

ASSUPOL

HOLDINGS LIMITED

AND ITS SUBSIDIARIES
(Registration no. 2010/015888/06)

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2013

**ASSUPOL HOLDINGS LIMITED
AND ITS SUBSIDIARIES
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2013**



Page 1

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 |
| 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: | S 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 89 have been prepared in accordance with International Financial Reporting Standards (IFRS), the manner required by the Companies Act, 2008, and by the Long Term Insurance Act, 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 going concerns in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the company and the group.

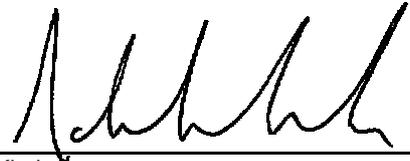
The financial statements have been audited by the independent auditors, PricewaterhouseCoopers Incorporated, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors 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 2013 and are signed on its behalf by:



KL Craemer
Acting 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, 2008, that for the year ended 30 June 2013, the company has lodged with the Registrar of Companies all such returns and notices as required of a public company in terms of this Act, and that all such returns and notices are, to the best of my knowledge and belief, true, correct and up to date.



S de Beer
Company Secretary

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2013.

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 independent, non-executive directors. It should meet at least twice per year as per its terms of reference, but has 4 meetings scheduled. During the year under review 4 meetings were held.

In line with King III recommendations, the chairperson of the board of directors is not normally the chairperson of the audit committee. With the restructuring of the board of directors, the chairperson of the audit committee was appointed as acting chairperson of the board of directors until such time as the chairperson of the board is elected by the new board of directors.

The Assupol 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 only.

| Name of member, qualifications and appointment date | 2012-10-01 | 2012-12-13 | 2013-02-01 | 2013-05-09 |
|--|-------------------|-------------------|-------------------|-------------------|
| KL Craemer (Chairperson) N.Dip Cost Accounting, N.Dip State Finance, 2010 | Present | Absent | Present | Present |
| JA Janse van Rensburg LLB, BA(Law), 2010 | Present | Present | Present | Present |
| DJ le Roux - <i>resigned in April 2013</i> N.Dip(Law), B.Juris, 2010 | Present | Present | Present | N/a |
| AR Els - <i>resigned in June 2013</i> BSc (Hons) Wits, FIA (London), FASSA, CFP, CFA, CERA, 2013 | N/a | N/a | N/a | Present |
| AS Birrell B.Bus SC, FASSA, FFA, CERA, 2013 | N/a | N/a | N/a | N/a |

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

Statutory duties

The audit committee's role and responsibilities include statutory duties as per the Companies Act, 2008, the Long Term Insurance Act, 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, 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 or 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 2013 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.

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 did report 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 Assupol Group, as supported by the audit committee, is listed on page 2.

Internal audit

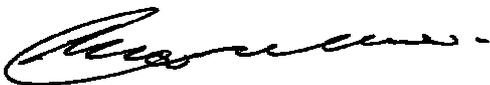
The audit committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority within the company to enable it to discharge its duties.

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.



KL Craemer
Chairperson
30 September 2013

The directors have pleasure in submitting the financial statements of Assupol Holdings Limited and its subsidiaries for the year ended 30 June 2013.

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 Assupol 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 11 of the Directors' report.

2. REVIEW OF OPERATIONS AND FINANCIAL POSITION

Details of the group's financial performance are included in the financial statements. The board of directors would like to highlight the following:

- During the year under review, the total income and the net premium income of the group increased by 18.4% and 9.3% to R1.99 billion and R1.51 billion respectively.
- The investment market showed an exceptional performance during the year. The group achieved investment returns on total assets of 12.5% (2012: 7.4%) for the year under review.
- Group operating and administration expenses increased by 19.6%. Included in operating and administration expenses are demutualisation expenses and corporate transaction cost of a once-off nature, amounting to R36 million (2012: R27 million). Refer to note 12 of the directors report for more detail. Focussed cost management will remain one of the priorities for the group.
- The group concluded significant share transactions with a number of institutional shareholders. The cost for the capital raising activities amounted to R13 million. These transactions enabled the group to redeem its preference shares in March 2013. The once-off cost relating to this redemption amounted to R4.2 million. For more details, refer to note 3 below as well as note 25 in the financial statements.
- The group achieved a profit after taxation of R268.3 million (2012: R309.1 million).
- During the 2012 financial year, the group acquired an asset management company, Pan-African Asset Management (Pty) Ltd. In terms of the agreement, the group had the opportunity to increase its shareholding in the company based on the investments placed under the management of the company by 31 March 2013 and as a result the group's shareholding increased from 56% to 70,99%.

3. SHARE CAPITAL

The company's authorised share capital changed during the year. The company's authorised share capital consist of:

5 500 000 000 ordinary shares with a par value of R0.001
 200 "A" preference no par value shares
 200 000 000 class A ordinary redeemable no par value shares

The following shares were issued during the year under review:

| | 2013 |
|--|--------------|
| | R'000 |
| 15 038 648 ordinary shares for the share incentive scheme | 15 |
| 207 711 570 ordinary shares to institutional investors | 478 750 |
| Broad-Based Black Empowerment transaction: | |
| 12 629 424 "A1" ordinary shares | 29 684 |
| 31 573 561 "A2" ordinary shares | 316 |
| 1 636 007 ordinary shares to the previous minority shareholders of Prosperity Life | 3 640 |
| 10 000 000 ordinary shares to the executive directors | 10 |
| | 512 415 |

30 002 079 preference shares were converted to ordinary shares while the remainder of the preference shares, namely 356 397 921, were redeemed at R2.50 each. This has resulted in a payment of R891 million to preference shareholders.

Furthermore, 2 690 946 ordinary shares that were issued to employees in terms of the demutualisation scheme, were cancelled due to the resignation of the employees.

For more detail on the share capital of the company please refer to notes 25 and 26 of the annual financial statements.

4. BOARD OF DIRECTORS

The present directors of the company are:

| Name | Date appointed | Date resigned |
|--------------------------------------|-----------------------|----------------------|
| <i>Non-executive</i> | | |
| DJ le Roux (previous Chairperson) | 30 July 2010 | 30 April 2013 |
| KL Craemer (acting Chairperson) | 30 July 2010 | - |
| JA Janse van Rensburg | 30 July 2010 | - |
| AR Els | 30 July 2010 | - |
| S Nyalungu | 30 July 2010 | 20 February 2013 |
| HG Engelbrecht | 30 July 2010 | 20 February 2013 |
| EDJ Ashkar | 20 February 2013 | - |
| ILM Barnett | 20 February 2013 | - |
| AS Birrell | 7 May 2013 | - |
| NE Gubb | 7 May 2013 | - |
| I Greenstreet | 7 June 2013 | - |
| <i>Executive</i> | | |
| RF Schmidt (Chief Executive Officer) | 30 July 2010 | - |
| D de Klerk (Chief Financial Officer) | 30 July 2010 | - |
| GFM Wessels | 30 July 2010 | 1 May 2013 |
| MB Mokwena-Halala | 30 July 2010 | - |
| SL Ndwalaza | 1 September 2012 | - |

5. OTHER PRESCRIBED OFFICERS

Name

GFM Wessels

6. DETAILS OF SERVICE CONTRACTS

The company has entered into service contracts with all the executive directors and the other prescribed officer. The contracts for Mr GFM Wessels and the executive directors terminate on 30 June 2015 and 30 June 2017 respectively.

7. AMENDMENT OF MEMORANDUM OF INCORPORATION

The Memorandum of Incorporation was amended at the Annual General Meeting of 30 April 2013. The purpose of the amendment was due to specific shareholder requirements.

8. STATUTORY ACTUARY

In terms of the Long Term Insurance Act of 1998, Mr RD Williams is appointed as the statutory actuary of Assupol Life Ltd.

9. COMPANY SECRETARY

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

10. AUDITORS

PricewaterhouseCoopers Incorporated will continue in office in accordance with Section 90 of the Companies Act, 2008.

11. INTERESTS IN SUBSIDIARIES

The following information relates to the company's interests in subsidiaries:

| Name | Holding | Nature of business |
|--|----------------|--|
| <i>Subsidiaries of Assupol Holdings Limited</i> | | |
| Assupol Life Ltd | 100% | The company is a registered long term insurer in terms of the Long Term Insurance Act, 1998, and provides long term insurance solutions to a selected niche market through a diverse distribution channel. |
| Assupol Investment Holdings (Pty) Ltd | 100% | The company is an intermediate investment holding company for all subsidiaries with the exception of Assupol Life Ltd. |
| <i>Subsidiaries of Assupol Investment Holdings (Pty) Ltd</i> | | |
| Cornerstone Brokers Corporate (Pty) Ltd | 100% | The company is primarily engaged in the marketing and administration of the Cornerstone Group Funeral Scheme. |
| Kestrel Financial Solutions (Pty) Ltd t/a Kestrel Insurance Brokers | 100% | The company is engaged in the provision of financial services, with a specific focus on short term insurance solutions. |
| Pan-African Asset Management (Pty) Ltd | 71% | The company is primarily engaged in the management of financial assets. On 14 May 2012 56% of the company's share capital was acquired. On 1 April 2013 the group's shareholding in the company increased to 70.99%. |
| Erf 26 Menlopark Share Block (Pty) Ltd | 100% | The company is primarily engaged in the letting of the building situated on erf 26, Menlo Park, Pretoria. On 28 June 2013 the group's shareholding in the company increased to 100% and the company was converted from a share block company to an ordinary company. |
| Siebador Sewentien (Pty) Ltd | 100% | The company is primarily engaged in the letting of the building situated on erf 34, Menlo Park, Pretoria, to Assupol Life Ltd. |
| IG Admin (Pty) Ltd, formerly known as Isambulela Group Administrator (Pty) Ltd | 100% | The company has not been trading for the period under review. |
| Prosperity Life Ltd | 100% | The company has not been trading for the period under review. The final distribution of the company was declared in December 2012. The liquidation of the company is currently in process. |
| Prosperity Funeral Administrators (Pty) Ltd | - | The company was deregistered on 14 September 2011. |
| Isambulela Learning Company (Pty) Ltd | - | The company was deregistered on 24 April 2012. |

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

12. REDEMPTION OF PREFERENCE SHARES

In the 2010/11 financial year 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 Assupol Group into its current form.

Members of Assupol Life who met the criteria of qualifying members were allocated free preference shares in Assupol Holdings Limited in exchange for their membership rights. With the confirmation process, shareholders had the option to request the redemption of their shares at a predetermined date, or they could request that the shares be converted to ordinary shares.

On 18 February 2013, R891 million was paid to the nominee company of the preference shareholders to assist with the redemption of 356 397 921 preference shares at R2.50 per share. The remainder of the shares, namely 30 002 079 shares, was converted to ordinary shares.

| | 2013 | 2012 |
|---|---------------|---------------|
| | R'000 | R'000 |
| The following demutualisation related and redemption costs were incurred: | | |
| Demutualisation cost: | | |
| Payments to professional advisors in respect of demutualisation | 2 813 | 4 583 |
| Capital raising cost | 13 041 | - |
| Redemption cost | 4 200 | - |
| Employee cost: | | |
| Share-based payments | 16 226 | 16 207 |
| Restraint of trade payments | - | 6 242 |
| | <u>36 280</u> | <u>27 032</u> |

13. BROAD-BASED BLACK ECONOMIC EMPOWERMENT TRANSACTION

Assupol Holdings Limited concluded a Broad-based Black Economic Empowerment (BEE) transaction on the 15 October 2012 with WDB Investment Holdings (Pty) Ltd, the investment arm of the WDB Group. The transaction resulted in WDB Investment Holdings (Pty) Ltd obtaining a 10% shareholding in Assupol Holdings Limited.

The value of the subscription option attached to this transaction is R14.3 million and is included in the BEE reserve. The cost is expensed in the current year as BEE cost in Assupol Life Ltd.

14. SUBSEQUENT EVENTS

No subsequent events, which could have a significant impact on the financial position of the Assupol Group, have occurred after the reporting period.

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 11 to 89, which comprise the statements of financial position as at 30 June 2013, 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.

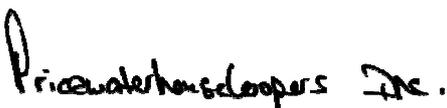
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 2013, 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 2013, 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 2013

*PricewaterhouseCoopers Inc., 2 Eglin Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa
T: +27 (11) 797 4000, F: +27 (11) 797 5800, www.pwc.co.za*

Africa Senior Partner: S P Kana

Management Committee: H Boegman, T P Blandin de Chalais, B M Deegan, J G Louw, P J Mothibe, N V Mletwa, T D Shango, S Subramoney, A R Tilakdari, F Tonelli

The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.

Reg. no. 1998/012055/21, VAT reg.no. 4950174682

**STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2013**

| | NOTES | CONSOLIDATED | | COMPANY | |
|---|-------|--------------------|---------------------------|-----------------|----------------|
| | | 2013 R'000 | Restated 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Insurance premiums revenue | | 1 636 648 | 1 481 477 | - | - |
| Insurance premiums ceded to reinsurers | | (128 567) | (101 212) | - | - |
| <i>Net insurance premium revenue</i> | 8 | 1 508 081 | 1 380 265 | - | - |
| Commission received on outward reinsurance | | 4 318 | 3 068 | - | - |
| Fee income | 9 | 63 772 | 58 239 | - | - |
| Investment income | 10 | 108 282 | 80 312 | 298 085 | 56 031 |
| Net fair value gains on financial assets | 11 | 283 518 | 140 732 | - | - |
| Other income | 12 | 23 726 | 20 090 | 1 032 | - |
| Income | | 1 991 697 | 1 682 706 | 299 117 | 56 031 |
| Insurance benefits and claims | | (896 931) | (853 656) | - | - |
| Insurance claims recovered from reinsurers | | 107 224 | 100 385 | - | - |
| <i>Net insurance benefits and claims</i> | 13 | (789 707) | (753 271) | - | - |
| Expenses for the acquisition of insurance and investment contracts | 14 | (279 898) | (241 900) | - | - |
| Operating and administrative expenses | 15 | (497 862) | (416 266) | (28 022) | (8 020) |
| Impairment of intangibles | 15 | (2 724) | (3 030) | - | - |
| Investment management expenses | | (10 848) | (13 517) | - | - |
| Change in insurance contract provisions | 28 | 106 815 | 224 398 | - | - |
| Fair value adjustments on investment contracts liabilities | 29 | (125 443) | (57 239) | - | - |
| Expenses | | (1 599 667) | (1 260 825) | (28 022) | (8 020) |
| Result of operating activities | | 392 030 | 421 881 | 271 095 | 48 011 |
| Finance charges | 16 | (4 638) | (374) | (5 240) | (3 961) |
| Profit before taxation | | 387 392 | 421 507 | 265 855 | 44 050 |
| Income tax expense | 17 | (119 059) | (112 427) | (3 286) | - |
| PROFIT FOR THE YEAR | | 268 333 | 309 080 | 262 569 | 44 050 |
| Other comprehensive income | | | | | |
| Gains on property revaluation | | 1 703 | 1 241 | - | - |
| Income tax relating to other comprehensive income | | (477) | (347) | - | - |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | | 1 226 | 894 | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 269 559 | 309 974 | 262 569 | 44 050 |
| Profit attributable to | | | | | |
| Shareholders | | 266 719 | 308 222 | 262 569 | 44 050 |
| Non-controlling interests | | 1 614 | 858 | - | - |
| | | 268 333 | 309 080 | 262 569 | 44 050 |
| Total comprehensive income attributable to | | | | | |
| Shareholders | | 268 151 | 309 225 | 262 569 | 44 050 |
| Non-controlling interests | | 1 408 | 749 | - | - |
| | | 269 559 | 309 974 | 262 569 | 44 050 |

