>PROFIT FOR THE YEAR</b>	<b>577 875</b>	<b>5 811</b>	<b>9 704</b>	<b>(22 928)</b>	<b>570 462</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 881</b>	<b>1 881</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>577 875</b>	<b>5 811</b>	<b>9 704</b>	<b>(21 047)</b>	<b>572 343</b>

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6. SEGMENT INFORMATION (continued)

	Life insurance R'000	Brokers R'000	Other R'000	Reporting adjustments R'000	Total R'000
<b>Segment earnings for the year ended 30 June 2013</b>					
Net insurance premium revenue	1 508 081	-	-	-	1 508 081
Commission received on outward reinsurance	4 318	-	-	-	4 318
Fee income	63 772	-	-	-	63 772
Investment income and net fair value gains on financial assets	388 166	345	365	2 955	391 831
Other income	1 087	53 294	11 694	(42 383)	23 692
<b>Income</b>	<b>1 965 423</b>	<b>53 638</b>	<b>12 060</b>	<b>(39 428)</b>	<b>1 991 694</b>
<i>Net insurance benefits and claims</i>	(789 707)	-	-	-	(789 707)
Expenses for the acquisition of insurance and investment contracts	(310 086)	(8 201)	-	38 389	(279 898)
Operating and administrative expenses	(422 925)	(35 411)	(8 943)	(33 301)	(500 579)
Investment management expenses	(13 884)	-	-	3 035	(10 848)
Change in insurance contract provisions	106 815	-	-	-	106 815
Fair value adjustments on: - investment contracts liabilities	(125 443)	-	-	-	(125 443)
<b>Expenses</b>	<b>(1 555 229)</b>	<b>(43 611)</b>	<b>(8 943)</b>	<b>8 123</b>	<b>(1 599 660)</b>
<b>Result of operating activities</b>	<b>410 194</b>	<b>10 027</b>	<b>3 117</b>	<b>(31 305)</b>	<b>392 034</b>
Finance charges	-	(105)	(618)	(3 915)	(4 638)
Share of loss from associate	-	-	(4)	-	(4)
<b>Profit before taxation</b>	<b>410 194</b>	<b>9 922</b>	<b>2 495</b>	<b>(35 219)</b>	<b>387 392</b>
Income tax expense	(112 097)	(3 047)	(710)	(3 205)	(119 059)
<b>PROFIT FOR THE YEAR</b>	<b>298 097</b>	<b>6 874</b>	<b>1 785</b>	<b>(38 424)</b>	<b>268 333</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 226</b>	<b>1 226</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>298 097</b>	<b>6 874</b>	<b>1 785</b>	<b>(37 198)</b>	<b>269 559</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**6. SEGMENT INFORMATION (continued)**

	Life insurance R'000	Brokers R'000	Other R'000	Reporting adjustments R'000	Total R'000
<b>6.2 Other financial detail per operating segment for the year ended 30 June 2014</b>					
Financial assets - Investments	2 811 920	-	5 088	-	2 817 008
Policyholder assets	576 267	-	-	-	576 267
Total other assets	315 863	43 712	38 532	128 661	526 768
Policyholder liabilities	1 285 800	-	-	-	1 285 800
Total other liabilities	611 857	3 258	17 423	52 431	684 969
Additions to non-current assets	10 946	2 285	299	-	13 530
Depreciation	6 424	1 119	187	918	8 648
Amortisation of trademarks and customer relationships	-	-	-	2 619	2 619
Amortisation of PVIF business	1 830	-	-	-	1 830
Impairment of DAC	3 332	-	-	-	3 332
Amortisation of customer list and contracts	-	-	-	1 934	1 934
<b>Other financial detail per operating segment for the year ended 30 June 2013</b>					
Financial assets - Investments	2 383 584	-	3 351	-	2 386 934
Policyholder assets	159 462	-	-	-	159 462
Total other assets	406 883	48 207	34 007	92 406	581 504
Policyholder liabilities	1 138 581	-	-	-	1 138 581
Total other liabilities	420 032	4 892	21 317	177 400	623 641
Additions to non-current assets	9 923	1 248	682	-	11 853
Depreciation	5 858	1 045	60	862	7 825
Amortisation of trademarks and customer relationships	-	-	-	2 617	2 617
Amortisation of PVIF business	1 829	-	-	-	1 829
Impairment of DAC	2 724	-	-	-	2 724

**6.3 Segment information from geographical areas**

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

**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.

	2014 % of premium	2013 % of premium
Individual insurance business		
Conventional individual business	0.1%	0.1%
Other individual risk business	53.1%	50.1%
Group risk business	46.8%	49.8%
	100.0%	100.0%

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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>7. NET INSURANCE PREMIUM REVENUE</b>				
Gross individual premiums received				
Recurring premiums	990 031	872 506	-	-
Gross group scheme and grouped individual premiums received	765 106	728 464	-	-
Gross inward reinsurance premiums received	39 403	35 678	-	-
Outward reinsurance premiums paid	(150 144)	(128 567)	-	-
	<u>1 644 396</u>	<u>1 508 081</u>	<u>-</u>	<u>-</u>
<b>8. FEE INCOME</b>				
Investment management fee charges	46 393	44 860	-	-
Surrender charges	14 398	18 708	-	-
Amortisation of deferred revenue	158	204	-	-
	<u>60 949</u>	<u>63 772</u>	<u>-</u>	<u>-</u>
<b>9. INVESTMENT INCOME</b>				
At fair value through profit or loss				
Interest received	80 349	53 558	-	-
Dividends received	29 412	26 926	175 000	293 225
Loans and receivables				
Insurance and other receivables				
Interest on:				
Policyholder loans	2 716	4 178	-	-
Premiums receivable	1	7	-	-
Housing and car loans	383	418	-	-
Cash and cash equivalents	10 577	23 195	284	4 860
	<u>123 440</u>	<u>108 282</u>	<u>175 284</u>	<u>298 085</u>
<b>10. NET FAIR VALUE GAINS ON FINANCIAL ASSETS</b>				
At fair value through profit or loss				
From equity securities				
Local listed shares	274 686	218 014	-	-
Global unit trusts	31 105	34 466	-	-
From debt securities				
Local debt securities	(15 106)	(14 341)	-	-
Global debt securities	4 245	3 110	-	-
Structured products	33 567	14 675	-	-
Unit-linked policies	-	28 383	-	-
From deposits and money markets	-	(758)	-	-
	<u>328 497</u>	<u>283 549</u>	<u>-</u>	<u>-</u>

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>11. OTHER INCOME</b>				
Commission income	13 820	14 448	-	-
(Loss) / profit on disposal of equipment	(321)	48	-	-
Levies on loans	336	543	-	-
Other	12 426	8 653	2 491	1 032
	<b>26 261</b>	<b>23 692</b>	<b>2 491</b>	<b>1 032</b>
<b>12. NET INSURANCE BENEFITS AND CLAIMS</b>				
<b>Individual benefits</b>	322 970	309 657	-	-
Death and disability claims	213 379	177 809	-	-
Accident and dread disease claims	5 345	6 894	-	-
Maturities	96 029	88 443	-	-
Surrenders	115 215	116 679	-	-
Inward reinsurance claims	28 238	27 056	-	-
Outward reinsurance recoveries	(135 236)	(107 224)	-	-
<b>Group scheme and grouped individual benefits</b>	362 423	480 050	-	-
	<b>685 393</b>	<b>789 707</b>	<b>-</b>	<b>-</b>
<b>13. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS</b>				
<b>Insurance contracts</b>				
Commission paid	325 174	271 906	-	-
<b>Investment contracts</b>				
Amortisation of intangible asset (DAC)	7 394	7 992	-	-
	<b>332 568</b>	<b>279 898</b>	<b>-</b>	<b>-</b>

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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>14. OPERATING AND ADMINISTRATIVE EXPENSES</b>				
Operating and administrative expenses comprise:				
Employee costs	230 706	219 920	-	-
Office costs	228 678	144 670	464	435
Training and development costs	5 621	4 997	-	-
Demutualisation and redemption expenses	653	20 054	439	17 241
Share register and trading cost	6 365	6 831	6 365	6 831
Provision for impairments on receivables	4 716	1 359	-	-
Advertising and promotions	32 423	25 137	-	-
Other	85 938	77 611	4 204	3 515
	<b>595 100</b>	<b>500 579</b>	<b>11 472</b>	<b>28 022</b>
Operating and administrative expenses include the following:				
Depreciation on property and equipment	8 648	7 825	-	-
Owned computer equipment	3 135	2 844	-	-
Motor vehicles	1 315	910	-	-
Office equipment	2 782	2 694	-	-
Finance lease equipment	498	515	-	-
Owner-occupied properties	918	862	-	-
Auditors' remuneration	3 853	5 054	450	431
Audit fees				
Current year	1 136	1 388	-	-
Prior years	2 717	3 235	450	431
Other services	-	431	-	-
Repairs and maintenance	9 654	11 943	-	-
Professional services	21 497	24 251	401	14 131
Actuarial services	6 232	4 617	-	-
Legal	10 162	4 014	-	1 794
Information technology	112	162	-	-
Professional and consulting	4 991	15 458	401	12 337
Operating lease rentals	16 599	17 137	-	-
Office equipment	662	669	-	-
Office buildings	15 937	16 468	-	-
Impairment of intangible assets (DAC)	3 332	2 724	-	-
The impairment of the DAC is effected when any of the underlying contracts where a DAC asset has been recognised become inactive, and no further recovery of the deferred cost is possible.				