**STATEMENT OF FINANCIAL POSITION
as at 30 June 2013**

| | NOTES | CONSOLIDATED | | COMPANY | |
|--|-------|------------------|------------------|----------------|----------------|
| | | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| ASSETS | | | | | |
| Owner-occupied properties | 18 | 28 250 | 27 410 | - | - |
| Equipment | 19 | 29 244 | 25 620 | - | - |
| Deferred tax asset | 33 | 45 743 | 46 263 | - | - |
| Intangible assets - including insurance intangible assets | 20 | 116 796 | 124 049 | - | - |
| Investments in subsidiaries | 21 | - | - | 622 921 | 584 040 |
| Financial assets - Investments At fair value through profit or loss | 22 | | | | |
| Equity securities | | 1 112 725 | 1 663 826 | - | - |
| Debt securities | | 968 011 | 482 015 | - | - |
| Deposits and money market securities | | 308 252 | 254 868 | - | - |
| Policyholder assets | | | | - | - |
| Insurance contracts | 28 | 159 462 | - | - | - |
| Insurance and other receivables | 23 | 108 645 | 117 744 | 606 | 15 160 |
| Current taxation | 35 | 9 929 | 809 | 333 | - |
| Cash and cash equivalents | 24 | 240 843 | 211 581 | 2 325 | - |
| TOTAL ASSETS | | 3 127 900 | 2 954 185 | 626 185 | 599 200 |
| EQUITY | | | | | |
| Capital and reserves | | | | | |
| Share capital | 25 | 30 345 | 469 | 30 345 | 469 |
| Share premium | 25 | 547 270 | 520 953 | 547 270 | 520 953 |
| Treasury shares | 26 | (27 149) | (31 383) | (27 149) | (31 383) |
| Employee benefits reserve | 26 | 39 816 | 23 590 | 39 816 | 23 590 |
| Black Economic Empowerment reserve | 27 | 14 300 | - | 14 300 | - |
| Retained earnings | | 756 935 | 930 588 | (137 267) | 39 187 |
| Revaluation reserve | | 3 340 | 2 114 | - | - |
| Non-controlling interests | | 822 | 5 354 | - | - |
| | | 1 365 678 | 1 451 685 | 467 314 | 552 816 |
| LIABILITIES | | | | | |
| Policyholder liabilities | | | | | |
| Insurance contracts | 28 | - | 766 | - | - |
| Investment contracts | 29 | 1 138 581 | 1 011 492 | - | - |
| Borrowings | 30 | 133 712 | 1 619 | 132 768 | - |
| Employee benefits | 31 | 59 373 | 50 999 | 8 355 | - |
| Deferred revenue liability | 32 | 360 | 452 | - | - |
| Deferred tax liability | 33 | 258 711 | 182 327 | - | - |
| Insurance and other payables | 34 | 171 485 | 254 845 | 17 748 | 46 384 |
| | | 1 762 222 | 1 502 500 | 158 871 | 46 384 |
| TOTAL EQUITY AND LIABILITIES | | 3 127 900 | 2 954 185 | 626 185 | 599 200 |

**STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2013**

| | SHARE CAPITAL R'000 | SHARE PREMIUM R'000 | TREASURY SHARES R'000 | EMPLOYEE BENEFITS RESERVE R'000 |
|--|---------------------------|---------------------------|-----------------------------|--|
| COMPANY | | | | |
| Balance at 30 June 2011 | 406 | 520 953 | (31 320) | 7 383 |
| Issue of shares to Share Incentive Trust | 63 | - | (63) | - |
| Cost of free shares to employees | - | - | - | 9 076 |
| Cost of incentive shares | - | - | - | 7 131 |
| Profit for the year | - | - | - | - |
| Other comprehensive income for the year | - | - | - | - |
| Balance at 30 June 2012 | 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 to institutional investors | 29 684 | - | - | - |
| Issue of "A2" ordinary shares to institutional investors | 316 | - | - | - |
| Issue of ordinary shares to PIC Holdings Ltd | 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 | - | - | - | - |
| Balance at 30 June 2013 | 30 345 | 547 270 | (27 149) | 39 816 |
| CONSOLIDATED | | | | |
| Balance at 30 June 2011 | 406 | 520 953 | (31 320) | 7 383 |
| Issue of shares to Share Incentive Trust | 63 | - | (63) | - |
| Cost of free shares to employees | - | - | - | 9 076 |
| Cost of incentive shares | - | - | - | 7 131 |
| Common control transaction | - | - | - | - |
| Acquisition of subsidiary | - | - | - | - |
| Changes in ownership in subsidiaries | - | - | - | - |
| Dividends paid by subsidiaries | - | - | - | - |
| Revaluation of owner-occupied properties | - | - | - | - |
| Profit for the year | - | - | - | - |
| Other comprehensive income for the year | - | - | - | - |
| Balance at 30 June 2012 | 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 to institutional investors | 29 684 | - | - | - |
| Issue of "A2" ordinary shares to institutional investors | 316 | - | - | - |
| Issue of ordinary shares to PIC Holdings Ltd | 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 subsidiary | - | - | - | - |
| Profit for the year | - | - | - | - |
| Other comprehensive income for the year | - | - | - | - |
| Balance at 30 June 2013 | 30 345 | 547 270 | (27 149) | 39 816 |

**STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2013**

| | BEE RESERVE | RETAINED INCOME | REVALUATION RESERVE | NON- CONTROLLING INTEREST | TOTAL CAPITAL & EQUITY |
|--|------------------------|----------------------------|--------------------------------|--|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| COMPANY | | | | | |
| Balance at 30 June 2011 | - | (4 863) | - | - | 492 559 |
| Issue of shares to Share Incentive Trust | - | - | - | - | - |
| Cost of free shares to employees | - | - | - | - | 9 076 |
| Cost of incentive shares | - | - | - | - | 7 131 |
| Profit for the year | - | 44 050 | - | - | 44 050 |
| Other comprehensive income for the year | - | - | - | - | - |
| Balance at 30 June 2012 | - | 39 187 | - | - | 552 816 |
| Issue of shares to Share Incentive Trust | - | - | - | - | - |
| Issue of shares to institutional investors | - | - | - | - | 478 750 |
| Issue of "A1" ordinary shares to institutional inves | - | - | - | - | 29 684 |
| Issue of "A2" ordinary shares to institutional inves | 14 300 | - | - | - | 14 616 |
| Issue of ordinary shares to PIC Holdings Ltd | - | - | - | - | 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 |
| Profit for the year | - | 262 569 | - | - | 262 569 |
| Other comprehensive income for the year | - | - | - | - | - |
| Balance at 30 June 2013 | 14 300 | (137 267) | - | - | 467 314 |
| CONSOLIDATED | | | | | |
| Balance at 30 June 2011 | - | 619 708 | 1 100 | 4 918 | 1 123 148 |
| Issue of shares to Share Incentive Trust | - | - | - | - | - |
| Cost of free shares to employees | - | - | - | - | 9 076 |
| Cost of incentive shares | - | - | - | - | 7 131 |
| Common control transaction | - | 3 951 | - | - | 3 951 |
| Acquisition of subsidiary | - | - | - | 388 | 388 |
| Changes in ownership in subsidiary | - | (1 173) | - | (477) | (1 650) |
| Dividends paid by subsidiaries | - | - | - | (234) | (234) |
| Revaluation of owner-occupied properties | - | (120) | 120 | (98) | (98) |
| Profit for the year | - | 308 222 | - | 858 | 309 080 |
| Other comprehensive income for the year | - | - | 894 | - | 894 |
| Balance at 30 June 2012 | - | 930 588 | 2 114 | 5 354 | 1 451 685 |
| Issue of shares to Share Incentive Trust | - | - | - | - | - |
| Issue of shares to institutional investors | - | - | - | - | 478 750 |
| Issue of "A1" ordinary shares to institutional inves | - | - | - | - | 29 684 |
| Issue of "A2" ordinary shares to institutional inves | 14 300 | - | - | - | 14 616 |
| Issue of ordinary shares to PIC Holdings Ltd | - | - | - | - | 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 |
| Balance at 30 June 2013 | 14 300 | 756 935 | 3 340 | 822 | 1 365 678 |

**STATEMENT OF CASH FLOWS
for the year ended 30 June 2013**

| | NOTES | CONSOLIDATED | | COMPANY | |
|--|-------|------------------|------------------|------------------|---------------|
| | | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Cash flows from operating activities | | | | | |
| Cash generated from / (utilised in) operations | 36 | (80 860) | 155 181 | (41 072) | (52 070) |
| Interest received | 10 | 81 356 | 53 881 | 4 860 | - |
| Dividends received | 10 | 26 926 | 26 431 | 293 225 | 56 031 |
| Finance charges | 16 | (4 638) | (374) | (5 240) | (3 961) |
| Taxation paid | 37 | (49 559) | (35 396) | (3 619) | - |
| Net cash flows from operating activities | | (26 774) | 199 723 | 248 154 | - |
| Cash flows from investing activities | | | | | |
| Additional payment relating to acquisition of share | 20 | - | (6 973) | - | - |
| Acquisition of equipment | 19 | (11 852) | (10 160) | - | - |
| Improvements to owner-occupied properties | 18 | - | (718) | - | - |
| Proceeds on disposal of property and equipment | 19 | 1 312 | 564 | - | - |
| Additions to intangible assets | 20 | - | (7 736) | - | - |
| Net acquisition of financial instruments at fair value through profit or loss | 22 | 294 909 | (177 915) | - | - |
| Net decrease in loan receivables | 23 | 18 171 | 13 652 | - | - |
| Net cash flows from investing activities | | 302 540 | (189 287) | - | - |
| Cash flows from financing activities | | | | | |
| Ordinary shares issued | 25 | 512 400 | - | 512 400 | - |
| Ordinary shares cancelled | 25 | (3) | - | (3) | - |
| Preference shares redeemed | 25 | (890 995) | - | (890 995) | - |
| Increase / (decrease) in borrowings | 30 | 132 093 | (1 006) | 132 768 | - |
| Net cash flows from financing activities | | (246 504) | (1 006) | (245 829) | - |
| Net increase / (decrease) in cash and cash equivalents | | 29 261 | 9 430 | 2 325 | - |
| Cash and cash equivalents at beginning of the year | | 211 581 | 202 151 | - | - |
| Cash and cash equivalents at end of the year | | 240 843 | 211 581 | 2 325 | - |

1. GENERAL INFORMATION

Assupol Life Ltd, the "life office" subsidiary of Assupol Holdings Ltd, underwrites life insurance risk, such as those associated with death, disability and dread disease. Assupol Life Ltd 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 (Pty) Ltd and Cornerstone Brokers Corporate (Pty) Ltd provide an intermediary service for insurance needs while Pan-African Asset Management (Pty) Ltd provides services associated with an asset manager. The other companies in the group include two property companies, namely Siebador Sewentien (Pty) Ltd and Erf26 Menlopark Share Block (Pty) Ltd, as well as a holding company, Assupol Investment Holdings (Pty) Ltd, that hold the investments in all the non-life companies. All the products and services in the group are only offered in South Africa.

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

These consolidated financial statements of Assupol Holdings Limited and its subsidiaries ("the group") have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, No 71 of 2008, as amended, 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';
- 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:

- *IAS 1 (amendment) - Financial statement presentation (effective periods beginning on/after 1 July 2012)*
The main change to this IAS is a requirement to group items presented in other comprehensive income on whether or not they are potentially subsequently reclassifiable to profit or loss.

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

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

2.1.2 Standards and interpretations applicable to the group but 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 periods beginning on/after 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 - Consolidated financial statements (effective periods beginning on/after 1 January 2013)*
This IFRS expands on existing principals 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. Provisions for separate financial statements are included in the revised IAS 27.
- *IFRS 13 - Fair value measurement (effective periods beginning on/after 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.
- *IFRS 12 - Disclosure of interests in other entities (effective periods beginning on/after 1 January 2014)*
The standard includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, and other off-balance sheet vehicles.
- *Amendments to IFRS 10, IFRS 11 and IFRS 12 - Consolidated financial statements, joint arrangements, disclosure of interest in other entities (effective periods beginning on/after 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 periods beginning on/after 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.
- *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 32 (amendment) - Financial instruments: Presentation (effective periods beginning on/after 1 January 2014)*
This amendment clarifies requirements for offsetting financial assets and liabilities on the statement of financial position.
- *Annual improvements project 2011 (effective periods beginning on/after 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.

2.2 Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the company and its subsidiaries.

2.2.1 Interest in subsidiaries

A list of the group's subsidiaries is set out in the directors' report.

Subsidiaries are companies in which the group, directly or indirectly, has the power to exercise control over the financial and operating policies for its own benefit. The group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the standalone financial statements of the company.

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

2.2 Basis of consolidation (continued)

2.2.1 Interest in subsidiaries (continued)

The group uses the acquisition method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the effective date of disposal. 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.

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.

2.3 Foreign currency translation

2.3.1 General

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'.

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 Reinsurance premiums received

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

2.4.3 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.

2.4.4 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.
- Rental income is accounted for on a straight-line basis, and is reversed on consolidation (in respect of group owner-occupied properties).

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

2.4 Revenue recognition and other income and expenses (continued)

2.4.5 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.

2.4.6 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 bonuses payable, and the group's contributions to sales staff's pension and medical aid funds (in respect of qualifying staff). These acquisition costs are expensed as incurred.

2.4.7 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.

2.4.8 Finance charges

Interest expense is recognised within finance charges in the statement of comprehensive income using the effective interest rate method.

2.5 Reinsurance contracts held

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

The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due by reinsurers (classified within insurance and other receivables), as well as longer-term receivables, 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.

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

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 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.

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

2.8 Recognition of assets, liabilities and provisions (continued)

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.

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'.

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

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.

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

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'
- Loans and receivables

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

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, reinsurance 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 regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the end of the reporting period. If a quoted bid price is not available for dated instruments, the fair value is measured at the repurchase price (most likely for unit

Fair values for unquoted instruments are determined as follows:

Unlisted equities

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

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.

2.13 Financial assets (continued)

2.13.2 Loans and receivables (continued)

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.

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2.16 Impairment of assets (continued)

2.16.1 Financial assets carried at amortised cost (continued)

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. 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 demutualisation free shares to employees 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 Policyholder contracts - Investment and Insurance (continued)

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.

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 Policyholder contracts - Investment and Insurance (continued)

2.21.3 Insurance contracts

Valuation

In terms of IFRS 4, defined insurance liabilities may be measured under existing local practice. The life office 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, 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 the life office.

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.

- 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 the life office. 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.

2.21 Policyholder contracts - Investment and Insurance (continued)

2.21.3 Insurance contracts (continued)

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 its 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. 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.

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 contracts 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, 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 provision

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 that makes strategic decisions and who 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 that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Assumptions and estimates relating to policyholder liabilities / assets

The determination of the liabilities 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 liabilities under long-term insurance contracts decreased by R160 228 000 resulting in a net year-end asset balance of R159 462 000. The significant movement can be attributed to the new business written during the year that resulted in an increase in negative liabilities to the value of R254 237 000.

For further information refer to note 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 acquired through business combinations held by subsidiaries. The present value is calculated using a discounted cash flow model. For further information, refer to note 20 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 (Pty) Ltd. The present value is calculated using a discounted cash flow model. For further information, refer note 20 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 20 to the financial statements.

3.5 Valuation of owner-occupied properties

The value of the owner-occupied property depends on a number of factors that are determined using a number of assumptions.

Erf 34, Menlo Park, was valued in 2013 on an income capitalisation basis. The assumptions used in determining the value include the expected long-term rate of return on the asset (9.5%), the average rentals for office space in the area (R125 per square metre), and estimated expenses (20% of rentals) relating to the building. Any change in these assumptions will impact the value of the building.

Erf 26, Menlo Park, was valued in 2013 on an income capitalisation basis. The assumptions used in determining the value include the expected long-term rate of return on the asset (9.5%), the average rentals for office space in the area (R130 per square metre), and estimated expenses (20% of rentals) relating to the building. Any change in these assumptions will impact the value of the building.

For further information, refer to note 18 to the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES (continued)

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% (2012: 28%). The life office in the group 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). No contracts are held under the life office's tax fund.

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

3.7 Share-based payments - Expense and liability determination

The amounts expensed represent 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 the Company'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 the Company'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 the Company'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 2013 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 2013 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 (current plus prior 2 years) 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 5.75% (2012 : 5.25%) 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 risk premium):

| | Assupol Life | |
|---|---------------------|-------------|
| | 2013 | 2012 |
| Debt securities / Other loans / Foreign investments | 7.75% | 7.25% |
| Deposits and money market securities | 3.55% | 4.05% |
| Equity securities | 11.25% | 10.75% |
| Policyholder loans | 12.50% | 13.00% |
| Loans to personnel | 7.50% | 6.50% |
| Foreign investments | 6.75% | 6.25% |
| Net current assets | 0.00% | 0.00% |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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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:

| | Assupol Life | |
|--|---------------------|-------------|
| | 2013 | 2012 |
| Non unit linked business (excluding with-profits business) | 7.75% | 7.25% |
| With-profits business | 7.75% | 7.25% |
| Unit linked business | 8.50% | 8.75% |

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 at the end of the reporting period. The life office's current tax position is taken into account, and taxation rates, consistent with that position and the likely future changes in that position, are allowed for. In particular, the Individual Policyholder Fund is in a tax loss position and is expected to stay in that position for the foreseeable future.

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

| Assumption | 2013 Margin adjustment | 2012 Margin adjustment |
|-----------------------------|-------------------------------|-------------------------------|
| Investment return | 0.25% increase/decrease * | 0.25% increase/decrease * |
| Mortality | 7.5% increase | 7.5% increase |
| Expenses | 10.0% increase | 10.0% increase |
| Expense inflation | 10.0% increase | 10.0% increase |
| Lapses (where relevant) | 25.0% increase/decrease * | 25.0% increase/decrease * |
| Surrenders (where relevant) | 10.0% increase/decrease * | 10.0% increase/decrease * |

* Depending on which change increases the liability.

4.2 Assumptions for undiscounted liabilities

IBNR provisions are calculated for the annually renewable group business. These are either based on a percentage of the premiums payable or Bornhuetter-Ferguson run-off triangles. These have been established at a level which 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 decreased opening reserves by R13.7 million after elimination of 65% of the negative reserves. These changes are made to opening rather than closing reserves so as to improve the Analysis of Surplus (AOS). The main adjustments were in respect of the following:

- A data change was made to the Funeral New, Universal New, Universal Old, Conventional, Direct Marketing, Progress Legacy & Progress Legacy (2009) waivers. The term was changed from a maximum of 5 years to a whole of life term. Also the waivers in payment cease dates were changed to reflect the correct term, which resulted in an increase in reserves;
- Corrected the cease dates on Prosperity Life Funeral business, which resulted in an increase in reserves;
- Added policy types to model Cash Back and Loyalty Reward benefits for 4SurePlan and 4SurePlan(DM), which resulted in an increase in reserves; and
- Universal New data adjusted to include correct cash withdrawals, which resulted in an increase in reserves.

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

4.4 Effect of changes in assumptions (continued)

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

- Adjusted the AIDS loading for Definite Life Plan resulted in a decrease in reserves.
- Compulsory premium increases allowed for on Progress Legacy 2009 resulted in a decrease in reserves.
- Change in the APN110 reserve as a result of the recalibration of the stochastic model.
- The main changes to the lapse rates are summarised as follows:
 - Generally decreased the lapse rates for Conventional, Progress Series, Funeral and Cornerstone business;
 - Generally increased the lapse rates for 4Sure and 21st Century business; and,
 - Some of the changes have been brought about by grouping the smaller products with relatively little data with larger products that are expected to exhibit similar decrement characteristics.
- Decreased the NTU rate assumptions on Funeral and 21st Century business.
- Increased the NTU rate assumptions on Cornerstone LR and Direct Marketing business.
- Generally reduced mortality rates and AIDS loading on Funeral business.
- Economic changes:
 - Increased the long-term investment return by 0.5% from 7.25% per annum to 7.75% per annum for non-linked business; and,
 - Reduced the long-term investment return by 0.25% from 8.75% per annum to 8.5% per annum for linked business.
- Expense inflation increased from 5.25% per annum to 5.75% per annum.
- Increased expense assumptions on PFA and Assupol Group business and decreased on Cornerstone business.
- Changed the direction of compulsory margins on Funeral, Prosperity and Progress Series business.
- Increased reversionary bonuses from 1.75% to 2.3% and terminal bonuses from 150% to 200% on Conventional business.

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

| | CONSOLIDATED | |
|---|---------------------|------------------|
| | 2013 | 2012 |
| | R'000 | R'000 |
| Modelling changes and data corrections on opening liabilities | (13 649) | - |
| Change in APN110 reserve | 11 573 | 1 182 |
| Change in clawback and/or commission assumptions | - | 5 559 |
| Change in valuation extract data | - | 4 113 |
| Change in NTU rate assumptions | 131 | (183) |
| Change in renewal expense assumptions | (8 754) | (64 381) |
| Change in mortality assumptions | (69 000) | (28 780) |
| Change in withdrawal rate assumptions | 35 100 | (4 501) |
| Change in investment return assumptions | (23 398) | 66 207 |
| Change in inflation assumptions | 64 709 | (71 430) |
| Change in compulsory margins | 36 864 | 12 822 |
| Change in cash withdrawal rates | - | (1 819) |
| Correction in modelling of RA maturity rewards | - | 666 |
| Change to new AIDS tables | - | (29 088) |
| Remove capital gains tax | - | (16 149) |
| Total change in basis | 33 575 | (125 781) |

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

4.5 Sensitivity analysis

The sensitivity of the insurance liabilities to the main assumptions was tested by calculating the effect of certain assumptions not being met. In each case below, one assumption changes whilst all the other assumptions remain constant.

The size of the sensitivities 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.

| | 2013 | | 2012 | |
|--|--------------------|-----------------|--------------------|-----------------|
| | Liability R'000 | Change R'000 | Liability R'000 | Change R'000 |
| Main basis | (159 462) | | 766 | |
| Renewal expenses plus 10% | 4 114 | 163 576 | 110 213 | 109 447 |
| Inflation plus 1% | 43 083 | 202 545 | 82 689 | 81 923 |
| Investment return less 1% | (45 123) | 114 339 | 34 901 | 34 135 |
| Investment return less 1% and reduce bonuses | (51 214) | 108 248 | 29 171 | 28 405 |
| Withdrawals plus 10% | (189 698) | (30 236) | (2 472) | (3 238) |
| Risk experience plus 10% | 73 920 | 233 382 | 244 163 | 243 397 |

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 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 on 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 etc. as detailed below:

- The group audit committee assists the board 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 a non-executive director, and comprise of three non-executive directors, and meets at least twice a year.
- As per requirement of the Companies Act, 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, 2008. It comprised of two executive directors and one non-executive director during the year under review, and met once 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 the life office'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 investment committee oversees the asset management process of the Assupol Group according to guidelines and objectives set by the Investment Policy document and in conjunction with the Asset Liability Model as compiled by the statutory actuary. The committee is chaired by the Chief Financial Officer, and meets on a quarterly basis. The investment committee comprises of certain executive directors, non-executive directors, and independent investment specialists with broad-based investment experience specialising in the investment and actuarial field.
- 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 of Assupol Holdings Limited and the former executive director, Mr GFM Wessels, 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.

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5 RISK MANAGEMENT (continued)

5.2 Insurance risk

Insurance risk is the risk that benefit payments and related expenses exceed the carrying amount of the life office'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 | 2013 % of premium | 2012 % of premium |
|----------------------------------|---------------|-------------------------|-------------------------|
| Individual insurance business | | | |
| Conventional individual business | Insurance | 0.1% | 0.2% |
| Other individual risk business | Insurance | 50.1% | 53.7% |
| Group risk business | Insurance | 49.8% | 46.1% |
| | | 100.0% | 100.0% |

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 Ltd;
- 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 the life office within the group:

- 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 of the life office 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, Avian and swine flu or 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 the life office'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.

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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, occupation, 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 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 | 20.50% |
| 200 000 - 500 000 | 5 060 404 | 19.70% | - | 0.00% |
| > 500 000 | 5 227 440 | 20.35% | - | -0.01% |
| Total | 25 681 800 | 100.00% | 6 725 340 | 100.00% |

30 June 2012

| Sum insured at risk | Before reinsurance | | After reinsurance | |
|---------------------|--------------------|----------------|-------------------|----------------|
| | R'000 | % | R'000 | % |
| 0 - 20 000 | 7 752 122 | 37.92% | 2 574 262 | 47.07% |
| 20 000 - 50 000 | 2 171 863 | 10.62% | 656 594 | 12.01% |
| 50 000 - 100 000 | 770 575 | 3.77% | 1 015 098 | 18.56% |
| 100 000 - 200 000 | 2 030 575 | 9.93% | 1 222 489 | 22.36% |
| 200 000 - 500 000 | 3 767 026 | 18.43% | - | 0.00% |
| > 500 000 | 3 951 349 | 19.33% | - | 0.00% |
| Total | 20 443 510 | 100.00% | 5 468 443 | 100.00% |

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 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 (as determined by the number of lives covered).

| <i>Consolidated</i> | Scheme size | 2013 | | 2012 | |
|---------------------|---------------|------------|----------------|------------|----------------|
| | | Number | % | Number | % |
| | 0 - 1 000 | 339 | 79.39% | 291 | 78.65% |
| | 1 000 - 5 000 | 59 | 13.82% | 40 | 10.81% |
| | > 5 000 | 29 | 6.79% | 39 | 10.54% |
| | Total | 427 | 100.00% | 370 | 100.00% |

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 ANNUAL FINANCIAL STATEMENTS
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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 flow to meet financial obligations. The life office 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 on the end of the reporting period:

| <i>Consolidated</i> | 2013 | | 2012 | |
|---------------------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| | 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 | 1 138 581 | 116.29% | 1 011 492 | 99.92% |
| Other business | (159 462) | (16.29%) | 766 | 0.08% |
| Conventional individual risk business | 124 161 | 12.68% | 128 478 | 12.69% |
| Other individual risk business | (424 550) | (43.36%) | (266 337) | (26.31%) |
| Group risk business | 119 716 | 12.23% | 128 987 | 12.74% |
| Liability for embedded derivatives | 21 211 | 2.16% | 9 638 | 0.96% |
| Total policyholder liability | 979 119 | 100% | 1 012 258 | 100% |

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 Ltd can choose into which type of investment fund their monies should be deposited. One of these investment funds is the 'guaranteed fund' where the capital of the contribution (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 risk for the guarantee has been transferred through a structured product to the asset managers, and therefore the exposure does not need to be hedged. The exposure is not deemed to be material in the context of the life office results.

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5. RISK MANAGEMENT (continued)

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.

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

| | Market risk | Credit risk | Liquidity risk | 2013 R'000 | 2012 R'000 |
|--------------------------------------|-------------|-------------|----------------|---------------|---------------|
| At fair value through profit or loss | | | | | |
| Equity securities | x | | | 1 112 725 | 1 663 826 |
| Debt securities | x | x | | 968 011 | 482 015 |
| Deposits and money market securities | x | x | | 308 252 | 254 868 |
| Loans and receivables | | | | | |
| Insurance and other receivables | x | x | | 108 645 | 117 744 |
| Cash and cash equivalents | x | x | | 240 843 | 211 581 |
| Policyholder assets | x* | | x | 159 462 | - |
| Policyholder liabilities | x* | | x | 1 138 581 | 1 012 258 |
| Borrowings | | | x | 133 712 | 1 619 |
| Insurance and other payables | | | x | 171 485 | 254 845 |

* 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).

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:

| | 2013 R'000 | 2012 R'000 |
|---------------------------------------|---------------|---------------|
| Global unit trusts | 101 938 | 81 715 |
| Foreign currency amount (US\$) | 10 328 | 9 994 |
| Closing exchange rate at 30 June | 9.8700 | 8.1766 |
| Average exchange rate during the year | 8.8400 | 7.7957 |

Overall, foreign exchange risk is considered to be within acceptable risk levels and managed effectively, as it represents only 3.5% (2012: 3.0%) 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. Additionally, relative values of alternative investments, and the liquidity of the instruments invested in, could affect the fair value of interest rate market-related investments. For more information on the maturity profiles of the financial assets, please 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 |
|--|------------------|---|--|-------------------------------------|
| 30 June 2013 | R'000 | R'000 | R'000 | % |
| 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% |
| Reinsurance 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: | | | | |
| Premiums receivable: Provision for impairment | (27 209) | - | - | 0.00% |
| Sundry receivables: Provision for impairment | (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% |
| | 1 625 750 | 562 347 | 1 004 142 | |

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

30 June 2012

| | | | | |
|--|------------------|----------------|----------------|--------|
| At fair value through profit or loss | | | | |
| Debt securities | | | | |
| Corporate bonds | 198 877 | 124 461 | 74 416 | 14.11% |
| Government bonds | 148 702 | - | 148 702 | 7.08% |
| Parastatals and utilities | 128 338 | - | 128 338 | 14.56% |
| Municipalities | 6 098 | - | 6 098 | 8.57% |
| Deposits and money market securities | 254 868 | 207 821 | 47 047 | 5.87% |
| Loans and receivables | | | | |
| Insurance and other receivables (interest-bearing) | 121 111 | 113 711 | 7 400 | 12.59% |
| Insurance and other receivables: | | | | |
| Premiums receivable: Provision for impairment | (27 902) | - | - | 0.00% |
| Sundry receivables: Provision for impairment | (11 814) | - | - | 0.00% |
| Insurance and other receivables (non interest-bearing) | 36 349 | - | - | 0.00% |
| Cash and cash equivalents | 211 581 | 211 581 | - | 2.69% |
| | 1 066 208 | 657 574 | 412 001 | |

**NOTES TO THE ANNUAL 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 the life office'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, 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. Readers should note that 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 | |
|----------------------------------|--------------------|--|-----------|---|-----------|
| | | 2013 | 2012 | 2013 | 2012 |
| | % | R'000 | R'000 | R'000 | R'000 |
| <i>Consolidated</i> | | | | | |
| Non-market long-term assumptions | | | | | |
| Mortality and morbidity | +10% | 233 241 | 243 276 | (167 933) | (175 158) |
| | -10% | (317 729) | (252 199) | 228 765 | 181 583 |
| Withdrawals | +10% | (32 016) | (4 952) | 23 051 | 3 565 |
| | -10% | 38 861 | 9 458 | (27 980) | (6 809) |
| Renewal expense per policy | +10% | 168 135 | 113 546 | (121 057) | (81 753) |
| | -10% | (188 114) | (113 363) | 135 442 | 81 621 |
| Economic assumptions | | | | | |
| Interest rate | +1% | (80 312) | (23 812) | 57 825 | 17 144 |
| | -1% | 116 285 | 36 012 | (83 725) | (25 929) |
| Inflation | +1% | 204 501 | 83 715 | (148 233) | (62 195) |
| | -1% | (169 987) | (72 374) | 123 383 | 54 030 |
| Rand exchange rate | +10% | - | - | 10 502 | 10 772 |
| | -10% | - | - | (10 502) | (10 772) |
| Equity prices | +10% | 92 558 | 75 058 | 5 021 | 36 369 |
| | -10% | (92 532) | (75 028) | (5 021) | (36 400) |

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, 1998. Provisions of the Long Term Insurance Act, 1998, 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 the life office 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, 1998, and regulation 28 of the Pension Fund Act, 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 or Long Term Insurance Act, 1998.