**NOTES TO THE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>14. OPERATING AND ADMINISTRATIVE EXPENSES (continued)</b>				
Amortisation of intangible assets (excluding DAC)	6 383	6 380	-	-
Present value of in-force	1 830	1 829	-	-
Trademarks and customer relationships	2 619	2 617	-	-
Customer list and contracts	1 934	1 934	-	-
Employee costs	230 706	219 920	-	-
Salaries and wages	153 099	139 241	-	-
Leave pay	3 268	27	-	-
Bonus	38 961	43 501	-	-
Pension costs - defined contribution plan	13 535	12 570	-	-
Equity-settled share-based payments - free shares	4 399	8 599	-	-
Equity-settled share-based payments - incentive scheme	6 532	7 627	-	-
Cash-settled share-based payments - shares issued to the executive directors	10 912	8 355	-	-
<i>Number of employees at year-end:</i>				
<i>Full time</i>	513	542	-	-
<i>Part time</i>	41	51	-	-
Total directors' emoluments	37 723	40 579	2 460	2 035
Executive directors	30 943	35 789	-	-
Non-executive directors	6 780	4 790	2 460	2 035
The executive directors' emoluments 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, please refer to note 39 to the annual financial statements.				
<b>15. FINANCE CHARGES</b>				
Interest expense:				
Finance lease liabilities	(65)	(130)	-	-
Financiers	(6 353)	(4 508)	(6 082)	(5 240)
	(6 418)	(4 638)	(6 082)	(5 240)

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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>16. INCOME TAX EXPENSE</b>				
<b>South African normal tax</b>				
Current tax	(77 467)	(32 234)	-	(1 059)
Capital gains tax	(6 474)	(8 205)	-	-
Security transfer tax	-	(2 227)	-	(2 227)
Deferred tax (note 33)	(138 904)	(76 393)	-	-
	<u>(222 845)</u>	<u>(119 059)</u>	<u>-</u>	<u>(3 286)</u>

Deferred income tax relating to gains on property revaluations in other comprehensive income amounted to R731 512 (2013: R476 713).

**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	
	2014 %	2013 %	2014 %	2013 %
Standard rate of taxation	28.00	28.00	28.00	28.00
Adjusted for:				
Non taxable income	(15.72)	(26.65)	(30.58)	(30.88)
Non deductible expenses	1.08	4.72	-	-
Capital gains not subject to tax	(1.45)	(2.60)	-	-
Amounts not credited to statement of comprehensive income	16.41	26.15	-	-
Security transfer taxation	-	0.57	-	0.84
Secondary taxation on companies	-	-	-	-
Over-provision of prior years	(0.28)	(0.49)	-	-
Unutilised tax losses	0.05	-	0.20	-
Black economic transaction	-	1.03	-	-
Non-income generating expenses	-	-	2.38	3.28
Effective tax rate	<u>28.09</u>	<u>30.73</u>	<u>-</u>	<u>1.24</u>

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>17. OWNER-OCCUPIED PROPERTIES</b>				
Fair value	37 593	34 980	-	-
Accumulated depreciation	(7 648)	(6 730)	-	-
<i>Non-current asset</i>	<u>29 945</u>	<u>28 250</u>	<u>-</u>	<u>-</u>
Fair value at beginning	28 250	27 410	-	-
Revaluations	2 613	1 702	-	-
Depreciation charges	(918)	(862)	-	-
	<u>29 945</u>	<u>28 250</u>	<u>-</u>	<u>-</u>

Owner-occupied properties comprise of the following:

- Erf 34, Menlo Park, Pretoria, measuring 1 665 square meters. A valuation was performed on the property on 30 June 2014 by G McIntosh, an independent accredited valuer, at R15 370 000 (2013: R14 500 000) based on market trends for the property industry sector in which the property falls. For more information, refer to note 3.5.
- Erf 26, Menlo Park, Pretoria, measuring 1 289 square meters. A valuation was performed on the property on 30 June 2014 by G McIntosh, an independent accredited valuer, at R14 575 000 (2013: R 13 750 000) based on market trends for the property industry sector in which the property falls. For more information, refer to note 3.5.

Had no revaluation been performed, the carrying amount of buildings would have been:

Cost	6 189	6 189	-	-
Accumulated depreciation	(2 441)	(2 317)	-	-
	<u>3 748</u>	<u>3 872</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS  
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	Office equipment R'000	Computer equipment R'000	Motor vehicles R'000	Finance lease equipment R'000	Total R'000
<b>18. EQUIPMENT</b>					
<b><u>Consolidated</u></b>					
<b>Year ended 30 June 2014</b>					
Opening net book amount	15 381	8 197	4 615	1 051	29 244
Additions	4 038	4 383	4 243	865	13 529
Disposals	(378)	(74)	(418)	(322)	(1 192)
Loss of control of subsidiary	(280)	(376)	(113)	(983)	(1 752)
Depreciation charge	(2 782)	(3 135)	(1 315)	(499)	(7 731)
Closing net book amount	15 979	8 995	7 012	112	32 098
<b>At 30 June 2014</b>					
Cost	28 825	29 448	9 978	365	68 616
Accumulated depreciation	(12 846)	(20 453)	(2 966)	(253)	(36 518)
<i>Non-current asset</i>	15 979	8 995	7 012	112	32 098
<b>Year ended 30 June 2013</b>					
Opening net book amount	13 233	7 422	3 398	1 567	25 620
Additions	5 391	3 867	2 594	-	11 852
Disposals	(549)	(248)	(467)	-	(1 264)
Depreciation charge	(2 694)	(2 844)	(910)	(516)	(6 964)
Closing net book amount	15 381	8 197	4 615	1 051	29 244
<b>At 30 June 2013</b>					
Cost	28 526	27 360	7 202	3 017	66 105
Accumulated depreciation	(13 145)	(19 163)	(2 587)	(1 966)	(36 861)
<i>Non-current asset</i>	15 381	8 197	4 615	1 051	29 244

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>19. INTANGIBLE ASSETS - INCLUDING INSURANCE INTANGIBLE ASSETS</b>				
Goodwill	82 107	82 107	-	-
Trademarks and customer relationships	3 927	6 546	-	-
Present value of in-force (PVIF) business	1 829	3 659	-	-
Deferred acquisition cost (DAC)	19 698	18 682	-	-
Customer list and contracts	3 868	5 802	-	-
	<b>111 429</b>	<b>116 796</b>	<b>-</b>	<b>-</b>
<i>Non-current asset</i>	98 865	104 229	-	-
<i>Current asset</i>	12 564	12 567	-	-
<b>Goodwill</b>				
Cost - on acquisition of subsidiaries	85 608	85 608	-	-
Accumulated impairment	(3 501)	(3 501)	-	-
Carrying amount	<b>82 107</b>	<b>82 107</b>	<b>-</b>	<b>-</b>
Opening net book value	82 107	82 107	-	-
Impairment of goodwill	-	-	-	-
Carrying amount at end of period	<b>82 107</b>	<b>82 107</b>	<b>-</b>	<b>-</b>
<i>Impairment test for goodwill</i>				
Goodwill is allocated to the group's cash-generating units (CGUs) identified according to the business segment. A segment-level summary of the goodwill allocation is presented below.				
Goodwill from subsidiaries of Assupol Investment Holdings:				
• Cornerstone Brokers	75 134	75 134	-	-
• Pan-African Asset Management	6 973	6 973	-	-
	<b>82 107</b>	<b>82 107</b>	<b>-</b>	<b>-</b>

The recoverable amount of a CGU is determined based on value-in-use calculations. A discounted cash flow (DCF) valuation has been performed on Cornerstone Brokers and Pan-African Asset Management, and the results of the valuation support the recoverability of the goodwill.