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

5. RISK MANAGEMENT (continued)

5.3.2.b Credit risk (continued)

| | CONSOLIDATED | | COMPANY | |
|---|------------------|------------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 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 | 388 289 | 198 877 | - | - |
| Government bonds | 310 203 | 148 702 | - | - |
| Parastatals and utilities | 212 539 | 128 338 | - | - |
| Municipalities | 13 052 | 6 098 | - | - |
| Reinsurance policy - Global bonds | 43 928 | - | - | - |
| Deposits and money market securities | 308 252 | 254 868 | - | - |
| Loans and receivables | | | | |
| Insurance receivables | | | | |
| Premium receivables | 10 856 | 23 896 | - | - |
| Loans to policyholders | 25 442 | 41 156 | - | - |
| Reinsurance recoveries receivable | 23 482 | 25 217 | - | - |
| Other receivables: | | | | |
| Premium receivables | 4 854 | 1 867 | - | - |
| Sundry receivables | 35 301 | 14 441 | 606 | 15 160 |
| Loans to personnel and other loans | 8 567 | 8 391 | - | - |
| Loans to policyholders | 143 | 2 776 | - | - |
| Cash and cash equivalents | 240 843 | 211 581 | 2 325 | - |
| Total | 1 625 751 | 1 066 208 | 2 931 | 15 160 |

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

| | | | | |
|--------------------------------------|------------------|------------------|--------------|---------------|
| Debt securities | 968 011 | 482 015 | - | - |
| AAA, F1+ | 384 150 | 326 386 | - | - |
| AA+, AA, AA-, F1 | 336 232 | 135 587 | - | - |
| A+, A, A- | 202 696 | 20 042 | - | - |
| Unrated | 44 933 | - | - | - |
| Deposits and money market securities | 308 251 | 253 690 | - | - |
| AAA, F1+ | 49 607 | - | - | - |
| AA+, AA, AA-, F1 | 153 957 | 226 164 | - | - |
| A+, A, A- | 104 687 | 27 526 | - | - |
| Cash and cash equivalents | 240 843 | 211 581 | - | - |
| AAA | 10 370 | 10 880 | - | - |
| AA+, AA, AA- | 227 699 | 196 803 | - | - |
| A+, A, A- | 2 774 | 3 898 | - | - |
| Unrated | 108 646 | 118 922 | 2 931 | 15 160 |
| Deposits and money market securities | 1 | 1 178 | - | - |
| Insurance receivables | 59 780 | 90 269 | - | - |
| Other receivables | 48 865 | 27 475 | 606 | 15 160 |
| Total | 1 625 751 | 1 066 208 | 2 931 | 15 160 |

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 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.

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

5. RISK MANAGEMENT (continued)

5.3.2.b Credit risk (continued)

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 | |
|--------------------------|-----------------------------|---------------|---------------|---------------|---------------|
| | | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Policyholder receivables | <i>Gross</i> | 68 504 | 97 597 | - | - |
| | <i>Impairment provision</i> | (27 209) | (27 902) | - | - |
| | <i>Net</i> | 41 295 | 69 695 | - | - |

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

| | | | | | |
|--------------------------------------|--|------------------|------------------|--------------|---------------|
| Debt securities | | 968 011 | 482 015 | - | - |
| Neither past due, nor impaired | | 968 011 | 482 015 | - | - |
| Past due | | | | | |
| 0 to 2 months | | - | - | - | - |
| 3 to 5 months | | - | - | - | - |
| More than 5 months | | - | - | - | - |
| Impairment provisions | | - | - | - | - |
| Deposits and money market securities | | 308 252 | 254 868 | - | - |
| Neither past due, nor impaired | | 308 252 | 254 868 | - | - |
| Past due | | | | | |
| 0 to 2 months | | - | - | - | - |
| 3 to 5 months | | - | - | - | - |
| More than 5 months | | - | - | - | - |
| Impairment provisions | | - | - | - | - |
| Insurance receivables | | 64 777 | 90 269 | - | - |
| Neither past due, nor impaired | | 64 265 | 89 557 | - | - |
| Past due | | | | | |
| 0 to 2 months | | 3 471 | 4 002 | - | - |
| 3 to 5 months | | 6 654 | 2 244 | - | - |
| More than 5 months | | 17 593 | 22 162 | - | - |
| Impairment provisions | | (27 206) | (27 696) | - | - |
| Other receivables | | 43 868 | 27 475 | 606 | 15 160 |
| Neither past due, nor impaired | | 35 927 | 20 442 | 606 | 15 160 |
| Past due | | | | | |
| 0 to 2 months | | 1 314 | 1 295 | - | - |
| 3 to 5 months | | 933 | 3 853 | - | - |
| More than 5 months | | 19 564 | 13 905 | - | - |
| Impairment provisions | | (13 869) | (12 020) | - | - |
| Cash and cash equivalents | | 240 843 | 211 581 | 2 325 | - |
| Neither past due, nor impaired | | 240 843 | 211 581 | 2 325 | - |
| Past due | | | | | |
| 0 to 2 months | | - | - | - | - |
| 3 to 5 months | | - | - | - | - |
| More than 5 months | | - | - | - | - |
| Impairment provisions | | - | - | - | - |
| Total | | 1 625 751 | 1 066 208 | 2 931 | 15 160 |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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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:

| 2013 | | | | | Collateral coverage relative to secured exposure greater than 100% |
|--------------------------------------|------------------|----------------|------------------|-----------------------------|---|
| R'000 | Unsecured | Secured | Total Exposure | Exposure after netting * | |
| 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 | - |
| Reinsurance policy - Global bonds | 43 928 | - | 43 928 | 43 928 | - |
| Deposits and money market securities | 306 739 | 1 512 | 308 251 | 308 251 | - |
| Insurance receivables | 31 602 | 33 175 | 64 777 | 64 777 | - |
| Other receivables | 43 868 | - | 43 868 | 43 868 | - |
| Cash and cash equivalents | 240 843 | - | 240 843 | 240 843 | - |
| | 1 228 750 | 397 000 | 1 625 750 | 1 625 750 | - |

The unsecured portion of insurance receivables and other receivables includes an impairment provision of R27 206 000 and R13 869 000 respectively.

* The group has no netting agreements in place.

2012

R'000

| | | | | | |
|--------------------------------------|----------------|----------------|------------------|------------------|----------|
| Debt securities | 299 384 | 182 631 | 482 015 | 482 015 | - |
| Corporate bonds | 195 792 | 8 032 | 203 824 | 203 824 | - |
| Government bonds | - | 148 701 | 148 701 | 148 701 | - |
| Parastatals and utilities | 97 494 | 25 897 | 123 391 | 123 391 | - |
| Municipalities | 6 098 | - | 6 098 | 6 098 | - |
| Deposits and money market securities | 254 868 | - | 254 868 | 254 868 | - |
| Insurance receivables | 38 937 | 51 332 | 90 269 | 90 269 | - |
| Other receivables | 27 475 | - | 27 475 | 27 475 | - |
| Cash and cash equivalents | 211 581 | - | 211 581 | 211 581 | - |
| | 832 245 | 233 963 | 1 066 208 | 1 066 208 | - |

The unsecured portion of insurance receivables and other receivables includes an impairment provision of R27 696 000 and R12 020 000 respectively.

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 of the life office.
- The statutory actuary performs a biennial asset liability modelling exercise to ensure that the asset mix of Assupol Life Ltd 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. Uninvested 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 the life office to ensure that policyholder expectations and liquidity requirements are met.
- Appropriate assets back the group's liabilities and it has significant liquid resources.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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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> | INSURANCE CONTRACTS | | INVESTMENT CONTRACTS | |
|--|----------------------------|------------------|-----------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | R'000 | R'000 | R'000 | R'000 |
| <i>Unit liabilities</i> | | | | |
| Within 1 year | 54 904 | 21 897 | 3 413 | (4 847) |
| 2 to 5 years | 165 193 | 204 973 | 157 501 | 189 404 |
| 6 to 10 years | 183 407 | 227 744 | 298 382 | 310 889 |
| 11 to 20 years | 177 840 | 179 158 | 429 660 | 358 406 |
| Over 20 years | 47 779 | 7 344 | 216 020 | 125 201 |
| Total unit liabilities | 629 123 | 641 116 | 1 104 976 | 979 053 |
| <i>Non-unit liabilities</i> | | | | |
| Within 1 year | (360 560) | (284 327) | (19 663) | (16 991) |
| 2 to 5 years | (1 128 775) | (850 991) | (54 441) | (40 447) |
| 6 to 10 years | (397 882) | (349 444) | (29 607) | (11 145) |
| 11 to 20 years | 35 775 | 5 813 | (20 236) | (265) |
| Over 20 years | 2 012 684 | 963 226 | (5 362) | (29) |
| Total | 161 242 | (515 723) | (129 309) | (68 877) |
| Effect of discounting cash flows | (1 539 010) | (616 887) | 156 294 | 94 997 |
| Effect of compulsory margins | 514 812 | 376 036 | 6 620 | 6 319 |
| Undiscounted liabilities (including IBNR reserves) | 74 371 | 116 224 | - | - |
| Total non-unit liabilities | (788 585) | (640 350) | 33 605 | 32 439 |
| TOTAL | | | | |
| Within 1 year | (305 656) | (262 430) | (16 250) | (21 838) |
| 2 to 5 years | (963 582) | (646 018) | 103 060 | 148 957 |
| 6 to 10 years | (214 475) | (121 700) | 268 775 | 299 744 |
| 11 to 20 years | 213 615 | 184 971 | 409 424 | 358 141 |
| Over 20 years | 2 060 463 | 970 570 | 210 658 | 125 172 |
| Effect of discounting cash flows | (1 539 010) | (616 887) | 156 294 | 94 997 |
| Effect of compulsory margins | 514 812 | 376 036 | 6 620 | 6 319 |
| Undiscounted liabilities (including IBNR reserves) | 74 371 | 116 224 | - | - |
| Total policyholder liabilities | (159 462) | 766 | 1 138 581 | 1 011 492 |

**NOTES TO THE ANNUAL 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 | |
|--------------------------------------|------------------|------------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Equity securities | 1 079 177 | 1 109 506 | - | - |
| Debt securities | 645 250 | 416 885 | - | - |
| Deposits and money market securities | 134 727 | 223 710 | - | - |
| Total | 1 859 154 | 1 750 101 | - | - |

The expected liquidity requirement for undiscounted expected cash flows for unit liabilities for the next year is R58 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 R380 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.

| | CARRYING VALUE | | SURRENDER VALUE | |
|---------------------------------------|----------------|------------------|------------------|------------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| <i>Consolidated</i> | | | | |
| Insurance contracts | | | | |
| Linked and conventional business | 767 859 | 767 859 | 707 168 | 736 665 |
| Other business | (927 321) | (767 093) | - | - |
| Investment contracts | 1 138 581 | 1 011 492 | 1 002 981 | 873 401 |
| Total policyholder liabilities | 979 119 | 1 012 258 | 1 710 149 | 1 610 065 |

(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 | |
|-------------------------------------|----------------|----------------|----------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Borrowings | 133 712 | 1 619 | 132 768 | - |
| Contractual undiscounted cash flows | | | | |
| Within 1 year | 133 236 | 673 | 132 768 | - |
| 2 to 5 years | 476 | 947 | - | - |
| More than 5 years | - | - | - | - |
| Open ended | - | (1) | - | - |
| Insurance and other payables | 171 485 | 254 845 | 17 748 | 46 384 |
| Contractual undiscounted cash flows | | | | |
| Within 1 year | 79 274 | 70 262 | - | 18 647 |
| 2 to 5 years | - | - | - | 25 759 |
| More than 5 years | - | - | - | - |
| Open ended | 92 211 | 184 583 | 17 748 | 1 978 |
| Total | 305 197 | 256 464 | 150 516 | 46 384 |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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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 its life office;
- 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*

The life office is required to maintain a capital balance 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 the life office 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 the life office, 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 actual accumulated funds (qualifying capital) for insurance and investment contract business held are listed below:

| | Assupol Life | | Prosperity Life | |
|--|--------------|-------|-----------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| | R'm | R'm | R'm | R'm |
| Actual qualifying capital | 736.3 | 880.9 | N/a | 18.2 |
| Statutory capital adequacy requirement | 372.9 | 428.4 | N/a | 10.0 |
| CAR coverage ratio | 1.97 | 2.06 | N/a | 1.82 |

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, the life office would increase premium rates to compensate for the adverse claims experience.

The board of directors is authorised to implement such actions if the adverse experiences necessitate it.

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

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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.

| Company 2013 | 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 |
|-----------------------------|--|-----------------------|---|---|-----------------------|------------|
| R'000 | | | | | | |
| 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 |
| Company 2012 | 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 |
| R'000 | | | | | | |
| Investments in subsidiaries | 584 040 | | | | 584 040 | 584 040 |
| Other receivables | - | 15 160 | - | - | 15 160 * | 15 160 |
| Other payables | - | - | 46 384 | - | 46 384 * | 46 384 |

* These items are shown at nominal value.

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5. RISK MANAGEMENT (continued)

5.3.4 Fair value estimation (continued)

| Consolidated 2013 | 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 |
|--------------------------------------|--|-----------------------|---|---|-----------------------|------------|
| R'000 | | | | | | |
| 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 |
| Reinsurance policy | 43 928 | - | - | - | 43 928 | 43 928 |
| Deposits and money market securities | 308 252 | - | - | - | 308 252 | 308 252 |
| Insurance receivables | - | - | - | 64 777 | 64 777 * | 64 777 |
| Other receivables | - | 43 868 | - | - | 43 868 * | 43 868 |
| Cash and cash equivalents | - | 240 843 | - | - | 240 843 | 240 843 |
| Insurance contract assets | - | - | - | 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 | - | - | - | 79 274 | 79 274 * | 79 274 |
| Other payables | - | - | 92 211 | - | 92 211 * | 92 211 |

| Consolidated 2012 | 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 |
|--------------------------------------|--|-----------------------|---|---|-----------------------|------------|
| R'000 | | | | | | |
| Local listed shares | 851 877 | - | - | - | 851 877 | 851 877 |
| Unit trusts | | | | | | |
| Local | 730 234 | - | - | - | 730 234 | 730 234 |
| Global | 81 715 | - | - | - | 81 715 | 81 715 |
| Debt securities | | | | | | |
| Corporate bonds | 198 877 | - | - | - | 198 877 | 198 877 |
| Government bonds | 148 702 | - | - | - | 148 702 | 148 702 |
| Parastatals and utilities | 128 338 | - | - | - | 128 338 | 128 338 |
| Municipalities | 6 098 | - | - | - | 6 098 | 6 098 |
| Deposits and money market securities | 254 868 | - | - | - | 254 868 | 254 868 |
| Insurance receivables | - | - | - | 94 912 | 94 912 * | 94 912 |
| Other receivables | - | 22 832 | - | - | 22 832 * | 22 832 |
| Cash and cash equivalents | - | 211 581 | - | - | 211 581 | 211 581 |
| Insurance contract liabilities | - | - | - | 766 | 766 | 766 |
| Investment contract liabilities | 1 011 492 | - | - | - | 1 011 492 | 1 011 492 |
| Borrowings | - | 1 619 | - | - | 1 619 | 1 619 |
| Deferred revenue liability | 452 | - | - | - | 452 | 452 |
| Insurance payables | - | - | - | 70 262 | 70 262 * | 70 262 |
| Other payables | - | - | 184 583 | - | 184 583 * | 184 583 |

* 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.

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

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. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following fair value measurement hierarchy is employed:

- Level 1: Valued with reference to quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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).

| R'000 | Level 1 | Level 2 | Level 3 | TOTAL |
|---|------------------|------------------|----------|------------------|
| Consolidated 2013 | | | | |
| <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 |
| Reinsurance policy - Global bonds | 43 928 | - | - | 43 928 |
| Deposits and money market sec. | 308 252 | - | - | 308 252 |
| Total Financial Assets | 2 226 710 | 162 278 | - | 2 388 988 |
| <u>Financial liabilities designated as 'at fair value through profit or loss'</u> | | | | |
| Net investment contract liabilities | - | 979 119 | - | 979 119 |
| Total Financial Liabilities | - | 979 119 | - | 979 119 |
| Consolidated 2012 | | | | |
| <u>Financial assets designated as 'at fair value through profit or loss'</u> | | | | |
| Local listed shares | 851 877 | - | - | 851 877 |
| Unit trusts | | | | |
| Local | 730 234 | - | - | 730 234 |
| Global | 81 715 | - | - | 81 715 |
| Debt securities | | | | |
| Corporate bonds | 112 407 | 86 470 | - | 198 877 |
| Government bonds | 148 702 | - | - | 148 702 |
| Parastatals and utilities | 128 338 | - | - | 128 338 |
| Municipalities | 6 098 | - | - | 6 098 |
| Deposits and money market sec. | 254 868 | - | - | 254 868 |
| Total Financial Assets | 2 314 239 | 86 470 | - | 2 400 709 |
| <u>Financial liabilities designated as 'at fair value through profit or loss'</u> | | | | |
| Net investment contract liabilities | - | 1 011 492 | - | 1 011 492 |
| Total Financial Liabilities | - | 1 011 492 | - | 1 011 492 |

5. RISK MANAGEMENT (continued)

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 had 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*

The life office 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 the life office exceed 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 via guidelines as set down by the financial policy.

**NOTES TO THE ANNUAL 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 the life office in the group that provides life insurance and investment solutions to the group's clients. In 2012 the segment included two life offices namely Prosperity Life and Assupol Life. Prosperity Life's business was transferred to Assupol Life in June 2012.

- Brokers: The group has two companies that operate as brokers. Kestrel Financial Solutions (Pty) Ltd is a brokerage that sells mainly short term insurance and Cornerstone Brokers Corporate (Pty) Ltd sells funeral cover to the pensioner market.

- Other: This segment consists of the remaining smaller operating entities in the Assupol group that include two property companies, a recently acquired asset manager, as well as companies that are in the process of being winded 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 two holdings companies in the group, namely Assupol Holdings Ltd and Assupol Investment Holdings (Pty) Ltd.

6.1 Segment earnings for the year ended 30 June 2013

| | Life insurance R'000 | Brokers R'000 | Other R'000 | Reporting adjustments R'000 | Total R'000 |
|--|----------------------------|------------------|----------------|-----------------------------------|--------------------|
| Insurance premiums revenue | 1 636 648 | - | - | - | 1 636 648 |
| Insurance premiums ceded to reinsurers | (128 567) | - | - | - | (128 567) |
| <i>Net insurance premium revenue</i> | 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 | 334 | 2 955 | 391 800 |
| Other income | 1 087 | 53 294 | 11 728 | (42 383) | 23 726 |
| Income | 1 965 423 | 53 638 | 12 063 | (39 428) | 1 991 697 |
| Insurance benefits and claims | (896 931) | - | - | - | (896 931) |
| Insurance claims recovered from reinsurers | 107 224 | - | - | - | 107 224 |
| <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 | (420 201) | (35 411) | (8 950) | (33 301) | (497 862) |
| Impairment of intangibles | (2 724) | - | - | - | (2 724) |
| 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) |
| Expenses | (1 555 229) | (43 611) | (8 950) | 8 123 | (1 599 667) |
| Result of operating activities | 410 194 | 10 027 | 3 113 | (31 305) | 392 030 |
| Finance charges | - | (105) | (618) | (3 915) | (4 638) |
| Profit before taxation | 410 194 | 9 922 | 2 495 | (35 219) | 387 392 |
| Income tax expense | (112 097) | (3 047) | (710) | (3 205) | (119 059) |
| PROFIT FOR THE YEAR | 298 097 | 6 874 | 1 785 | (38 424) | 268 333 |
| Other comprehensive income | | | | | |
| Gains on property revaluation | - | - | - | 1 703 | 1 703 |
| Income tax relating to other comprehensive income | - | - | - | (477) | (477) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | - | - | - | 1 226 | 1 226 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 298 097 | 6 874 | 1 785 | (37 198) | 269 559 |

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

6. SEGMENT INFORMATION (continued)

Segment earnings for the year ended 30 June 2012

| | Life insurance R'000 | Brokers R'000 | Other R'000 | Reporting adjustments R'000 | Total R'000 |
|--|-------------------------------------|--------------------------|------------------------|--|------------------------|
| Insurance premiums revenue | 1 481 477 | - | - | - | 1 481 477 |
| Insurance premiums ceded to reinsurers | (101 212) | - | - | - | (101 212) |
| <i>Net insurance premium revenue</i> | 1 380 265 | - | - | - | 1 380 265 |
| Commission received on outward reinsurance | 3 068 | - | - | - | 3 068 |
| Fee income | 58 239 | - | - | - | 58 239 |
| Investment income and net fair value gains on financial assets | 224 835 | 201 | 402 | (4 393) | 221 044 |
| Other income | 10 952 | 53 018 | 3 085 | (46 965) | 20 090 |
| Income | 1 677 359 | 53 219 | 3 487 | (51 358) | 1 682 706 |
| Insurance benefits and claims | (853 656) | - | - | - | (853 656) |
| Insurance claims recovered from reinsurers | 100 385 | - | - | - | 100 385 |
| <i>Net insurance benefits and claims</i> | (753 271) | - | - | - | (753 271) |
| Expenses for the acquisition of insurance and investment contracts | (277 951) | (5 217) | - | 41 268 | (241 900) |
| Operating and administrative expenses | (366 315) | (35 138) | (2 959) | (11 854) | (416 266) |
| Impairment of intangibles | (2 835) | - | (195) | - | (3 030) |
| Investment management expenses | (13 517) | - | - | - | (13 517) |
| Change in insurance contract provisions | 224 398 | - | - | - | 224 398 |
| Fair value adjustments on investment contracts liabilities | (57 239) | - | - | - | (57 239) |
| Expenses | (1 246 730) | (40 355) | (3 154) | 29 413 | (1 260 825) |
| Result of operating activities | 430 629 | 12 865 | 333 | (21 945) | 421 881 |
| Finance charges | - | (238) | (139) | 3 | (374) |
| Profit before taxation | 430 629 | 12 627 | 194 | (21 942) | 421 507 |
| Income tax expense | (107 348) | (3 777) | (403) | (900) | (112 427) |
| PROFIT FOR THE YEAR | 323 281 | 8 850 | (209) | (22 842) | 309 080 |
| Other comprehensive income | | | | | |
| Gains on property revaluation | - | - | - | 1 241 | 1 241 |
| Income tax relating to other comprehensive income | - | - | - | (347) | (347) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | - | - | - | 894 | 894 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 323 281 | 8 850 | (209) | (21 948) | 309 974 |

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

6. SEGMENT INFORMATION (continued)

6.2 Other financial detail per operating segment for the year ended 30 June 2013

| | Life insurance R'000 | Brokers R'000 | Other R'000 | Reporting adjustments R'000 | Total R'000 |
|---|-------------------------------------|--------------------------|------------------------|--|------------------------|
| Financial assets - Investments | 2 383 584 | - | 5 404 | - | 2 388 987 |
| Policyholder assets | 159 462 | - | - | - | 159 462 |
| Total other assets | 406 883 | 48 207 | 31 953 | 92 406 | 579 450 |
| 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 | - | - | - | 2 618 | 2 618 |
| Amortisation of PVIF business | 1 829 | - | - | - | 1 829 |
| Impairment of DAC | 2 724 | - | - | - | 2 724 |
| Amortisation of customer list and contracts | - | - | - | 1 934 | 1 934 |

Other financial detail per operating segment for the year ended 30 June 2012

| | | | | | |
|---|-----------|--------|--------|---------|-----------|
| Financial assets - Investments | 2 383 035 | - | 22 716 | (5 042) | 2 400 709 |
| Policyholder assets | - | - | - | - | - |
| Total other assets | 397 111 | 49 665 | 28 628 | 78 072 | 553 476 |
| Policyholder liabilities | 1 012 258 | - | - | - | 1 012 258 |
| Total other liabilities | 418 049 | 6 175 | 36 613 | 29 404 | 490 242 |
| Additions to non-current assets | 9 036 | 1 073 | 3 | - | 10 112 |
| Depreciation | 4 782 | 1 179 | 6 | 799 | 6 766 |
| Amortisation of trademarks and customer relationships | - | - | - | 2 617 | 2 617 |
| Amortisation of PVIF business | - | - | - | 1 618 | 1 618 |
| Impairment of DAC | 2 835 | - | - | - | 2 835 |
| Impairment of goodwill | 195 | - | - | - | 195 |

6.3 Segment information from geographical areas

All of the entities in the group operates in 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 exceed 10% of the total customer base. A customer is defined as a single policyholder. The customer base of the life office is illustrated by the type of contracts that the insurer offers as a percentage of premium.

| | 2013 % of premium | 2012 % of premium |
|----------------------------------|----------------------------------|----------------------------------|
| Individual insurance business | | |
| Conventional individual business | 0.1% | 0.2% |
| Other individual risk business | 50.1% | 53.7% |
| Group risk business | 49.8% | 46.1% |
| | 100.0% | 100.0% |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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7. RESTATEMENT OF 2012 PREMIUMS AND CLAIMS

The total insurance premium revenue as well as the total insurance benefits amounts for the period ended 30 June 2013 were understated with R45.2 million. The misstatement was as a result of the reinvested maturities incorrectly accounted for. In the current year, the 2012 comparative information in the statement of comprehensive income has been restated to correct this error. The effect of the restatement had no impact on the reported net profit or the statement of financial position. The effect of the restatement on those financial statements is summarised below. There was no effect in 2013.

| | AS PREVIOUSLY REPORTED 2012 R'000 | ADJUST- MENT 2012 R'000 | RESTATED 2012 R'000 |
|---|--|--|------------------------------------|
| Insurance premiums revenue | 1 436 275 | 45 202 | 1 481 477 |
| Insurance benefits and claims | (808 454) | (45 202) | (853 656) |
| Profit for the year | 309 080 | - | 309 080 |
| Total comprehensive income for the year | 309 974 | - | 309 974 |

8. NET INSURANCE PREMIUM REVENUE

| | CONSOLIDATED | | COMPANY | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Gross individual premiums received | | | | |
| Single premiums | - | 7 | - | - |
| Recurring premiums | 872 506 | 725 830 | - | - |
| Gross group scheme and grouped individual premiums received | 764 142 | 755 640 | - | - |
| Outward reinsurance premiums paid | (128 567) | (101 212) | - | - |
| | 1 508 081 | 1 380 265 | - | - |

9. FEE INCOME

| | | | | |
|-----------------------------------|--------|--------|---|---|
| Investment management fee charges | 44 860 | 42 884 | - | - |
| Surrender charges | 18 708 | 15 162 | - | - |
| Amortisation of deferred revenue | 204 | 193 | - | - |
| | 63 772 | 58 239 | - | - |

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

| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|----------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 10. INVESTMENT INCOME | | | | |
| At fair value through profit or loss | | | | |
| Interest received | 53 558 | 27 605 | - | - |
| Dividends received | 26 926 | 26 431 | 293 225 | 56 031 |
| Loans and receivables | | | | |
| Insurance and other receivables | | | | |
| Interest on: | | | | |
| Policyholder loans | 4 178 | 6 377 | - | - |
| Premiums receivable | 7 | 2 | - | - |
| Housing and car loans | 418 | 384 | - | - |
| Cash and cash equivalents | 23 195 | 19 513 | 4 860 | - |
| | 108 282 | 80 312 | 298 085 | 56 031 |
| 11. NET FAIR VALUE GAINS ON FINANCIAL ASSETS | | | | |
| At fair value through profit or loss | | | | |
| From equity securities | | | | |
| Local listed shares | 218 014 | 56 304 | - | - |
| Global unit trusts | 34 466 | 7 900 | - | - |
| From debt securities | | | | |
| Local debt securities | (14 341) | 20 976 | - | - |
| Global debt securities | 3 110 | - | - | - |
| Structured products | 14 675 | - | - | - |
| Unit-linked policies | 28 383 | 55 552 | - | - |
| From deposits and money markets | (789) | - | - | - |
| | 283 518 | 140 732 | - | - |
| 12. OTHER INCOME | | | | |
| Administration fee income | - | 3 682 | - | - |
| Commission income | 14 448 | 13 924 | - | - |
| Profit / (loss) on disposal of equipment | 48 | (91) | - | - |
| Levies on loans | 543 | 816 | - | - |
| Other | 8 687 | 1 759 | 1 032 | - |
| | 23 726 | 20 090 | 1 032 | - |
| 13. NET INSURANCE BENEFITS AND CLAIMS | | | | |
| Individual Benefits | 309 657 | 240 482 | - | - |
| Death and disability claims | 177 809 | 138 121 | - | - |
| Accident and dread disease claims | 6 894 | 4 751 | - | - |
| Maturities | 88 443 | 58 608 | - | - |
| Surrenders | 116 679 | 113 770 | - | - |
| Inward reinsurance claims | 27 056 | 25 617 | - | - |
| Outward reinsurance recoveries | (107 224) | (100 385) | - | - |
| Group scheme and grouped individual benefits | 480 050 | 512 789 | - | - |
| | 789 707 | 753 271 | - | - |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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| | CONSOLIDATED | | COMPANY | |
|---|----------------|----------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 14. EXPENSES FOR THE ACQUISITION OF INSURANCE AND INVESTMENT CONTRACTS | | | | |
| Insurance contracts | | | | |
| Commission paid | 271 906 | 232 554 | - | - |
| Investment contracts | | | | |
| Amortisation of intangible asset (DAC) | 7 992 | 9 346 | - | - |
| | 279 898 | 241 900 | - | - |

15. OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses comprise:

| | | | | |
|---|----------------|----------------|---------------|--------------|
| Employee costs | 219 920 | 203 897 | - | - |
| Office costs | 144 670 | 100 904 | 435 | - |
| Training and development costs | 4 997 | 7 027 | - | - |
| Demutualisation and redemption expenses | 20 054 | 4 583 | 17 241 | - |
| Movement in provision for impairments | 1 359 | 2 360 | - | - |
| Advertising and promotions | 25 137 | 21 147 | - | - |
| Other | 81 725 | 76 348 | 10 346 | 8 020 |
| | 497 862 | 416 266 | 28 022 | 8 020 |

Operating and administrative expenses include the following:

| | | | | |
|--|--------|--------|--------|-------|
| Depreciation on property and equipment | 7 825 | 6 766 | - | - |
| Owned computer equipment | 2 844 | 2 343 | - | - |
| Motor vehicles | 910 | 708 | - | - |
| Office equipment | 2 694 | 1 693 | - | - |
| Finance lease equipment | 515 | 645 | - | - |
| Owner-occupied properties | 862 | 799 | - | - |
| Leasehold improvements | - | 578 | - | - |
| Auditors' remuneration | 5 054 | 4 126 | 431 | 732 |
| Audit fees | | | | |
| Current year | 1 388 | 824 | - | - |
| Prior years | 3 235 | 2 976 | - | 407 |
| Other services | 431 | 326 | 431 | 325 |
| Repairs and maintenance | 11 943 | 6 863 | - | - |
| Professional services | 24 251 | 17 673 | 14 131 | 1 479 |
| Actuarial services | 4 617 | 6 390 | - | - |
| Legal | 4 014 | 4 805 | 1 794 | 538 |
| Information technology | 162 | 3 000 | - | - |
| Professional and consulting | 15 458 | 3 478 | 12 337 | 941 |

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| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 15. OPERATING AND ADMINISTRATIVE EXPENSES (continued) | | | | |
| Employee costs | 219 920 | 203 897 | - | - |
| Salaries and wages | 139 241 | 125 351 | - | - |
| Leave pay | 27 | 4 151 | - | - |
| Bonus | 43 501 | 41 518 | - | - |
| Pension costs - defined contribution plan | 12 570 | 10 428 | - | - |
| Restraint of trade | - | 6 242 | - | - |
| Equity-settled share-based payments - free shares | 8 599 | 9 076 | - | - |
| Equity-settled share-based payments - incentive scheme | 7 627 | 7 131 | - | - |
| Cash-settled share-based payments - shares issued to the executive directors | 8 355 | - | - | - |
| <i>Number of employees at year-end:</i> | | | | |
| <i>Full time</i> | 542 | 547 | - | - |
| <i>Part time</i> | 51 | 11 | - | - |
| | 593 | 558 | - | - |
| Operating lease rentals | 17 137 | 15 095 | - | - |
| Office equipment | 669 | 432 | - | - |
| Buildings | 16 468 | 14 663 | - | - |
| Impairment of intangible assets | 2 724 | 3 030 | - | - |
| Impairment of DAC | 2 724 | 2 835 | - | - |
| The impairment of the DAC is effected when the policies are inactive, and no further recovery of the deferred cost is possible. | | | | |
| Impairment of goodwill | - | 195 | - | - |
| Amortisation of intangible assets (excluding DAC) | 6 380 | 4 235 | - | - |
| Present value of in-force | 1 829 | 1 618 | - | - |
| Trademarks and customer relationships | 2 617 | 2 617 | - | - |
| Customer list and contracts | 1 934 | - | - | - |
| Total directors' emoluments | 40 579 | 38 972 | 2 035 | 1 599 |
| Executive directors | 35 789 | 35 040 | - | - |
| Non-executive | 4 790 | 3 932 | 2 035 | 1 599 |

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.