Management determined budgeted cash flows based on historical growth, and expectations of market development.

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>19. INTANGIBLE ASSETS - INCLUDING INSURANCE INTANGIBLE ASSETS (continued)</b>				
<b>Trademarks and customer relationships</b>				
Cost	26 178	26 178	-	-
Accumulated amortisation	(22 251)	(19 632)	-	-
Carrying amount	3 927	6 546	-	-
Opening net book value	6 546	9 163	-	-
Current year amortisation charge	(2 619)	(2 617)	-	-
Carrying amount at end of period	3 927	6 546	-	-

The trademarks and customer relationships are intangible assets which have been separately identified during the acquisition of Cornerstone Brokers. These assets have an estimated life of 10 years, and are amortised over that period.

*Impairment test for trademarks and customer relationships*

Refer to the impairment test as described for goodwill. The same impairment test applies, as the trademark and customer relationships assets also relate to the acquisition of Cornerstone Brokers. The remaining amortisation period is 1.5 years.

**Present value of in-force ('PVIF') business**

Cost	16 180	16 180	-	-
Accumulated amortisation	(14 351)	(12 521)	-	-
Carrying amount	1 829	3 659	-	-
Opening net book value	3 659	5 488	-	-
Current year amortisation charge	(1 830)	(1 829)	-	-
Carrying amount at end of period	1 829	3 659	-	-

The PVIF represents the pre-taxation present value (at acquisition date) less amortisation of future profits on policyholder contracts acquired from business combinations. The PVIF relates mostly to group business with a withdrawal rate of 10%. Management has assessed the amortisation period of the intangible asset over a period of 10 years. The remaining amortisation period is 1 year.

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>19. INTANGIBLE ASSETS - INCLUDING INSURANCE INTANGIBLE ASSETS (continued)</b>				
<b>Deferred acquisition cost</b>				
Cost	34 659	35 460	-	-
Accumulated amortisation	(14 961)	(16 778)	-	-
Carrying amount	19 698	18 682	-	-
Opening balance	18 682	19 555	-	-
New business	11 742	9 843	-	-
Impairments	(3 332)	(2 724)	-	-
Amortisation charge	(7 394)	(7 992)	-	-
Carrying amount at end of period	19 698	18 682	-	-

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 R3.332m (2013: R2.724m).

**Customer list and contracts**

Cost	7 736	7 736	-	-
Accumulated amortisation	(3 868)	(1 934)	-	-
Carrying amount	3 868	5 802	-	-
Opening balance	5 802	7 736	-	-
Amortisation charge	(1 934)	(1 934)	-	-
Carrying amount at end of period	3 868	5 802	-	-

The intangible asset represents the present value (at acquisition date) less amortisation of future profits on contracts acquired from a business combination with Pan-African Asset Management. Management has assessed the amortisation period of the intangible asset over a period of 4 years. The remaining amortisation period is 2 years.

	<b>COMPANY</b>	
	<b>2014</b> R'000	<b>2013</b> R'000
<b>20. INVESTMENTS IN SUBSIDIARIES</b>		
<b>Unlisted</b>		
Opening balance	622 921	584 040
BEE expense carried by Assupol Life (note 27)	-	14 300
Investment impaired - Employees share cost of Kestrel Financial Solutions	(154)	-
Equity-settled share-based payments (capital contributions to subsidiaries)		
General employee shares	4 399	8 599
Assupol Life	4 042	
Subsidiaries of Assupol Investment Holdings	357	
Share incentive scheme - Assupol Life	6 532	7 627
Cash-settled share-based payment liability - Assupol Life (note 31)	10 912	8 355
<i>Non-current asset - unlisted equity investments</i>	644 610	622 921
Unlisted equity investments, valued at cost, comprise the following:	644 610	622 921
Assupol Life	572 066	550 580
Assupol Investment Holdings	72 544	72 341

For detail of the ownership interest in each subsidiary, refer note 41.

The group's 100% interest in Kestrel Financial Solutions was sold on 30 June 2014 for a consideration of R5.4 million. The consideration is payable in five annual payments of R1.08 million each. The loan bears interest on the outstanding balance at the prime rate of FirstRand Bank Limited and is compounded monthly in arrears.

	<b>2014</b> R'000
A summary of the assets and liabilities at the date of sale is shown below:	
Equipment	1 752
Sundry receivables	1 164
Cash and cash equivalents	2 484
Finance lease liability	(1 019)
Payables and other accruals	(1 969)
Deferred tax	596

The profit on loss of control is recognised in other income and is calculated as follows:

Consideration	5 400
Net asset value at date of sale	(3 008)
Retained earnings at acquisition	(254)
Revaluation of shares prior to demutualisation	(43)
Write-off of cost of share-based payments in Assupol Holdings	155
Profit on loss of control - recognised in other income	2 250

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**21. INTERESTS IN ASSOCIATE**

Set out below is the associate to the group as at 30 June 2014, which, in the opinion of the directors, is material to the group.

Nature of interest:

Name of fund	Country of incorporation / business	Investments of the group in the fund as % of total value of fund	method
Pan African IP Income Hunter Fund	Republic of South Africa	34.67%	Equity method

Pan African IP Income Hunter Fund is a collective investment scheme in securities, in pursuance of which members of the public can acquire a participation interest in one or more portfolios and to participate proportionately in the income or profits derived there from. The licence for the collective investment scheme is held by IP Management Company Proprietary Limited which remains responsible for compliance in terms of the Collective Investment Schemes Control Act, no 45 of 2002. Pan-African Asset Management acts as the portfolio manager and manages one or more portfolios under this scheme.

Pan-African Asset Management has significant influence over the Pan African IP Income Hunter Fund, which is based on the fact that the entity has the mandate to represent and bind the IP Management Company Proprietary Limited to dealings directly related to the concerned portfolios. The IP Management Company Proprietary Limited acts as the approved manager of the collective investment scheme, as defined in the Collective Investment Schemes Control Act, no 45 of 2002.

There are quoted market prices available for the Pan African IP Income Hunter Fund units.

Set out below are the summarised financial information for Pan African IP Income Hunter which are accounted for using the equity method.

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>Summarised statement of financial position</b>				
Non-current assets	12 277	5 873	-	-
Current assets	317	477	-	-
Current liabilities	(52)	(14)	-	-
Net assets	12 542	6 337	-	-
<b>Summarised statement of comprehensive income</b>				
Income	92	104	-	-
Expenditure	(15)	(21)	-	-
Realised gain / (loss)	301	(125)	-	-
Unrealised gain	154	28	-	-
Profit / (loss) for the period before tax	532	(15)	-	-
Total comprehensive income	532	(15)	-	-
Group's interest percentage	34.67%	32.41%	-	-
Share of profit / (loss) from associate	185	(4)	-	-

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>21. INTERESTS IN ASSOCIATE (continued)</b>				
<b>Reconciliation of summarised financial information</b>				
Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate:				
Summary of financial information:				
Opening net assets	6 337	-	-	-
Distributed income	(38)	(96)	-	-
Prior undistributed gain / (loss)	49	(11)	-	-
Appropriation of income units	5 627	6 359	-	-
Prior undistributed income	35	99	-	-
Profit / (loss) for the period	532	(15)	-	-
Closing net assets	12 542	6 337	-	-
Group's interest percentage	34.67%	32.41%	-	-
Interest in associate - carrying value	4 348	2 054	-	-
<i>Non-current asset</i>	4 348	2 054	-	-
<b>22. FINANCIAL ASSETS - INVESTMENTS</b>				
<b>At fair value through profit or loss</b>				
Equity securities - quoted and listed	1 328 091	1 112 725	-	-
Local listed shares	1 208 077	1 010 787	-	-
Local unit trusts	-	-	-	-
Global unit trusts	120 014	101 938	-	-
<i>Current asset</i>	1 328 091	1 112 725	-	-
Debt securities - quoted and listed (local)	1 062 660	924 083	-	-
Corporate bonds	640 978	388 289	-	-
Government bonds	141 667	310 203	-	-
Parastatals and utilities	270 591	212 539	-	-
Municipalities	9 424	13 052	-	-
Listed debt securities in this category include floating-rate instruments, and other debt securities paid a fixed interest rate that varied between 5.75% and 15.05% (2013: 5.47% and 15.05%).				
Insurance policy - Global bonds	49 820	43 928	-	-
<i>Non-current asset</i>	972 305	716 664	-	-
<i>Current asset</i>	140 175	251 347	-	-

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.