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| | CONSOLIDATED | | COMPANY | |
|----------------------------|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 16. FINANCE CHARGES | | | | |
| Interest expense | (4 638) | (374) | (5 240) | (3 961) |
| Finance lease liabilities | (130) | (240) | - | - |
| Financiers | (4 508) | (134) | (5 240) | (3 961) |
| | (4 638) | (374) | (5 240) | (3 961) |

17. INCOME TAX EXPENSE

South African normal tax

| | | | | |
|------------------------|-----------|-----------|---------|---|
| Current tax | (32 234) | (39 455) | (1 059) | - |
| Capital gains tax | (8 205) | (4 465) | - | - |
| Security transfer tax | (2 227) | - | (2 227) | - |
| Deferred tax (note 33) | (76 393) | (68 507) | - | - |
| | (119 059) | (112 427) | (3 286) | - |

Deferred income tax relating to gains on property revaluations in other comprehensive income amounted to R476 713 (2012: R347 446).

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 | |
|---|--------------|-----------|-----------|-----------|
| | 2013 % | 2012 % | 2013 % | 2012 % |
| Standard rate of taxation | 28.00 | 28.00 | 28.00 | 28.00 |
| Adjusted for: | | | | |
| Non taxable income | (26.65) | (14.04) | (30.88) | - |
| Non deductible expenses | 4.72 | 1.70 | - | - |
| Capital gains not subject to tax | (2.60) | (1.71) | - | - |
| Amounts not credited to statement of comprehensive income | 26.15 | 13.36 | - | - |
| Security transfer taxation | 0.57 | - | 0.84 | - |
| Secondary taxation on companies | - | 0.02 | - | - |
| Over-provision of prior years | (0.49) | (0.66) | - | - |
| Unutilised tax losses | - | - | - | - |
| Black economic transaction | 1.03 | - | - | - |
| Non-income generating expenses | - | - | 3.28 | (28.00) |
| Effective tax rate | 30.73 | 26.67 | 1.24 | - |

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

| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 18. OWNER-OCCUPIED PROPERTIES | | | | |
| Fair value | 34 980 | 33 278 | - | - |
| Accumulated depreciation | (6 730) | (5 868) | - | - |
| <i>Non-current asset</i> | <u>28 250</u> | <u>27 410</u> | - | - |
| Fair value at beginning | 27 410 | 26 250 | - | - |
| Revaluations | 1 702 | 1 241 | - | - |
| Improvements | - | 718 | - | - |
| Depreciation charges | (862) | (799) | - | - |
| | <u>28 250</u> | <u>27 410</u> | - | - |
| Owner-occupied properties comprise of the following: | | | | |
| <ul style="list-style-type: none"> Erf 34, Menlo Park, Pretoria, measuring 1 665 square meters. A valuation was performed on the property on 30 June 2013 by G McIntosh, an independent accredited valuer, at R14 500 000 (2012: R14 059 500) 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 2013 by G McIntosh, an independent accredited valuer, at R13 750 000 (2012: R 13 350 000) 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 | (2 317) | (2 193) | - | - |
| | <u>3 872</u> | <u>3 996</u> | - | - |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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| | Office equipment R'000 | Computer equipment R'000 | Motor vehicles R'000 | Finance lease equipment R'000 | Leasehold improve- ments R'000 | Total R'000 |
|-------------------------------------|------------------------------|--------------------------------|----------------------------|--|---|----------------|
| 19. EQUIPMENT | | | | | | |
| <u>Consolidated</u> | | | | | | |
| Year ended 30 June 2013 | | | | | | |
| 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 |
| At 30 June 2013 | | | | | | |
| 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 |
| Year ended 30 June 2012 | | | | | | |
| Opening net book amount | 10 790 | 5 433 | 2 200 | 2 071 | 1 588 | 22 082 |
| Additions | 3 353 | 4 399 | 2 219 | 141 | - | 10 112 |
| Transfer to finance lease equipment | 1 010 | - | - | - | (1 010) | - |
| Acquisition of subsidiary | 18 | 18 | 12 | - | - | 48 |
| Disposals | (245) | (85) | (325) | - | - | (655) |
| Depreciation charge | (1 693) | (2 343) | (708) | (645) | (578) | (5 967) |
| Closing net book amount | 13 233 | 7 422 | 3 398 | 1 567 | - | 25 620 |
| At 30 June 2012 | | | | | | |
| Cost | 24 286 | 23 862 | 5 372 | 3 223 | - | 56 743 |
| Accumulated depreciation | (11 053) | (16 440) | (1 974) | (1 656) | - | (31 123) |
| <i>Non-current asset</i> | 13 233 | 7 422 | 3 398 | 1 567 | - | 25 620 |

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

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 20. INTANGIBLE ASSETS - INCLUDING INSURANCE INTANGIBLE ASSETS | | | | |
| Goodwill | 82 107 | 82 107 | - | - |
| Trademarks and customer relationships | 6 546 | 9 163 | - | - |
| Present value of in-force (PVIF) business | 3 659 | 5 488 | - | - |
| Deferred acquisition cost (DAC) | 18 682 | 19 555 | - | - |
| Customer list and contracts | 5 802 | 7 736 | - | - |
| | 116 796 | 124 049 | - | - |
| <i>Non-current asset</i> | 104 229 | 110 738 | - | - |
| <i>Current asset</i> | 12 567 | 13 311 | - | - |
| Goodwill | | | | |
| Cost - on acquisition of administration business | - | - | - | - |
| Cost - on acquisition of subsidiaries | 85 608 | 85 608 | - | - |
| Accumulated impairment | (3 501) | (3 501) | - | - |
| Carrying amount | 82 107 | 82 107 | - | - |
| Opening net book value | 82 107 | 75 329 | - | - |
| Additional payment relating to acquisition of shares | - | 6 973 | - | - |
| Impairment of goodwill | - | (195) | - | - |
| Carrying amount at end of period | 82 107 | 82 107 | - | - |
| <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 (Pty) Ltd | | | | |
| • Cornerstone Brokers Corporate (Pty) Ltd | 75 134 | 75 134 | - | - |
| • Pan-African Asset Management (Pty) Ltd | 6 973 | 6 973 | - | - |
| | 82 107 | 82 107 | - | - |

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 Corporate (Pty) Ltd and Pan-African Asset Management (Pty) Ltd, 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.

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for the year ended 30 June 2013**

| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 20. INTANGIBLE ASSETS - INCLUDING INSURANCE INTANGIBLE ASSETS (continued) | | | | |
| Trademarks and customer relationships | | | | |
| Cost | 26 178 | 26 178 | - | - |
| Accumulated amortisation | (19 632) | (17 015) | - | - |
| Carrying amount | 6 546 | 9 163 | - | - |
| Opening net book value | 9 163 | 11 780 | - | - |
| Current year amortisation charge | (2 617) | (2 617) | - | - |
| Carrying amount at end of period | 6 546 | 9 163 | - | - |

The trademarks and customer relationships are intangible assets which have been separately identified during the acquisition of Cornerstone Brokers Corporate (Pty) Ltd. Both assets have an estimated life of 10 years, and are therefore 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 intangible assets also relate to the acquisition of Cornerstone Brokers Corporate (Pty) Ltd.

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

| | | | | |
|----------------------------------|----------|----------|---|---|
| Cost | 16 180 | 16 180 | - | - |
| Accumulated amortisation | (12 521) | (10 692) | - | - |
| Carrying amount | 3 659 | 5 488 | - | - |
| Opening net book value | 5 488 | 7 106 | - | - |
| Current year amortisation charge | (1 829) | (1 618) | - | - |
| Carrying amount at end of period | 3 659 | 5 488 | - | - |

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.

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| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 20. INTANGIBLE ASSETS - INCLUDING INSURANCE INTANGIBLE ASSETS (continued) | | | | |
| Deferred acquisition cost | | | | |
| Cost | 35 460 | 40 531 | - | - |
| Accumulated amortisation | (16 778) | (20 976) | - | - |
| Carrying amount | 18 682 | 19 555 | - | - |
| Opening balance | 19 555 | 22 306 | - | - |
| New business | 9 843 | 9 430 | - | - |
| Impairments | (2 724) | (2 835) | - | - |
| Amortisation charge | (7 992) | (9 346) | - | - |
| Carrying amount at end of period | 18 682 | 19 555 | - | - |

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 R2.724m (2012: R2.835m).

Customer list and contracts

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

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 (Pty) Ltd. Management has assessed the amortisation period of the intangible asset over a period of 4 years.

21. INVESTMENTS IN SUBSIDIARIES

Unlisted

| | | |
|---|---------|---------|
| Opening balance | 584 040 | 567 833 |
| BEE expense carried by Assupol Life Ltd (refer note 26) | 14 300 | - |
| Equity-settled share-based payments (capital contributions to subsidiaries) | | |
| General employee shares | 8 599 | 9 076 |
| Share incentive scheme | 7 627 | 7 131 |
| Cash-settled share-based payment liability (refer note 31) | 8 355 | - |
| <i>Non-current asset - unlisted equity investments</i> | 622 921 | 584 040 |

Unlisted equity investments, valued at cost, comprise the following:

| | | |
|---------------------------------------|---------|---------|
| Assupol Life Ltd | 550 385 | 512 211 |
| Assupol Investment Holdings (Pty) Ltd | 72 536 | 71 829 |

For detail of the ownership interest in each subsidiary, refer note 11 of the Directors' report.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 22. FINANCIAL ASSETS - INVESTMENTS | | | | |
| At fair value through profit or loss | | | | |
| Equity securities - quoted and listed | 1 112 725 | 1 663 826 | - | - |
| Local listed shares | 1 010 787 | 851 877 | - | - |
| Local unit trusts | - | 730 234 | - | - |
| Global unit trusts | 101 938 | 81 715 | - | - |
| <i>Current asset</i> | 1 112 725 | 1 663 826 | - | - |
| Debt securities - quoted and listed (local) | 924 083 | 482 015 | - | - |
| Corporate bonds | 388 289 | 198 877 | - | - |
| Government bonds | 310 203 | 148 702 | - | - |
| Parastatals and utilities | 212 539 | 128 338 | - | - |
| Municipalities | 13 052 | 6 098 | - | - |
| Listed debt securities in this category include floating-rate instruments, and other debt securities paid a fixed interest rate that varied between 2.55% and 15.00% (2012: 2.55% and 15.00%). | | | | |
| Reinsurance policy - Global bonds | 43 928 | - | - | - |
| <i>Non-current asset</i> | 716 664 | 388 014 | - | - |
| <i>Current asset</i> | 251 347 | 94 001 | - | - |
| The reinsurance policy was entered into to obtain global bond exposure as required for certain savings and investments products we sell. The policy relates only to the linked liabilities. | | | | |
| Deposits and money market securities | | | | |
| Deposits and money market securities | 308 252 | 254 868 | - | - |
| <i>Non-current asset</i> | 3 693 | - | - | - |
| <i>Current asset</i> | 304 559 | 254 868 | - | - |
| Total financial assets - investments | 2 388 988 | 2 400 709 | - | - |
| The table below presents an analysis of movements in financial assets - investments: | | | | |
| Opening balance | 2 400 709 | 2 082 732 | - | - |
| Additions | 90 580 | 232 475 | - | - |
| Disposals at carrying value | (302 037) | (109 184) | - | - |
| Fair value net gains - excluding realised gains | 119 252 | 140 650 | - | - |
| Accrued interest | 53 558 | 27 605 | - | - |
| Accrued dividends | 26 926 | 26 431 | - | - |
| Closing balance | 2 388 988 | 2 400 709 | - | - |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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| | CONSOLIDATED | | | COMPANY | |
|---|----------------------|-----------------------|------------------------|---------------------|------------------|
| | 2013 R'000 | 2012 R'000 | | 2013 R'000 | 2012 R'000 |
| 22. FINANCIAL ASSETS - INVESTMENTS (continued) | | | | | |
| Contractual maturity profile for financial assets - investments | | | | | |
| <i>Consolidated</i> | 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 |
| 30 June 2013 | | | | | |
| 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 rate | 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 |
| Reinsurance policy - Global bonds | 43 928 | - | - | - | 43 928 |
| Deposits and money market securities | | | | | |
| Fixed rate | 240 163 | 2 109 | - | - | 242 272 |
| Floating rate | 64 396 | 1 584 | - | - | 65 980 |
| | 1 668 631 | 233 652 | 186 763 | 299 942 | 2 388 988 |
| 30 June 2012 | | | | | |
| Equity securities | | | | | |
| Local listed shares | 851 877 | - | - | - | 851 877 |
| Local and global unit trusts | 811 949 | - | - | - | 811 949 |
| Debt securities | | | | | |
| Corporate bonds | | | | | |
| Fixed rate | - | 32 809 | 23 875 | 17 732 | 74 416 |
| Floating rate | 94 001 | 21 133 | 9 048 | 279 | 124 461 |
| Government bonds - Fixed rate | - | 3 754 | 80 380 | 64 568 | 148 702 |
| Parastatals and utilities - Fixed rate | - | 31 326 | 28 914 | 68 098 | 128 338 |
| Municipalities - Fixed rate | - | 4 078 | 403 | 1 617 | 6 098 |
| Deposits and money market securities | | | | | |
| Fixed rate | 207 821 | - | - | - | 207 821 |
| Floating rate | 47 047 | - | - | - | 47 047 |
| | 2 012 695 | 93 100 | 142 620 | 152 294 | 2 400 709 |

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

| | CONSOLIDATED | | COMPANY | |
|--|----------------|----------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 23. INSURANCE AND OTHER RECEIVABLES | | | | |
| Premiums receivable | 15 710 | 25 763 | - | - |
| Gross premiums outstanding | 42 919 | 53 665 | - | - |
| Provision for impairment | (27 209) | (27 902) | - | - |
| Sundry receivables | 35 301 | 14 441 | 606 | 15 160 |
| Gross receivables outstanding | 49 167 | 26 255 | 606 | 15 160 |
| Provision for impairment | (13 866) | (11 814) | - | - |
| Reinsurance recoveries | 23 482 | 25 217 | - | - |
| Loans to personnel | 7 590 | 7 422 | - | - |
| Other loans | 977 | 969 | - | - |
| Loans to policyholders | 25 585 | 43 932 | - | - |
| Total insurance and other receivables | 108 645 | 117 744 | 606 | 15 160 |
| <i>Non-current asset</i> | 29 696 | 46 074 | - | - |
| <i>Current asset</i> | 78 949 | 71 670 | 606 | 15 160 |
| <i>Interest bearing receivables</i> | 93 312 | 121 111 | - | - |
| <i>Provisions</i> | (41 075) | (39 716) | - | - |
| <i>Non-interest bearing receivables</i> | 56 408 | 36 349 | 606 | 15 160 |
| Insurance and other receivables included in total receivables consist of: | | | | |
| Insurance receivables | | | | |
| Premiums receivable - insurance contracts | 10 856 | 23 896 | - | - |
| Premiums receivable - other | 4 854 | 1 867 | - | - |
| Reinsurance recoveries receivable | 23 482 | 25 217 | - | - |
| Loans to policyholders - insurance contracts | 25 442 | 41 156 | - | - |
| Loans to policyholders - other | 143 | 2 776 | - | - |
| | 64 777 | 94 912 | - | - |
| Other receivables | | | | |
| Sundry receivables | 35 301 | 14 441 | 606 | 15 160 |
| Loans to personnel | 7 590 | 7 422 | - | - |
| Other loans | 977 | 969 | - | - |
| | 43 868 | 22 832 | 606 | 15 160 |
| Total insurance and other receivables | 108 645 | 117 744 | 606 | 15 160 |
| Movements in the provision for impairment of premiums receivable are as follows: | | | | |
| Opening balance | 27 902 | 29 520 | - | - |
| Recognised in profit or loss | (693) | (1 618) | - | - |
| Closing balance | 27 209 | 27 902 | - | - |

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.

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| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 23. INSURANCE AND OTHER RECEIVABLES (continued) | | | | |
| Movements in the provision for impairment of sundry receivables are as follows: | | | | |
| Opening balance | 11 814 | 7 836 | - | - |
| Recognised in profit or loss | 2 052 | 3 978 | - | - |
| Closing balance | 13 866 | 11 814 | - | - |

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

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

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 | 240 833 | 211 566 | 2 325 | - |
| Cash on hand | 10 | 15 | - | - |
| <i>Current asset</i> | 240 843 | 211 581 | 2 325 | - |

The effective interest rate on all short-term bank accounts during the year was 3.01% (2012: 2.70%) for the group. All cash balances are available on demand.

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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 determined the associated terms before shares are issued.

Issued share capital

| | Number of shares | Shares | Share premium | Total |
|---|-----------------------------|---------------|--------------------------|----------------|
| | '000 | R'000 | R'000 | R'000 |
| Ordinary shares | | | | |
| Balance at 30 June 2011 | 19 836 | 20 | 31 320 | 31 340 |
| Issued to the Share Incentive Trust | 62 792 | 63 | - | 63 |
| <hr/> | | | | |
| Balance at 30 June 2012 | 82 628 | 83 | 31 320 | 31 403 |
| Issued to the 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 Ltd | 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) |
| <hr/> | | | | |
| Balance at 30 June 2013 | 388 528 | 30 345 | 547 270 | 577 615 |
| <hr/> | | | | |
| Preference shares | | | | |
| Balance at 30 June 2011 | 386 400 | 386 | 489 633 | 490 019 |
| <hr/> | | | | |
| 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) |
| <hr/> | | | | |
| Balance at 30 June 2013 | - | - | - | - |
| <hr/> | | | | |
| Total share capital | | 30 345 | 547 270 | 577 615 |

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| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 26. SHARE-BASED PAYMENTS | | | | |
| A. Treasury shares | | | | |
| <i>General employee shares</i> | | | | |
| Opening balance | (31 320) | (31 320) | (31 320) | (31 320) |
| Cancellation of shares of employees that resigned | 4 249 | - | 4 249 | - |
| Closing balance | (27 071) | (31 320) | (27 071) | (31 320) |
| <i>Share incentive scheme</i> | | | | |
| Opening balance | (63) | - | (63) | - |
| Issue of unvested ordinary shares | (15) | (63) | (15) | (63) |
| Closing balance | (78) | (63) | (78) | (63) |
| Closing balance - Unvested ordinary shares | (27 149) | (31 383) | (27 149) | (31 383) |

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

| | | | | |
|--|--------|--------|--------|--------|
| <i>General employee shares</i> | | | | |
| Opening balance | 13 979 | 4 903 | 13 979 | 4 903 |
| Cost of general employee share option plan | 8 599 | 9 076 | 8 599 | 9 076 |
| Closing balance | 22 578 | 13 979 | 22 578 | 13 979 |
| <i>Share incentive scheme</i> | | | | |
| Opening balance | 9 611 | 2 480 | 9 611 | 2 480 |
| Cost of share incentive scheme | 7 627 | 7 131 | 7 627 | 7 131 |
| Closing balance | 17 238 | 9 611 | 17 238 | 9 611 |
| Closing balance - Share reserve | 39 816 | 23 590 | 39 816 | 23 590 |

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 ANNUAL FINANCIAL STATEMENTS
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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.

2 690 946 options have been cancelled to date 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 (Pty) Ltd was appointed by the Assupol Board 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 Assupol were made.

Key value drivers to the valuation included, where relevant, discounts and premiums for risks (positive and negative) unique to Assupol 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.

KPMG Services (Pty) Ltd 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 shares 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 have not been issued as yet.

| | Number of shares issued '000 | Number of units allocated '000 | Weighted average exercise price |
|---|---------------------------------------|---|--|
| Balance at 1 July 2011 | - | - | - |
| Issued and granted during the year | 62 792 | 62 792 | R1.619 |
| Balance at 30 June 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 |

**NOTES TO THE ANNUAL 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 st 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 nd 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 rd 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 (Pty) Ltd was appointed by the Assupol Board 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 Assupol were made.

Key value drivers to the valuation included, where relevant, discounts and premiums for risks (positive and negative) unique to Assupol 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 (Pty) Ltd 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 in terms of a fixed-term employment agreement and restraint of trade agreement. The agreements commenced with effect from 1 July 2012. The directors shall not be entitled to pledge, cede or dispose of the incentive shares unless it has become unrestricted. For four of the directors, a third of the shares becomes unrestricted on 30 June 2015, 30 June 2016 and 30 June 2017 respectively. One director's shares will become unrestricted on 30 June 2015. Furthermore the directors 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' entitlement on unrestricted and restricted shares at the date.

A director has a liquidity put option against the company within ten business days after termination of the director's fixed term employment agreement. A director is entitled to request the company to purchase the director'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 2013 |
| 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 |

Refer note 31 for the employee benefit liability recognised.

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

26. SHARE-BASED PAYMENTS (continued)

More information on fair value

KPMG Services (Pty) Ltd was appointed by the Assupol Board 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 Assupol were made.

Key value drivers to the valuation included, where relevant, discounts and premiums for risks (positive and negative) unique to Assupol 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.

KPMG Services (Pty) Ltd gave an independent fair market value range of R2.46 to R2.76 per share, and at the time of the issue, the board of directors decided to use a value of R2.46 as the fair market value of the shares.

The fair value of the shares at 30 June 2013 was determined by management. 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.

27. BLACK ECONOMIC EMPOWERMENT RESERVE

| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| Opening balance | - | - | - | - |
| Black Economic Empowerment transaction | 14 300 | - | 14 300 | - |
| Closing balance | 14 300 | - | 14 300 | - |

On 15 October 2012 the company concluded a Broad-based Black Economic Empowerment ("BEE") transaction with WDB Investment Holdings (Pty) Ltd, the investment arm of the WDB Group. The transaction resulted in WDB Investment Holdings (Pty) Ltd acquiring a 10% shareholding in Assupol Holdings Limited.

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 (Pty) Ltd 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 current year as a once-off BEE expense of R14 300 000 in the financial statements of the group and of Assupol Life Ltd.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 28. POLICYHOLDER (ASSETS) / LIABILITIES UNDER INSURANCE CONTRACTS | | | | |
| The information below presents the movements in policyholder liabilities in insurance contracts. | | | | |
| <i>Discounted liabilities</i> | | | | |
| Discounted insurance liabilities - opening balance | (115 112) | 136 054 | - | - |
| Prosperity Life transfer | (345) | - | - | - |
| Expected interest on insurance liabilities | 8 990 | 27 501 | - | - |
| Expected premiums on insurance liabilities | 915 401 | 804 310 | - | - |
| Expected claims, expiries and lapses | (495 333) | (429 512) | - | - |
| Expected expenses, commission and charges | (193 186) | (176 079) | - | - |
| Expected profits | (80 457) | (50 614) | - | - |
| Additional unit linked returns (policyholders) | (8 787) | (43 373) | - | - |
| Experience variations | (12 744) | (28 457) | - | - |
| Changes in estimates (renewal business only) | 5 205 | (116 232) | - | - |
| New business added during the year | (257 465) | (251 299) | - | - |
| Assumption change on Prosperity Life's book | - | 12 589 | - | - |
| Discounted insurance liabilities - closing balance | (233 833) | (115 112) | - | - |
| <i>Undiscounted liabilities</i> | | | | |
| Undiscounted insurance liabilities - opening balance | 115 878 | 89 110 | - | - |
| Prosperity Life transfer | 345 | - | - | - |
| Withdrawals during the year | (4 814) | (6 303) | - | - |
| Increase / (decrease) in IBNR on existing business | 8 082 | 3 318 | - | - |
| New business added during the year | 3 228 | 7 374 | - | - |
| Changes in estimates (renewal business only) | (2 331) | 12 551 | - | - |
| Expected interest on insurance liabilities | - | 2 175 | - | - |
| Expected premiums on insurance liabilities | 8 710 | 33 293 | - | - |
| Expected claims, expiries and lapses | (745) | (19 672) | - | - |
| Expected expenses, commission and charges | (983) | (5 395) | - | - |
| Experience variations | 414 | (573) | - | - |
| Transfer of SAQ business | (53 413) | - | - | - |
| Undiscounted insurance liabilities - closing balance | 74 371 | 115 878 | - | - |
| <i>Total insurance (assets) / liabilities</i> | (159 462) | 766 | - | - |
| <i>Non-current liability</i> | (296 958) | (150 376) | - | - |
| <i>Current liability</i> | 137 496 | 151 142 | - | - |
| Reconciliation of balance | | | | |
| Opening balance | 766 | 225 164 | - | - |
| Recognised in statement of comprehensive income | (106 815) | (224 398) | - | - |
| Transfer of SAQ business | (53 413) | - | - | - |
| Closing balance | (159 462) | 766 | - | - |

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

| | CONSOLIDATED | | COMPANY | |
|---|----------------------|-----------------------|--------------------|----------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 28. POLICYHOLDER (ASSETS) / LIABILITIES UNDER INSURANCE CONTRACTS (continued) | | | | |
| As Assupol Life Ltd'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 R'000 | 2 to 5 years R'000 | > 5 years R'000 | TOTAL R'000 |
| Consolidated - 30 June 2013 | 137 496 | 248 329 | (545 287) | (159 462) |
| Consolidated - 30 June 2012 | 151 142 | 258 290 | (408 666) | 766 |

**29. POLICYHOLDER LIABILITIES UNDER
INVESTMENT CONTRACTS**

The information below presents the movements in policyholder liabilities in investment contracts.

| | | | | |
|---|-----------|-----------|---|---|
| Investment liabilities - opening balance | 1 011 492 | 919 999 | - | - |
| Premiums received | 261 057 | 258 327 | - | - |
| Payments of death, surrender and other terminations for the year | (195 843) | (166 027) | - | - |
| Fees deducted from account balances | (63 568) | (58 046) | - | - |
| Fair value adjustment to liabilities | 125 443 | 57 239 | - | - |
| Investment liabilities - closing balance | 1 138 581 | 1 011 492 | - | - |
| <i>Non-current liability</i> | 1 059 396 | 950 267 | - | - |
| <i>Current liability</i> | 79 185 | 61 225 | - | - |

| <i>Maturity profile - Investment contract liabilities</i> | 0 to 1 year R'000 | 2 to 5 years R'000 | > 5 years R'000 | TOTAL R'000 |
|---|----------------------|-----------------------|--------------------|----------------|
| Consolidated - 30 June 2013 | 79 185 | 336 146 | 723 250 | 1 138 581 |
| Consolidated - 30 June 2012 | 61 225 | 293 924 | 656 343 | 1 011 492 |

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 | 468 | 672 | - | - |
| Due between 1 and 5 years | 476 | 947 | - | - |
| | 133 712 | 1 619 | 132 768 | - |
| <i>Non-current liability</i> | 476 | 873 | - | - |
| <i>Current liability</i> | 133 236 | 746 | 132 768 | - |

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

| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 30. BORROWINGS (continued) | | | | |
| Reconciliation of balance | | | | |
| Opening balance | 1 619 | 2 625 | - | - |
| New bridging loan | 132 768 | - | 132 768 | - |
| Finance charges | 4 273 | 240 | 4 143 | - |
| Repayments | (4 948) | (1 246) | (4 143) | - |
| Closing balance | 133 712 | 1 619 | 132 768 | - |
| Bridging loan due to shareholder | | | | |
| The company obtained a bridging loan facility from Investec Bank Ltd to the amount of R132 768 455 (2012: Rnil). The loan bears interest at prime rate and interest is payable on a monthly basis. The capital is repayable on 14 November 2013. The loan is secured by a cession and pledge by Assupol Holdings Ltd of all the shares in Assupol Life Ltd as well as those of Assupol Investment Holdings (Pty) Ltd. | | | | |
| 31. EMPLOYEE BENEFITS | | | | |
| Employee benefits | | | | |
| Accrual for leave pay | 7 490 | 8 564 | - | - |
| Provision for bonuses | 43 528 | 42 435 | - | - |
| Cash-settled share-based payment liability | 8 355 | - | 8 355 | - |
| Total employee benefits | 59 373 | 50 999 | 8 355 | - |
| <i>Non-current liability</i> | 8 355 | - | 8 355 | - |
| <i>Current liability</i> | 51 018 | 50 999 | - | - |
| Accrual for leave pay | | | | |
| Opening balance | 8 564 | 4 542 | - | - |
| Utilised during the year | (1 101) | (129) | - | - |
| Recognised in profit or loss | 27 | 4 151 | - | - |
| Closing balance | 7 490 | 8 564 | - | - |
| Provision for bonuses | | | | |
| Opening balance | 42 435 | 28 696 | - | - |
| Utilised during the year | (42 408) | (27 779) | - | - |
| Recognised in profit or loss | 43 501 | 41 518 | - | - |
| Closing balance | 43 528 | 42 435 | - | - |
| Cash-settled share based payment liability | | | | |
| Opening balance | - | - | - | - |
| Recognised in profit or loss | 8 355 | - | 8 355 | - |
| Closing balance | 8 355 | - | 8 355 | - |

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

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

| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 32. DEFERRED REVENUE LIABILITY | | | | |
| Opening balance | 452 | 454 | - | - |
| Deferred revenue relating to new business | 110 | 190 | - | - |
| Amortisation of deferred revenue | (202) | (192) | - | - |
| | <u>360</u> | <u>452</u> | <u>-</u> | <u>-</u> |
| <i>Non-current liability</i> | 222 | 299 | - | - |
| <i>Current liability</i> | 138 | 153 | - | - |

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.

33. DEFERRED TAX ASSET / (LIABILITY)

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 | (136 064) | (68 929) | - | - |
| Movements directly recognised in retained earnings | 151 | 1 389 | - | - |
| Movements during year attributable to: | (77 055) | (68 524) | - | - |
| Temporary differences | | | | |
| Deferred acquisition costs | 472 | 516 | - | - |
| Other timing differences | (158) | 171 | - | - |
| Unrealised gains | (4 336) | (3 102) | - | - |
| Amortisation of PVIF asset | 362 | - | - | - |
| Policyholder liabilities difference between statutory and accounting basis | (73 033) | (66 263) | - | - |
| Assessed loss | (362) | 154 | - | - |
| Balance at end of the year | <u>(212 968)</u> | <u>(136 064)</u> | <u>-</u> | <u>-</u> |

The deferred tax balance consists of the following:

| | | | | |
|--|------------------|------------------|----------|----------|
| Temporary differences | | | | |
| Deferred acquisition costs | (7 346) | (7 818) | - | - |
| Other timing differences | 2 715 | 2 873 | - | - |
| Unrealised gains | (18 370) | (14 034) | - | - |
| Amortisation of PVIF asset | (1 024) | (1 537) | - | - |
| Policyholder liabilities difference between statutory and accounting basis | (231 971) | (158 938) | - | - |
| Assessed loss | 43 028 | 43 390 | - | - |
| <i>Non-current liability</i> | <u>(212 968)</u> | <u>(136 064)</u> | <u>-</u> | <u>-</u> |

Deferred tax assets of Assupol Life Ltd have been recognised on an assessed loss of R43m (2012: R43m). This amount is only a portion of the total assessed loss available for utilisation. Additional deferred tax assets have not been raised on an further assessed loss of R542.9m (2012: R410.4m) as future profits to recover these losses are not considered to be probable.