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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>22. FINANCIAL ASSETS - INVESTMENTS (continued)</b>				
Deposits and money market securities				
Deposits and money market securities	376 437	306 198	-	-
<i>Non-current asset</i>	-	3 693	-	-
<i>Current asset</i>	376 437	302 505	-	-
Total financial assets - investments	2 817 008	2 386 934	-	-

The table below presents an analysis of movements in financial assets - investments:

Opening balance	2 386 934	2 400 709	-	-
Additions	103 371	89 580	-	-
Disposals at carrying value	(111 555)	(467 720)	-	-
Net fair value gains	328 497	283 549	-	-
Accrued interest	80 349	53 890	-	-
Accrued dividends	29 412	26 926	-	-
Closing balance	2 817 008	2 386 934	-	-

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 2014</b>						
Equity securities						
Local listed shares	1 208 077	-	-	-	-	1 208 077
Local and global unit trusts	120 014	-	-	-	-	120 014
Debt securities						
Corporate bonds						
Fixed rate	-	28 509	99 153	79 542	72 262	279 466
Floating rate	-	60 499	185 245	105 267	10 501	361 512
Government bonds - Fixed r	-	298	-	-	141 369	141 667
Parastatals and utilities						
Fixed rate	-	1 049	165	116 586	130 053	247 853
Floating rate	-	-	19 857	1 031	1 850	22 738
Municipalities - Fixed rate	-	-	5 741	3 683	-	9 424
Insurance policy						
Global bonds	49 820	-	-	-	-	49 820
Deposits and money market securities						
Fixed rate	-	313 632	-	-	-	313 632
Floating rate	-	62 805	-	-	-	62 805
	1 377 911	466 792	310 161	306 109	356 035	2 817 008

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**22. FINANCIAL ASSETS - INVESTMENTS (continued)**

<i>Consolidated</i>	Open-ended	0 to 1 year	2 to 5 years	6 to 10 years	> 10 years	TOTAL
	R'000	R'000	R'000	R'000	R'000	R'000
<b>30 June 2013</b>						
Equity securities						
Local listed shares	1 010 787	-	-	-	-	1 010 787
Local and global unit trusts	101 938	-	-	-	-	101 938
Debt securities						
Corporate bonds						
Fixed rate	-	14 692	85 675	97 041	21 078	218 486
Floating rate	-	33 410	117 622	16 689	2 082	169 803
Government bonds - Fixed r	-	89 181	-	29 867	191 155	310 203
Parastatals and utilities						
Fixed rate	-	63 119	17 189	39 911	73 618	193 837
Floating rate	-	7 017	-	-	11 685	18 702
Municipalities - Fixed rate	-	-	9 473	3 255	324	13 052
Insurance policy						
Global bonds	43 928	-	-	-	-	43 928
Deposits and money						
market securities						
Fixed rate	-	240 163	2 109	-	-	242 272
Floating rate	-	62 342	1 584	-	-	63 926
	<b>1 156 653</b>	<b>509 924</b>	<b>233 652</b>	<b>186 763</b>	<b>299 942</b>	<b>2 386 934</b>

The group's largest equity investments consist of investments in the following companies:

	<b>CONSOLIDATED</b>	
	<b>2014</b>	<b>2013</b>
BHP Billiton Plc	13.12%	7.95%
SABMiller Plc	8.33%	6.74%
Sasol Limited	7.44%	4.76%
Anglo American Plc	6.31%	5.18%
Compagnie Financiere Richmond Sa	5.71%	3.57%
MTN Group Limited	4.81%	4.19%
FirstRand Limited	4.35%	n/a
Old Mutual Plc	4.00%	3.32%
Naspers Limited	3.91%	4.84%
British American Tobacco Plc	3.63%	3.51%
Remgro Limited	n/a	3.08%

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>23. INSURANCE AND OTHER RECEIVABLES</b>				
Premiums receivable	16 764	15 710	-	-
Gross premiums outstanding	47 177	42 919	-	-
Provision for impairment	(30 413)	(27 209)	-	-
Sundry insurance receivables	8 488	5 131	-	-
Gross receivables outstanding	23 866	18 997	-	-
Provision for impairment	(15 378)	(13 866)	-	-
Other sundry receivables	13 589	30 170	95	606
Reinsurance recoveries	37 988	23 482	-	-
Loans to personnel	5 872	7 590	-	-
Other loans	5 400	977	-	-
Loans to policyholders	15 981	25 585	-	-
<b>Total insurance and other receivables</b>	<b>104 082</b>	<b>108 645</b>	<b>95</b>	<b>606</b>
<i>Non-current asset</i>	14 983	21 821	-	-
<i>Current asset</i>	89 099	86 824	95	606
<i>Interest bearing receivables</i>	69 030	93 312	-	-
<i>Provisions</i>	(45 791)	(41 075)	-	-
<i>Non-interest bearing receivables</i>	80 843	56 408	95	606
Insurance and other receivables included in total receivables consist of:				
Insurance receivables	79 221	69 908	-	-
Premiums receivable - insurance contracts	8 676	10 856	-	-
Premiums receivable - other	8 088	4 854	-	-
Sundry insurance receivables	8 488	5 131	-	-
Reinsurance recoveries	37 988	23 482	-	-
Loans to policyholders - insurance contracts	14 741	25 442	-	-
Loans to policyholders - other	1 240	143	-	-
Other receivables	24 861	38 737	95	606
Other sundry receivables	13 589	30 170	95	606
Loans to personnel	5 872	7 590	-	-
Other loans	5 400	977	-	-
<b>Total insurance and other receivables</b>	<b>104 082</b>	<b>108 645</b>	<b>95</b>	<b>606</b>
Movements in the provision for impairment of premiums receivable are as follows:				
Opening balance	27 209	27 902	-	-
Recognised in profit or loss	3 204	(693)	-	-
Closing balance	30 413	27 209	-	-

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.

**NOTES TO THE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>23. INSURANCE AND OTHER RECEIVABLES (continued)</b>				
Movements in the provision for impairment of sundry insurance receivables are as follows:				
Opening balance	13 866	11 814	-	-
Recognised in profit or loss	1 512	2 052	-	-
Closing balance	15 378	13 866	-	-

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 are in respect of house and vehicle finance provided to personnel of Assupol Life. 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.

Loans to policyholders are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at prime rate + 4% for the Assupol Life book and 14.5% fixed rate for old Prosperity Life book. The loans are measured at amortised cost. The directors are satisfied though that this value approximates the fair value of the loans, as the loan is guaranteed by the underlying value of the contract. This also reduces credit risk, as the loan is effectively secured.

The directors are satisfied that all loans are shown at approximate fair value.

**24. CASH AND CASH EQUIVALENTS**

Bank balances	199 047	240 833	19 138	2 325
Cash on hand	12	10	-	-
<i>Current asset</i>	199 059	240 843	19 138	2 325

The effective interest rate on all short-term bank accounts during the year was 4.13% (2013: 3.01%) for the group. All cash balances are available on demand.

**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 class A ordinary redeemable no par value shares  
200 "A" preference 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.

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

Class A 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 27 for the directors determination in respect of class 'A1' and 'A2' shares.

**200 "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.

*Issued share capital*

	<b>Number of shares</b>	<b>Shares</b>	<b>Share premium</b>	<b>Total</b>
	'000	R'000	R'000	R'000
<b>Ordinary shares</b>				
Balance at 30 June 2012	82 628	83	31 320	31 403
Issued to the Assupol Share Incentive Trust	15 039	15	-	15
Issued to institutional investors	207 712	208	478 542	478 750
Issued in terms of the Broad-Based Black Empowerment transaction:				
A1' ordinary shares	12 629	29 684	-	29 684
A2' ordinary shares	31 573	316	-	316
Issued to PIC Holdings Limited	1 636	2	3 638	3 640
Preference shares converted	30 002	30	38 018	38 048
Shares issued to executive directors	10 000	10	-	10
Free shares of resigned employees cancelled	(2 691)	(3)	(4 248)	(4 251)
<b>Balance at 30 June 2013</b>	<b>388 528</b>	<b>30 345</b>	<b>547 270</b>	<b>577 615</b>
Issued to the Assupol Community Trust	25 200	25	-	25
Free shares of resigned employees cancelled	(59)	-	(94)	(94)
<b>Balance at 30 June 2014</b>	<b>413 669</b>	<b>30 370</b>	<b>547 176</b>	<b>577 546</b>
<b>Preference shares</b>				
Balance at 30 June 2012	386 400	386	489 633	490 019
Converted to ordinary shares	(30 002)	(30)	(38 018)	(38 048)
Redeemed	(356 398)	(356)	(451 615)	(451 971)
<b>Balance at 30 June 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total share capital</b>		<b>30 370</b>	<b>547 176</b>	<b>577 546</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>26. SHARE-BASED PAYMENTS</b>				
<b>A. Treasury shares</b>				
<i>General employee shares</i>				
Opening balance	(27 071)	(31 320)	(27 071)	(31 320)
Cancellation of shares of employees that resigned	94	4 249	94	4 249
Vesting of shares	26 977	-	26 977	-
Closing balance	-	(27 071)	-	(27 071)
<i>Share incentive scheme</i>				
Opening balance	(78)	(63)	(78)	(63)
Issue of unvested ordinary shares	-	(15)	-	(15)
Closing balance	(78)	(78)	(78)	(78)
Closing balance - Unvested ordinary shares	(78)	(27 149)	(78)	(27 149)

The treasury shares represent the unvested ordinary shares in terms of the general employee share option plan and the share incentive scheme as described below.

**B. Employee benefits reserve**

*General employee shares*

Opening balance	22 578	13 979	22 578	13 979
Cost of general employee share option plan	4 399	8 599	4 399	8 599
Vesting of shares	(26 977)	-	(26 977)	-
Closing balance	-	22 578	-	22 578

*Share incentive scheme*

Opening balance	17 238	9 611	17 238	9 611
Cost of share incentive scheme	6 532	7 627	6 532	7 627
Closing balance	23 770	17 238	23 770	17 238

Closing balance - Share reserve	23 770	39 816	23 770	39 816
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The employee benefits reserve consists of the cumulative share-based payment expenses of any unvested share options that are granted to staff of the Assupol Group.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

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

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

**i. General employee demutualisation shares i.e. "free shares" (Equity-settled)**

In terms of the demutualisation, employees who were employed by the Assupol Group on 1 July 2010 were given an option to subscribe for 19 835 764 ordinary shares. The shares were allocated by using a court-approved formula. The employees paid R0.001 per share. The shares vested on 31 December 2013.

2 750 399 options (2013: 2 690 946) were cancelled prior to the vesting of the shares on 31 December 2013 in terms of the vesting conditions.

*Information on options granted*

Type of arrangement	General employee demutualisation shares
Vesting conditions	Vesting over 3 years, should the employee not resign or be dismissed
Grant date	31 December 2010
Number of options granted	19 835 764
Contractual life	3 years
Fair value of option granted	R1.58

*More information on fair value*

In terms of the demutualisation, an independent valuator was required to independently determine the fair market value of the shares to be issued to the Assupol Share Incentive Trust.

KPMG Services Proprietary Limited was appointed by the Assupol Holdings' Board of Directors as the independent professional expert to perform this valuation. The primary valuation methodology used was the 'Embedded Value' methodology, and adjustments for risk factors specific to the group were made.

Key value drivers to the valuation included, where relevant, discounts and premiums for risks (positive and negative) unique to the group as compared to other comparable life assurers, prospects for future growth in the business and forecasted earnings. Prevailing market and industry conditions were also considered in assessing the risk profile of Assupol.

KPMG Services Proprietary Limited gave an independent fair market value range of R1.39 to R1.73 per share, and at the time of the issue, the Board of Directors decided to use a value of R1.58 for the fair market value of the shares. The date of this valuation was 10 January 2011.

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

In terms of the demutualisation, certain qualifying employees who were employed by the Assupol Group on 1 July 2010, were given an option to subscribe for 54 548 352 ordinary shares that were allotted to the Assupol Share Incentive Trust. The share options were allocated by using a court-approved formula. A further 26 082 353 ordinary shares were allotted to the Share Incentive Trust for purposes of issuing units to certain qualifying employees that are employed subsequent to 1 July 2010. 2 800 497 shares remain unissued.

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.

	<b>Number of shares issued '000</b>	<b>Number of units allocated '000</b>	<b>Weighted average exercise price</b>
Balance at 1 July 2012	62 792	62 792	R1.619
Issued to Assupol Share Incentive Trust	15 039	5 764	R2.060
Balance at 30 June 2013	77 831	68 556	R1.656
Balance at 30 June 2014	77 831	68 556	R1.656

**NOTES TO THE FINANCIAL STATEMENTS  
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**26. SHARE-BASED PAYMENTS (continued)**

*Information on options granted*

The options were granted at different dates, namely:

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
1 <sup>st</sup> grant date	31 December 2010 (as per the court order)
Number of shares issued	54 548 352
Number of units allocated	54 548 352
Contractual life	7 years
Fair value of option granted	R1.58
2 <sup>nd</sup> grant date	31 October 2011
Number of shares issued	8 243 205
Number of units allocated	8 243 205
Contractual life	7 years
Fair value of option granted	R1.88
3 <sup>rd</sup> grant date	16 August 2012
Number of shares issued	15 038 648
Number of units allocated	5 764 562
Contractual life	7 years
Fair value of option granted	R2.06

*More information on fair value*

In terms of the demutualisation, an independent valuator was required to independently determine the fair market value of the shares to be issued to the Assupol Share Incentive Trust.

KPMG Services Proprietary Limited was appointed by the Assupol Holdings' Board of Directors as the independent professional expert to perform this valuation. The primary valuation methodology used was the 'Embedded Value' methodology, and adjustments for risk factors specific to the group were made.

Key value drivers to the valuation included, where relevant, discounts and premiums for risks (positive and negative) unique to the group as compared to other comparable life insurers, prospects for future growth in the business and forecasted earnings. Prevailing market and industry conditions were also considered in assessing the risk profile of Assupol.

On 8 May 2012 KPMG Services Proprietary Limited gave an independent fair market value range per share and based on the range the Board of Directors decided to use a specific value for the fair market value of the shares. With the first issue, the range was R1.39 to R1.73 per share with the value used as R1.58 and with the second and third issue the range was R1.70 to R2.06 per share with the value used as R1.88 and R2.06 respectively.

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

The company issued 10 000 000 shares to the executive directors and prescribed officer in terms of a fixed-term employment agreement and restraint of trade agreement. The agreements commenced with effect from 1 July 2012. The directors and prescribed officer shall not be entitled to pledge, cede or dispose of the incentive shares unless it has become unrestricted. For the directors, a third of the shares becomes unrestricted on 30 June 2015, 30 June 2016 and 30 June 2017 respectively. The prescribed officer's shares become unrestricted on 30 June 2015. Furthermore the directors and prescribed officer became entitled to all the economic benefits and rights, including dividends, from the date of issue.

Should an agreement terminate prior to the expiry of the fixed term employment agreement, various terms and conditions will apply to the directors' and prescribed officer's entitlement on unrestricted and restricted shares at the date.

A director / prescribed officer has a liquidity put option against the company within ten business days after termination of their fixed term employment agreement. A director / prescribed officer is entitled to request the company to purchase the director's / prescribed officer's incentive shares at a price equal to market value of those shares. The market value of those shares will be the most recent available valuation per share as certified by an independent expert as required in the Assupol Share Incentive trust deed.

Effective date	1 July 2012
Number of shares issued	10 000 000
Fair value of shares at grant date	R2.46
Fair value of shares at 30 June 2013	R3.04
Fair value of shares at 30 June 2014	R3.50

Refer note 31 for the employee benefit liability recognised.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

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

*More information on fair value*

KPMG Services Proprietary Limited was appointed by the Assupol Holdings' Board of Directors as the independent professional expert to perform this valuation. The primary valuation methodology used was the 'Embedded Value' methodology, and adjustments for risk factors specific to the group were made.

Key value drivers to the valuation included, where relevant, discounts and premiums for risks (positive and negative) unique to the group as compared to other comparable life assurers, prospects for future growth in the business and forecasted earnings. Prevailing market and industry conditions were also considered in assessing the risk profile of the group.

For June 2013 the primary valuation methodology used was the 'Embedded Value' methodology with adjustments made for risk factors specific to the group. The fair value market range of R2.86 to R3.34 per share was calculated and management considered the value of R3.04 as the fair market value of a share.

The fair value of the shares at 30 June 2014 was determined as the value of the shares as at 30 June 2014 on the over-the-counter platform.