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| | CONSOLIDATED | | COMPANY | |
|---|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 33. DEFERRED TAX ASSET / (LIABILITY) (continued) | | | | |
| 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 | 45 743 | 46 263 | - | - |
| Deferred tax liabilities | (258 711) | (182 327) | - | - |
| 34. INSURANCE AND OTHER PAYABLES | | | | |
| Accounts payable | 90 697 | 181 347 | 2 307 | - |
| Accruals | 64 | 146 | - | - |
| Outstanding claims and benefits payable | | | | |
| On insurance contracts | 57 064 | 52 817 | - | - |
| On investment contracts | 10 677 | 5 694 | - | - |
| Premiums received in advance | 11 533 | 11 751 | - | - |
| Amounts due to shareholders | 1 450 | 3 090 | - | - |
| Amounts due to subsidiaries | - | - | 15 441 | 46 384 |
| Total insurance and other payables | 171 485 | 254 845 | 17 748 | 46 384 |
| <i>Non-current liability</i> | - | - | - | 25 759 |
| <i>Current liability</i> | 171 485 | 254 845 | 17 748 | 20 625 |
| Insurance and other payables included in total payables consist of: | | | | |
| Insurance payables | | | | |
| Outstanding claims and benefits payable: | | | | |
| - Insurance contracts | 57 064 | 52 817 | - | - |
| - Other | 10 677 | 5 694 | - | - |
| Premiums received in advance | 11 533 | 11 751 | - | - |
| | 79 274 | 70 262 | - | - |
| Other payables | | | | |
| Accounts payable | 90 697 | 181 347 | 2 307 | - |
| Accruals | 64 | 146 | - | - |
| Amounts due to shareholders | 1 450 | 3 090 | - | - |
| Amounts due to subsidiaries | - | - | 15 441 | 46 384 |
| | 92 211 | 184 583 | 17 748 | 46 384 |
| Total insurance and other payables | 171 485 | 254 845 | 17 748 | 46 384 |

Long-term loan due to Assupol Life Ltd

During the year this loan was redeemed. The loan amounting to Rnil (2012: R36 385 796) was unsecured and was repayable in five equal annual instalments. The loan bore interest at prime less 1%.

Short-term loan due to Assupol Life Ltd

Loan amounting to R15 440 548 (2012: R9 997 814) is unsecured and is repayable on demand. The loan does not bear interest.

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| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 35. CURRENT TAXATION | | | | |
| Opening balance | 809 | 9 333 | - | - |
| Transferred from the statement of comprehensive income | (40 439) | (43 920) | (3 286) | - |
| Taxation paid during the year | 49 559 | 35 396 | 3 619 | - |
| <i>Current asset</i> | 9 929 | 809 | 333 | - |
| 36. CASH GENERATED FROM OPERATIONS | | | | |
| Reconciliation of profit before tax and transfers to policy liabilities to cash generated from operations: | | | | |
| Profit before taxation | 387 392 | 421 507 | 265 855 | 44 050 |
| Movement in policyholder assets / liabilities: | | | | |
| Insurance contracts (refer note 28) | (160 228) | (224 398) | - | - |
| Investment contracts (refer note 29) | 127 089 | 91 493 | - | - |
| | 354 253 | 288 602 | 265 855 | 44 050 |
| Items disclosed separately: | | | | |
| Interest received (refer note 10) | (81 356) | (53 881) | (4 860) | - |
| Dividends received (refer note 10) | (26 926) | (26 431) | (293 225) | (56 031) |
| Finance charges (refer note 16) | 4 638 | 374 | 5 240 | 3 961 |
| Deferred acquisition cost on new business (refer note 20) | (9 843) | (9 430) | - | - |
| Fee income deferred on new business (refer note 32) | 110 | 190 | - | - |
| | 240 876 | 199 424 | (26 990) | (8 020) |
| Non-cash items: | | | | |
| Net fair value gains on financial assets (refer note 11) | (283 518) | (140 732) | - | - |
| Depreciation of property and equipment (refer note 15) | 7 826 | 6 766 | - | - |
| (Profit) / loss on sale of equipment (refer note 19) | (48) | 91 | - | - |
| Amortisation of intangible assets (refer note 20) | 14 372 | 13 581 | - | - |
| Impairment of intangible assets (refer note 20) | 2 724 | 3 030 | - | - |
| Share-based payments (refer note 26) | 16 226 | 16 207 | - | - |
| Capital contribution - Black Economic Empowerment expense (refer note 27) | 14 300 | - | - | - |
| Amortisation of deferred revenue liability (refer note 32) | (202) | (192) | - | - |
| VAT adjustment | - | 1 223 | - | - |
| Loss on deregistration of subsidiary | - | 84 | - | - |
| Change in shareholding in subsidiary | (1 003) | - | - | - |
| | 11 553 | 99 482 | (26 990) | (8 020) |
| Changes in working capital: | | | | |
| Insurance and other trade receivables (refer note 23) | (9 072) | 706 | 14 554 | (15 160) |
| Employee benefits (refer note 31) | 8 374 | 17 761 | 8 355 | - |
| Cash-settled share-based payment liability (refer note 31) | (8 355) | - | (8 355) | - |
| Insurance and other payables (refer note 34) | (83 360) | 37 232 | (28 636) | (28 890) |
| Cash generated from operations | (80 860) | 155 181 | (41 072) | (52 070) |

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

| | CONSOLIDATED | | COMPANY | |
|---|-----------------|-----------------|----------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 37. TAXATION PAID | | | | |
| Current tax receivable at beginning of the year | 809 | 9 333 | - | - |
| Current tax recognised in profit or loss | (40 439) | (43 920) | (3 286) | - |
| Current tax receivable at end of the year | (9 929) | (809) | (333) | - |
| | <u>(49 559)</u> | <u>(35 396)</u> | <u>(3 619)</u> | <u>-</u> |

38. SIGNIFICANT NON-CASH TRANSACTIONS

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Equity-settled shared-based payments (refer to note 26) | | | | |
| General employee shares | 8 599 | 9 076 | 8 599 | 9 076 |
| Share incentive scheme | 7 627 | 7 131 | 7 627 | 7 131 |
| | <u>16 226</u> | <u>16 207</u> | <u>16 226</u> | <u>16 207</u> |
| Unvested shares issued (refer to note 26) | | | | |
| Share Incentive Trust | 15 | 63 | 15 | 63 |
| Cash-settled share-based payments (refer note 26) | | | | |
| Shares to executive directors | 8 355 | - | 8 355 | - |
| Black Economic Empowerment transaction (refer to note 27) | | | | |
| BEE expense | 14 300 | - | - | - |

39. RELATED PARTY TRANSACTIONS

Related parties defined

All subsidiaries of 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 subsidiary companies are paid by the holding company, however Assupol Life Ltd pay 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)

| | 2013 R'000 | 2012 R'000 |
|--------------------------|---------------|---------------|
| Opening balance | 323 | 454 |
| Loan repayments received | (100) | (157) |
| Interest charged | 17 | 26 |
| Closing balance | <u>240</u> | <u>323</u> |

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 ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2013**

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 (paid by Assupol Life Ltd)

| R'000 | RF Schmidt (CEO) | D de Klerk (CFO) | GFM Wessels | MB Mokwena | SL Ndwalaza | Total |
|----------------------------------|---------------------|---------------------|---------------|--------------|--------------|---------------|
| 30 June 2013 | | | | | | |
| Basic salary | 2 421 | 1 758 | 1 802 | 1 918 | 1 759 | 9 658 |
| Other incentives and benefits | 10 | 162 | 109 | 10 | 10 | 300 |
| Pension fund contributions | 295 | 233 | 232 | 234 | 316 | 1 310 |
| Bonus | 5 625 | 4 388 | 3 938 | 4 388 | 3 375 | 21 714 |
| Total director emoluments | 8 351 | 6 541 | 6 080 | 6 549 | 5 460 | 32 982 |
| Share-based payment | | | | | | |
| Free shares | 8 | 512 | 621 | 468 | - | 1 609 |
| Share incentive | 896 | 726 | 735 | 726 | 570 | 3 654 |
| Restraint of trade | 1 583 | 1 583 | 1 685 | 1 583 | 1 583 | 8 018 |
| | 10 839 | 9 363 | 9 121 | 9 326 | 7 614 | 46 263 |
| 30 June 2012 | | | | | | |
| Basic salary | 2 306 | 1 715 | 2 150 | 1 868 | - | 8 039 |
| Other incentives and benefits | 130 | 282 | 225 | 104 | - | 741 |
| Pension fund contributions | 283 | 229 | 278 | 229 | - | 1 019 |
| Bonus | 5 985 | 4 275 | 4 465 | 4 275 | - | 19 000 |
| Restraint of trade | 1 368 | 1 392 | 2 142 | 1 339 | - | 6 241 |
| Total director emoluments | 10 072 | 7 893 | 9 260 | 7 815 | - | 35 040 |
| Share-based payment | 904 | 1 238 | 1 627 | 1 194 | - | 4 963 |
| | 10 976 | 9 131 | 10 887 | 9 009 | - | 40 003 |

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for the year ended 30 June 2013**

39. RELATED PARTY TRANSACTIONS (continued)

Directors' remuneration (continued)

Executive directors (securities issued by Assupol Holdings Ltd)

| | Restraint of trade shares | Free shares | Incentive shares | Total |
|---------------------|------------------------------|------------------|---------------------|-------------------|
| 30 June 2013 | | | | |
| 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 | 2 000 000 | 887 694 | 6 677 241 | 9 564 935 |
| SL Ndwalaza | 2 000 000 | - | 5 230 582 | 7 230 582 |
| | 8 000 000 | 1 875 601 | 26 818 469 | 36 694 070 |
| 30 June 2012 | | | | |
| RF Schmidt | - | 15 980 | 8 233 405 | 8 249 385 |
| D de Klerk | - | 971 927 | 6 677 241 | 7 649 168 |
| GFM Wessels | - | 1 415 423 | 8 103 418 | 9 518 841 |
| MB Mokwena | - | 887 694 | 6 677 241 | 7 564 935 |
| | - | 3 291 024 | 29 691 305 | 32 982 329 |

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

| R'000 | Trustee fees | Board fees | Committee fees | Total |
|-----------------------------------|-----------------|---------------|-------------------|--------------|
| 30 June 2013 | | | | |
| DJ le Roux (previous Chairperson) | - | 1 294 | 131 | 1 424 |
| KL Craemer (acting Chairperson) | 33 | 906 | 262 | 1 201 |
| JA Janse van Rensburg | - | 338 | 83 | 421 |
| AR Els | - | 338 | 151 | 489 |
| S Nyalungu | - | 338 | 58 | 396 |
| HG Engelbrecht | - | 338 | - | 338 |
| EDJ Ashkar | - | 89 | 18 | 107 |
| ILM Barnett | - | 89 | - | 89 |
| AS Birrell | - | 56 | - | 56 |
| NE Gubb | - | 147 | 18 | 165 |
| I Greenstreet | - | 56 | 18 | 74 |
| | 33 | 3 989 | 739 | 4 761 |
| 30 June 2012 | | | | |
| DJ le Roux (previous Chairperson) | - | 1 086 | 152 | 1 238 |
| KL Craemer (acting Chairperson) | 42 | 760 | 299 | 1 101 |
| JA Janse van Rensburg | 14 | 338 | 121 | 473 |
| AR Els | - | 338 | 104 | 442 |
| S Nyalungu | - | 338 | 58 | 396 |
| HG Engelbrecht | - | 338 | - | 338 |
| | 55 | 3 198 | 734 | 3 988 |

39. RELATED PARTY TRANSACTIONS (continued)

Prescribed officer's remuneration

Prescribed officer (paid by Assupol Life Ltd)

| R'000 | GFM Wessels |
|-------------------------------|---------------------|
| 30 June 2013 | |
| Basic salary | 360 |
| Other incentives and benefits | 22 |
| Pension fund contributions | 46 |
| Bonus | 788 |
| Total emoluments | <u>1 216</u> |
| Share-based payment | |
| Free shares | 124 |
| Share incentive | 147 |
| Restraint of trade | 337 |
| | <u><u>1 824</u></u> |

Prescribed officer (securities issued by Assupol Holdings Ltd)

| | Restraint of trade shares | Free shares | Incentive shares | Total |
|---------------------|------------------------------|----------------|---------------------|--------------------------|
| 30 June 2013 | | | | |
| GFM Wessels | 2 000 000 | 1 415 423 | 8 103 418 | <u><u>11 518 841</u></u> |

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

| | 2013 R'000 | 2012 R'000 |
|--|----------------------|----------------------|
| Insurance contracts | | |
| Aggregate insured cover | 7 534 | 9 378 |
| Premiums received | 579 | 465 |
| Claims paid | (63) | (119) |
| Surrender value | 311 | 470 |
| Investment contracts | | |
| Fund value at 30 June 2012 | 620 | 447 |
| Premiums received | 74 | 173 |
| Claims and withdrawals | (28) | (59) |
| Investment returns credited net of charges | 89 | 72 |
| Commission and other transaction fees | (14) | (13) |
| Fund value at 30 June 2013 | <u>742</u> | <u>620</u> |
| Surrender value | <u><u>710</u></u> | <u><u>590</u></u> |

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

| | CONSOLIDATED | | COMPANY | |
|---|----------------|---------------|----------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 39. RELATED PARTY TRANSACTIONS (continued) | | | | |
| Loan balances with related parties | | | | |
| Borrowings from shareholders as detailed in note 30: | | | | |
| <i>Loan from Investec Bank Ltd</i> | | | | |
| Opening balance | - | - | - | - |
| Loans provided during the year | 132 768 | - | 132 768 | - |
| | <u>132 768</u> | <u>-</u> | <u>132 768</u> | <u>-</u> |
| Total amounts due by subsidiaries as detailed in note 23: | | | | |
| <i>Operational account with Assupol Investment Holdings (Pty) Ltd</i> | | | | |
| Opening balance | | | 15 160 | - |
| Loans provided during the year | | | - | 15 160 |
| Repayments | | | (14 560) | - |
| Closing balance | | | <u>600</u> | <u>15 160</u> |
| Total amounts due to subsidiaries as detailed in note 34: | | | | |
| <i>Loan from Assupol Life Ltd</i> | | | | |
| Opening balance | | | 36 386 | 73 296 |
| Loans received during the year | | | - | 15 160 |
| Repayments | | | (37 483) | (56 031) |
| Interest charged | | | 1 097 | 3 961 |
| Closing balance | | | <u>-</u> | <u>36 386</u> |
| <i>Operational account with Assupol Life Ltd</i> | | | | |
| Opening balance | | | 9 998 | 1 978 |
| Repayments | | | (28 950) | - |
| Transactions funded during the year | | | 34 393 | 8 020 |
| Closing balance | | | <u>15 441</u> | <u>9 998</u> |
| Transactions with related parties | | | | |
| Interest paid to shareholder | | | | |
| Investec Bank Ltd | 4 143 | - | 4 143 | - |

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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| | CONSOLIDATED | | COMPANY | |
|--|---------------|---------------|---------------|---------------|
| | 2013 R'000 | 2012 R'000 | 2013 R'000 | 2012 R'000 |
| 40. COMMITMENTS | | | | |
| <i>Operating lease commitments</i> | | | | |
| 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 15 to the financial statements. | | | | |
| The future aggregate minimum lease payments under non-cancellable operating leases are as follows: | | | | |
| <i>Equipment</i> | | | | |
| • Due in 1 year or less | 394 | 1 266 | - | - |
| • Due between 1 and 5 years | - | 656 | - | - |
| • Due after 5 years | - | - | - | - |
| <i>Vehicles</i> | | | | |
| • Due in 1 year or less | - | 14 | - | - |
| • Due between 1 and 5 years | - | - | - | - |
| • Due after 5 years | - | - | - | - |
| <i>Properties</i> | | | | |
| • Due in 1 year or less | 473 | 11 085 | - | - |
| • Due between 1 and 5 years | 405 | 11 411 | - | - |
| • Due after 5 years | - | - | - | - |
| | 1 272 | 24 432 | - | - |

41. EVENTS AFTER REPORTING DATE

No significant events happened after the reporting date and the date of approval of the consolidated financial statements.