**27. BLACK ECONOMIC EMPOWERMENT RESERVE**

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
Opening balance	14 300	-	14 300	-
BEE transaction	-	14 300	-	14 300
Closing balance	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 Proprietary Limited 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.

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

Class:	'A1'
Notional amount per share:	R0.00
Price per share:	R2.35
Commitment date:	17 October 2017
Transfer restrictions:	Non-transferable until the commitment date

Class:	'A2'
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 Proprietary Limited 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 an 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.

**NOTES TO THE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>28. POLICYHOLDER (ASSETS) / LIABILITIES UNDER INSURANCE CONTRACTS</b>				
The information below presents the movements in policyholder (assets) / liabilities in respect of insurance contracts.				
<i>Discounted liabilities</i>				
Discounted insurance liabilities - opening balance	(233 833)	(115 112)	-	-
Prosperity Life transfer	-	(345)	-	-
Expected interest on insurance liabilities	(5 160)	8 990	-	-
Expected premiums on insurance liabilities	804 748	915 401	-	-
Expected claims, expiries and lapses	(347 554)	(495 333)	-	-
Expected expenses, commission and charges	(204 046)	(193 186)	-	-
Expected profits	(101 321)	(80 457)	-	-
Additional unit linked returns (policyholders)	38 802	(8 787)	-	-
Experience variations	(8 175)	(13 989)	-	-
Changes in estimates (renewal business only)	(284 057)	6 450	-	-
New business added during the year	(325 587)	(257 465)	-	-
Discounted insurance liabilities - closing balance	(666 183)	(233 833)	-	-
<i>Undiscounted liabilities</i>				
Undiscounted insurance liabilities - opening balance	74 371	115 878	-	-
Prosperity Life transfer	-	345	-	-
Withdrawals during the year	(7 868)	(4 814)	-	-
Increase / (decrease) in IBNR on existing business	31 455	8 082	-	-
Increase / (decrease) in IBNR on cancelled business	(9 243)	-	-	-
New business added during the year	1 426	3 228	-	-
Changes in estimates (renewal business only)	(225)	(2 331)	-	-
Expected premiums on insurance liabilities	-	8 710	-	-
Expected claims, expiries and lapses	-	(745)	-	-
Expected expenses, commission and charges	-	(983)	-	-
Experience variations	-	414	-	-
Transfer of SAQ business	-	(53 413)	-	-
Undiscounted insurance liabilities - closing balance	89 916	74 371	-	-
<i>Total insurance (assets) / liabilities</i>	(576 267)	(159 462)	-	-
<i>Non-current (asset) / liability</i>	(736 467)	(296 958)	-	-
<i>Current (asset) / liability</i>	160 200	137 496	-	-
Reconciliation of balance				
Opening balance	(159 462)	766	-	-
Recognised in statement of comprehensive income	(416 805)	(106 815)	-	-
Transfer of SAQ business	-	(53 413)	-	-
Closing balance	(576 267)	(159 462)	-	-

As Assupol Life's business is reinsured on a renewable risk premium basis, the impact of reinsurance on the liabilities is considered to be immaterial.

<i>Maturity profile - Insurance contract liabilities</i>	0 to 1 year	2 to 5 years	> 5 years	TOTAL
	R'000	R'000	R'000	R'000
Consolidated - 30 June 2014	160 200	233 474	(969 941)	(576 267)
Consolidated - 30 June 2013	137 496	248 329	(545 287)	(159 462)

**NOTES TO THE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>29. POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS</b>				
The information below presents the movements in policyholder liabilities in respect of investment contracts.				
Investment liabilities - opening balance	1 138 581	1 011 492	-	-
Premiums received	264 233	261 057	-	-
Payments of death, surrender and other terminations for the year	(248 923)	(195 843)	-	-
Fees deducted from account balances	(60 792)	(63 568)	-	-
Fair value adjustment to liabilities	192 701	125 443	-	-
Investment liabilities - closing balance	1 285 800	1 138 581	-	-
<i>Non-current liability</i>	1 171 042	1 059 396	-	-
<i>Current liability</i>	114 758	79 185	-	-
<b>Maturity profile - Investment 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 2014	114 758	351 882	819 160	1 285 800
Consolidated - 30 June 2013	79 185	336 146	723 250	1 138 581

**30. BORROWINGS**

Bridging loan due to shareholder				
Due in 1 year or less	-	132 768	-	132 768
Finance lease liabilities				
Due in 1 year or less	22	468	-	-
Due between 1 and 5 years	-	476	-	-
	22	133 712	-	132 768
<i>Non-current liability</i>	-	476	-	-
<i>Current liability</i>	22	133 236	-	132 768
Reconciliation of balance				
Opening balance	133 712	1 619	132 768	-
New loan	-	132 768	-	132 768
Finance charges	6 147	4 273	6 082	4 143
Repayments	(139 837)	(4 948)	(138 850)	(4 143)
Closing balance	22	133 712	-	132 768

**Bridging loan due to shareholder**

The bridging loan facility from Investec Bank Limited to the amount of R132 768 455 was repaid on 4 December 2013. The loan bore interest at prime rate and interest was payable on a monthly basis. The loan was secured by a cession and pledge by Assupol Holdings of all the shares in Assupol Life as well as those of Assupol Investment Holdings.

**NOTES TO THE FINANCIAL STATEMENTS  
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	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>31. EMPLOYEE BENEFITS</b>				
Employee benefits				
Accrual for leave pay	9 852	7 490	-	-
Provision for bonuses	37 675	43 528	-	-
Cash-settled share-based payment liability	19 267	8 355	19 267	8 355
<b>Total employee benefits</b>	<b>66 794</b>	<b>59 373</b>	<b>19 267</b>	<b>8 355</b>
<i>Non-current liability</i>	19 267	8 355	19 267	8 355
<i>Current liability</i>	47 527	51 018	-	-
Accrual for leave pay				
Opening balance	7 490	8 564	-	-
Utilised during the year	(906)	(1 101)	-	-
Recognised in profit or loss	3 268	27	-	-
<b>Closing balance</b>	<b>9 852</b>	<b>7 490</b>	<b>-</b>	<b>-</b>
Provision for bonuses				
Opening balance	43 528	42 435	-	-
Utilised during the year	(44 814)	(42 408)	-	-
Recognised in profit or loss	38 961	43 501	-	-
<b>Closing balance</b>	<b>37 675</b>	<b>43 528</b>	<b>-</b>	<b>-</b>
Cash-settled share based payment liability				
Opening balance	8 355	-	8 355	-
Recognised in profit or loss	10 912	8 355	10 912	8 355
<b>Closing balance</b>	<b>19 267</b>	<b>8 355</b>	<b>19 267</b>	<b>8 355</b>

Refer note 26 for the determination of the value of the liability.

**32. DEFERRED REVENUE LIABILITY**

Opening balance	360	452	-	-
Deferred revenue relating to new business	95	110	-	-
Amortisation of deferred revenue	(158)	(202)	-	-
	<b>297</b>	<b>360</b>	<b>-</b>	<b>-</b>
<i>Non-current liability</i>	171	222	-	-
<i>Current liability</i>	126	138	-	-

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.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 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.				
The movement on the deferred tax account is as follows:				
Balance at beginning of the year	(212 968)	(136 064)	-	-
Movements directly recognised in retained earnings	-	151	-	-
Movements during year attributable to:	(140 231)	(77 055)	-	-
Temporary differences				
Deferred acquisition costs	(302)	472	-	-
Other timing differences	63	(158)	-	-
Unrealised gains	(7 963)	(4 336)	-	-
Amortisation of PVIF asset	512	362	-	-
Policyholder liabilities difference between statutory and accounting basis	(131 946)	(73 033)	-	-
Loss of control in subsidiary	(596)	-	-	-
Assessed loss	1	(362)	-	-
Balance at end of the year	(353 199)	(212 968)	-	-
The deferred tax balance consists of the following:				
Temporary differences				
Deferred acquisition costs	(7 648)	(7 346)	-	-
Other timing differences	2 778	2 715	-	-
Unrealised gains	(26 333)	(18 370)	-	-
Amortisation of PVIF asset	(512)	(1 024)	-	-
Policyholder liabilities difference between statutory and accounting basis	(363 917)	(231 971)	-	-
Loss of control in subsidiary	(596)	-	-	-
Assessed loss	43 029	43 028	-	-
<i>Non-current liability</i>	(353 199)	(212 968)	-	-
Deferred tax assets of Assupol Life have been recognised on an assessed loss of R43m (2013: R43m). This amount is only a portion of the total assessed loss available for utilisation. An additional deferred tax assets of Assupol Life have not been raised on a further assessed loss of R635.5m (2013: R542.9m) as future profits to recover these losses are not considered to be probable.				
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. The offset amounts are as follows:				
Deferred tax assets	45 807	45 743	-	-
Deferred tax liabilities	(399 006)	(258 711)	-	-

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>34. INSURANCE AND OTHER PAYABLES</b>				
Accounts payable	52 395	44 725	6 477	2 307
Sundry insurance payables	55 212	45 972	-	-
Accruals	-	64	-	-
Outstanding claims and benefits payable				
On insurance contracts	77 149	57 064	-	-
On investment contracts	14 861	10 677	-	-
Premiums received in advance	11 732	11 533	-	-
Amounts due to shareholders	1 461	1 450	-	-
Amounts due to subsidiaries	-	-	210	15 441
<b>Total insurance and other payables</b>	<b>212 810</b>	<b>171 485</b>	<b>6 687</b>	<b>17 748</b>
<i>Non-current liability</i>	-	-	-	-
<i>Current liability</i>	212 810	171 485	6 687	17 748

Insurance and other payables included in total payables consist of:

Insurance payables	158 954	125 246	-	-
Sundry insurance payables	55 212	45 972	-	-
Outstanding claims and benefits payable:				
- Insurance contracts	77 149	57 064	-	-
- Other	14 861	10 677	-	-
Premiums received in advance	11 732	11 533	-	-
Other payables	53 856	46 239	6 687	17 748
Accounts payable	52 395	44 725	6 477	2 307
Accruals	-	64	-	-
Amounts due to shareholders	1 461	1 450	-	-
Amounts due to subsidiaries	-	-	210	15 441
<b>Total insurance and other payables</b>	<b>212 810</b>	<b>171 485</b>	<b>6 687</b>	<b>17 748</b>

**Short-term loan due to Assupol Life Limited**

Loan amounting to R209 652 (2013: R15 440 548) is unsecured and is repayable on demand. The loan does not bear interest.

**35. CURRENT TAXATION**

Opening balance	9 929	809	333	-
Transferred from the statement of comprehensive income	(83 941)	(40 439)	-	(3 286)
Taxation paid during the year	67 972	49 559	270	3 619
<i>Current asset</i>	(6 040)	9 929	603	333

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>36. CASH GENERATED FROM OPERATIONS</b>				
Reconciliation of profit before tax and transfers to policy liabilities to cash generated from operations:				
Profit before taxation	793 307	387 392	160 221	265 855
Movement in policyholder assets / liabilities:				
Insurance contracts (note 28)	(416 805)	(160 228)	-	-
Investment contracts (note 29)	147 219	127 089	-	-
	523 721	354 253	160 221	265 855
Items disclosed separately:				
Interest received (note 9)	(94 028)	(81 356)	(284)	(4 860)
Dividends received (note 9)	(29 412)	(26 926)	(175 000)	(293 225)
Finance charges (note 15)	6 418	4 638	6 082	5 240
Deferred acquisition cost on new business (note 19)	(11 742)	(9 843)	-	-
Fee income deferred on new business (note 32)	95	110	-	-
	395 052	240 876	(8 981)	(26 990)
Non-cash items:				
Net fair value gains on financial assets (note 10)	(328 497)	(283 549)	-	-
Depreciation of property and equipment (note 14)	8 649	7 826	-	-
Loss / (profit) on sale of equipment (note 11)	321	(48)	-	-
Amortisation of intangible assets (note 19)	13 777	14 372	-	-
Impairment of intangible assets (note 19)	3 332	2 724	-	-
Share-based payments (note 26)	10 931	16 226	-	-
Profit / (loss) and statement of comprehensive income items from associate	(185)	31	-	-
Black Economic Empowerment expense (note 27)	-	14 300	-	-
Amortisation of deferred revenue liability (note 32)	(158)	(202)	-	-
Change in shareholding in subsidiary	(52)	(1 003)	-	-
	103 170	11 553	(8 981)	(26 990)
Changes in working capital:				
Insurance and other trade receivables (note 23)	(18 917)	(9 072)	-	14 554
Employee benefits (note 31 )	7 421	19	10 912	8 355
Insurance and other payables (note 34)	41 325	(83 360)	(11 061)	(28 636)
Cash generated from operations	132 999	(80 860)	(9 130)	(32 717)
<b>37. TAXATION PAID</b>				
Current tax:				
Receivable at beginning of the year	9 929	809	333	-
Recognised in profit or loss	(83 941)	(40 439)	-	(3 286)
Payable / (receivable) at end of the year	6 040	(9 929)	(603)	(333)
	(67 972)	(49 559)	(270)	(3 619)

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>38. SIGNIFICANT NON-CASH TRANSACTIONS</b>				
Equity-settled shared-based payments (note 26)				
General employee shares	4 399	8 599	4 399	8 599
Share incentive scheme	6 532	7 627	6 532	7 627
	<hr/>		<hr/>	
Total equity-settled shared-based payments	10 931	16 226	10 931	16 226
	<hr/>		<hr/>	
Unvested shares issued (note 26)				
Assupol Share Incentive Trust	-	15	-	15
	<hr/>		<hr/>	
Cash-settled share-based payments (note 26 )				
Shares to executive directors	10 912	8 355	10 912	8 355
	<hr/>		<hr/>	
Black Economic Empowerment transaction (note 27)				
BEE expense	-	14 300	-	-
	<hr/>		<hr/>	

**39. RELATED PARTY TRANSACTIONS**

**Related parties defined**

All subsidiaries and the associate in the 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 and associate are paid by the holding company, however Assupol Life pays the salaries of key management of the holding company. Key management is defined as executive and non-executive directors of any subsidiary in the group.

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

**Total loans to key management by the group (included in the balance of insurance and other receivables)**

	2014 R'000	2013 R'000
Opening balance	240	323
Loan repayments received	(100)	(100)
Interest charged	12	17
	<hr/>	
Closing balance	152	240
	<hr/>	

Loans advanced to key management consist of loans on motor vehicles and housing that were granted on the same conditions as available to all employees. The group holds sufficient security on these loans.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**39. RELATED PARTY TRANSACTIONS (continued)**

**Directors' remuneration**

A listing of the Board of Directors is shown in note 4 of the Directors' report. All directors declared that they did not have any material interest in any contract signed by the group during the year.

Directors' remuneration as paid by the group of companies is listed below:

Executive directors and prescribed officer (paid by Assupol Life)

R'000	RF Schmidt (CEO)	D de Klerk (CFO)	MB Mokwena- Halala	SL Ndwalaza	GFM Wessels	Total
<b>30 June 2014</b>						
Basic salary	2 531	1 847	2 000	1 902	2 257	10 537
Other incentives and benefits	10	162	10	10	130	322
Pension fund contributions	309	244	244	342	290	1 428
Cash bonus	3 000	2 250	2 625	1 500	3 500	12 875
Deferred bonus *	1 000	750	875	500	-	3 125
<b>Total director emoluments</b>	<b>6 849</b>	<b>5 254</b>	<b>5 754</b>	<b>4 254</b>	<b>6 177</b>	<b>28 287</b>
Share-based payments						
Free shares	4	256	234	-	373	867
Share incentive	712	577	577	684	700	3 250
Restraint of trade	2 068	2 068	2 068	2 068	2 641	10 912
	<b>9 633</b>	<b>8 154</b>	<b>8 632</b>	<b>7 006</b>	<b>9 891</b>	<b>43 316</b>

\* The long term incentive portion of the bonus payable to the executive directors will be deferred through the allocation of shares. These shares will remain restricted for a period of three years from the end of the financial year to which the incentive amount relates. At the end of the three year vesting period, the shares will vest and become unrestricted shares. The 30-day volume-weighted average price (VWAP) based on the OTC facility as at 23 September 2014 will be used to determine the number of shares.

**30 June 2013**

Basic salary	2 421	1 758	1 918	1 759	2 162	10 019
Other incentives and benefits	10	162	10	10	130	322
Pension fund contributions	295	233	234	316	278	1 356
Cash bonus	5 625	4 388	4 388	3 375	4 725	22 501
<b>Total director emoluments</b>	<b>8 351</b>	<b>6 541</b>	<b>6 549</b>	<b>5 460</b>	<b>7 296</b>	<b>34 198</b>
Share-based payments						-
Employee shares	8	512	468	-	745	1 733
Share incentive	896	726	726	570	882	3 801
Restraint of trade	1 583	1 583	1 583	1 583	2 022	8 355
	<b>10 839</b>	<b>9 363</b>	<b>9 326</b>	<b>7 614</b>	<b>10 945</b>	<b>48 087</b>

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**39. RELATED PARTY TRANSACTIONS (continued)**

**Directors' remuneration (continued)**

Executive directors and prescribed officer (securities issued by Assupol Holdings)

	Restraint of trade shares	Employee shares *	Incentive shares	Total
<b>30 June 2014</b>				
RF Schmidt	2 000 000	-	8 233 405	10 233 405
D de Klerk	2 000 000	-	6 677 241	8 677 241
MB Mokwena-Halala	2 000 000	-	6 677 241	8 677 241
SL Ndwalaza	2 000 000	-	5 230 582	7 230 582
GFM Wessels	2 000 000	-	8 103 418	10 103 418
	10 000 000	-	34 921 887	44 921 887
<b>30 June 2013</b>				
RF Schmidt	2 000 000	15 980	8 233 405	10 249 385
D de Klerk	2 000 000	971 927	6 677 241	9 649 168
MB Mokwena-Halala	2 000 000	887 694	6 677 241	9 564 935
SL Ndwalaza	2 000 000	-	5 230 582	7 230 582
GFM Wessels	2 000 000	1 415 423	8 103 418	11 518 841
	10 000 000	3 291 024	34 921 887	48 212 911

\* The employee shares (free shares) vested during the year. Refer note 26.

Non-executive directors (paid by Assupol Holdings and Assupol Life)

R'000	Trustee fees	Board fees	Committee fees	Total
<b>30 June 2014</b>				
JA Janse van Rensburg (Chairman) (1)	-	1 140	127	1 268
EDJ Ashkar	-	363	229	593
ILM Barnett	-	363	62	425
AS Birrell	-	363	145	508
NE Gubb	-	363	127	491
I Greenstreet	-	363	174	538
T Muranda	-	274	184	458
CJ van Dyk	-	274	304	579
KL Craemer	16	1 142	305	1 463
AR Els	-	273	109	381
	16	4 921	1 767	6 703
<b>30 June 2013</b>				
DJ le Roux (previous Chairman)	-	1 294	131	1 424
KL Craemer (acting Chairman)	33	906	262	1 201
JA Janse van Rensburg	-	338	83	421
EDJ Ashkar	-	89	18	107
ILM Barnett	-	89	-	89
AS Birrell	-	56	-	56
NE Gubb	-	147	18	165
I Greenstreet	-	56	18	74
AR Els	-	338	151	489
S Nyalungu	-	338	58	396
HG Engelbrecht	-	338	-	338
	33	3 989	739	4 761

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**39. RELATED PARTY TRANSACTIONS (continued)**

**2014**  
R'000

**2013**  
R'000

**Aggregate details of insurance and investment contracts between the group and key management**

**Insurance contracts**

Aggregate insured cover	7 282	7 534
Premiums received	78	579
Claims paid	-	(63)
Surrender value	232	311

**Investment contracts**

Fund value at 30 June 2013	742	620
Premiums received	16	74
Claims and withdrawals	-	(28)
Resignations	(291)	-
Investment returns credited net of charges	86	89
Commission and other transaction fees	(7)	(14)

Fund value at 30 June 2014	546	742
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Surrender value	455	710
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**Loan balances with related parties**

Total amounts due by subsidiaries as detailed in note 23:

*Operational account with Assupol Investment Holdings*

Opening balance	600	15 160
Repayments	(600)	(14 560)
Closing balance	-	600

Total amounts due to subsidiaries as detailed in note 34:

*Loan from Assupol Life*

Opening balance	-	36 386
Loans received during the year	-	-
Repayments	-	(37 483)
Interest charged	-	1 097
Closing balance	-	-

*Operational account with Assupol Life*

Opening balance	15 441	9 998
Repayments	(175 000)	(28 950)
Transactions funded during the year	159 769	34 393
Closing balance	210	15 441

	CONSOLIDATED		COMPANY	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
<b>39. RELATED PARTY TRANSACTIONS (continued)</b>				
<b>Loan balances with related parties (continued)</b>				
Borrowings from shareholders as detailed in note 30:				
<i>Loan from Investec Bank Limited</i>				
Opening balance	132 768	-	132 768	-
Loans provided during the year	-	132 768	-	132 768
Repayments	(132 768)	-	(132 768)	-
	-	132 768	-	132 768
<b>Transactions with related parties</b>				
Interest paid to shareholder				
Investec Bank Limited	6 082	4 143	6 082	4 143

**40. COMMITMENTS**

*Operating lease commitments*

The group leases various equipment, vehicles and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure recognised in profit or loss during the year is disclosed in note 14 to the financial statements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

*Office equipment*

• Due in 1 year or less	135	394	-	-
• Due between 1 and 5 years	203	-	-	-
• Due after 5 years	-	-	-	-

*Office buildings*

• Due in 1 year or less	1 820	473	-	-
• Due between 1 and 5 years	2 371	405	-	-
• Due after 5 years	-	-	-	-

	4 529	1 272	-	-
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**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2014**

**41. INTERESTS IN SUBSIDIARIES**

Subsidiary name	Nature of business (Notes below)	Issued share capital R'000	Effective holdings		Interest of holding company	
			2014 %	2013 %	2014 R'000	2013 R'000
<i>Subsidiaries of Assupol Holdings Limited</i>						
Assupol Life Limited	a	490 019	100%	100%	572 066	550 580
Assupol Investment Holdings Proprietary Limited	b	70 431	100%	100%	72 544	72 341
<i>Subsidiaries of Assupol Investment Holdings</i>						
Cornerstone Brokers Corporate Proprietary Limited	c	9 273	100%	100%	40 800	40 800
Kestrel Financial Solutions Proprietary Limited	c	5 103	0%	100%	-	5 400
Pan-African Asset Management Proprietary Limited	d	6 091	71%	71%	17 352	17 352
Erf 26 Menlopark Share Block Proprietary Limited	e	1	100%	100%	7 415	7 415
Siebador Sewentien Proprietary Limited	e	1	100%	100%	4 525	4 525
IG Admin Proprietary Limited	f	301	100%	100%	227	2 850
Prosperity Life Limited	f	-	100%	100%	-	-
<i>Other consolidated entities</i>						
Assupol Share Incentive Trust	g	Trust	-	-	-	-

All the subsidiaries are unlisted and incorporated in South Africa.

Transactions between subsidiaries are listed in note 39 to the annual financial statements.

*Notes:*

- A registered long term insurer in terms of the Long Term Insurance Act, 52 of 1998.
- An intermediate investment holding company.
- Financial services provider in terms of the Financial Advisory and Intermediary Services Act, 37 of 2002. The group's interest in Kestrel Financial Solutions was sold on 30 June 2014. A profit on sale of R2.25 million was recognised in the group's net profit included in other income. Refer note 20.
- Management of financial assets.
- Property company earning primarily rental income.
- Dormant or no trading for the period under review.
- Share incentive trust

**42. EVENTS AFTER REPORTING DATE**

**42.1 Dividend declaration**

The Board of Directors declared a gross cash dividend of R92 023 345 (30 cents per qualifying ordinary share) on 30 September 2014 for the year ended 30 June 2014.

On the same date the board also declared a special dividend of R147 237 352 (48 cents per qualifying ordinary share).

The qualifying ordinary shares as at 30 September 2014 excluded the ordinary shares issued to the Assupol Share Incentive Trust and the 'A2' ordinary shares. Refer to note 26 and 27 for more detail.

The dividends have been declared from income reserves. Secondary tax on companies' credits of R22 359 979 have been used. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

**42.2 Financial assets - Investments**

Subsequent to the reporting date, African Bank Limited (African Bank) was placed under curatorship by the Registrar of Banks and the Minister of Finance, with effect from 16h00 on 10 August 2014.

At 30 June 2014, the Assupol group held African Bank and ABIL debt instruments to the fair value of R37.1 million. The exposure represents 1% of the total assets at the reporting date.

The impact of the measurements imposed by the curator on the value of the debt securities held by the group resulted in an after year-end write-down on the value to the amount of R3.9 million. This impact is based on information available at date of these financial statements. This adjustment represents 0.68% of the total comprehensive income for the period under review.

The equity instruments held by the Assupol group were sold prior to this event.