NOTE

Signatures blacked out for security purposes.

GUARDRISK LIFE LIMITED

Registration No. 1999/013922/06

ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2016

GUARDRISK LIFE LIMITED

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2016

The reports and statements set out below comprise the annual financial statements presented to the member:

These annual financial statements were prepared by Jacques Pienaar CA(SA), under the supervision of the Financial Director, Lourens Botha CA(SA), ACMA.

GUARDRISK LIFE LIMITED

CORPORATE GOVERNANCE

The Directors of Guardrisk Life Limited ("Guardrisk") are committed to the highest standards of corporate governance. The Board is committed to ensuring that the principles of corporate governance are practised and adhered to in the regions where Guardrisk operates.

The Board supports the principles of transparency, ethical behaviour and honesty, in all the company's business dealings. The directors regularly review the company's policies and procedures to ensure that they remain relevant and appropriate.

The board

The board comprises individuals with a wide range of skills and experience from the insurance and financial services environment, collectively suitable to carry out all its responsibilities. The directors are responsible for ensuring that the operations of the business are known to them to enable them to fulfil their fiduciary duties. The chairman of the board is a non-executive director and the roles of chairman and managing director are separate.

The chairman and the managing director provide leadership and guidance to the board to encourage optimum input from the directors and proper deliberation of all matters requiring board approval.

The board meets on a quarterly basis or more frequently if circumstances require.

Board composition

The board currently comprises two independent directors, three non-executive directors and four executive directors. The board is considered to be effective in size and composition.

Board committees

The board has established a number of committees that assist it in discharging its duties.

- Audit committee
- Investment committee
- Remuneration committee
- Risk committee

Although the board delegates certain functions to these committees, it retains ultimate responsibility for the activities. The committees are all empowered to obtain outside or other professional advice as the members consider necessary to carry out their duties.

The Audit Committee comprises three members being two independent non-executive directors and one non-executive member. The chairman of the committee is an independent non-executive director. The audit committee meets on a quarterly basis or more frequently if circumstances require. The meetings are attended by the external and internal auditors and other invitees as considered appropriate by the committee's chairman.

The company has an independent internal audit function, outsourced jointly to KPMG and MMI Group Internal Audit, with a charter approved by the audit committee and the board. The board has assured itself that there is sufficient segregation between the external and internal audit functions to ensure that the independence of the two functions is not impaired. The internal audit function reports to the audit committee and has unrestricted access to the chairman of the audit committee and the non-executive chairman of the board.

Board Committees (continued)

The scope of the internal audit function is to review the reliability and integrity of financial and operating functions, the systems of internal control and risk management, the means of safeguarding assets, the efficient management of the company's resources and the effective conduct of its operations. Corrective actions are taken to address control deficiencies and other opportunities for improving the system as they are identified.

The board, operating through the Audit Committee, provides oversight of the financial reporting process. The company maintains a system of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposal, which is designed to provide reasonable assurance regarding the preparation of reliable financial statements, the safeguarding of the company's assets, compliance with laws and regulations and effective financial risk management within the company. The system includes a documented organisational structure and division of responsibility as well as established policies and procedures to foster a strong ethical climate, which is communicated throughout the company. There are inherent limitations in the effectiveness of any system of internal control including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only a reasonable assurance with respect to financial statement preparation and the safeguarding of assets.

Internal Audit is required to provide a written assessment, in terms of King III recommendations, on the internal financial controls to the audit committee. In order to provide a written assessment on the internal financial controls, suitable testing must yield sufficient audit evidence for internal audit to make an assessment on the existence and effectiveness of the internal financial controls. Management decided to apply the King III recommendation and perform an assessment to provide the required written assessment. Internal Audit reported that nothing came to their attention that would suggest that the internal financial controls at Guardrisk are not operating satisfactorily.

The company's Control Self-Assessment (CSA) programme utilises automated control questionnaires that were formulated with the assistance of a leading accounting firm to further enhance the internal audit process which incorporates combined assurance. This effectively elevates the internal audit function from a periodic occurrence to every facet of the company's operations on a day-to-day basis. The chief risk officer reviews this process and reports back to management periodically. Independent quality assurance reviews of the effectiveness of the CSA process are conducted by internal audit, the results of which are reported to the Audit Committee.

The committee is responsible for reviewing the financial statements and accounting policies, the effectiveness of the management information and systems of internal control, compliance with statutory and regulatory requirements, interim and final audit reports, reviewing and approving the audit fees, the effectiveness of the internal audit function, external audit plans and findings on the internal audit and external audits.

The company has a Combined Assurance Forum operating within a Combined Assurance Framework to improve assurance coverage and quality through better coordination of assurance providers. The objective is to optimise and maximise the level of risk, governance and control oversight over the risk landscape.

Board Committees (continued)

The Investment Committee is chaired by an independent non-executive director and comprises two executive directors. The committee carefully reviews all investments on the basis of total asset security and minimised credit and counterparty risk to the company. Industry specialists as well as the company's panel of investment managers are invited to the investment committee meetings. The committee evaluates and approves appropriate investment strategies for the company and provides direction and input to alternative investment options. The main focus of the committee is to manage the consolidated approach and strategy regarding investment risk management.

The **Remuneration Committee** is delegated to the parent company's Remuneration Committee. Executive directors and senior management's remuneration decisions are approved by a delegated authority of the Committee. Remuneration structures are based on independent market surveys and professional input from trusted market sources. The purpose of this committee is to ensure that executive directors and senior management are remunerated appropriately and to review the remuneration scales, including incentives and share schemes as well as conditions of employment. In addition, management ensures that the organisation is appropriately staffed in terms of skill levels and demographic representation and is able to meet the challenges of the future. The committee identifies and reviews the appointment of new directors and performance of all directors.

The Risk Committee comprises four members, a non-executive chairman, with risk management expertise, and three executive directors. The Committee is constituted to assist and support the Board with regard to its risk management responsibilities, together with the other board sub committees including the Audit, Investment and Remuneration Committees. The committee deals with specialised risks related to insurance business being conducted by the company. Individuals with specialised industry and product knowledge are invited to the committee and are also being co-opted on an ongoing basis. Furthermore, the committee is specifically responsible for the following: governance, enterprise wide risk, compliance, information technology, reinsurance market security and Treating Customers Fairly.

Board confirmation

The board is satisfied:

- that adequate accounting records have been kept and that there is reasonable assurance with respect to the maintenance of effective systems of internal control and risk management.
- that there is no reason to believe that the company will not continue as a going concern in the year ahead.
- that there is no reason to believe that there has been any material non-adherence to the company's ethical standards.

GUARDRISK LIFE LIMITED

RISK ASSESSMENT, RETENTION AND MANAGEMENT

Approach to risk management

The company's risk management programme includes an evaluation of the integrity of its underwriting programmes and the management of investment risk. The structure is examined by professional advisors to new clients, regular internal audits and independent rating programmes. This is evident by the AA+ (2015: AA-) domestic claims paying ability rating awarded to the company by rating agency Global Credit Ratings on an annual basis since 2007. Management and the board are committed to maintaining this rating.

Prudent evaluation of risk retention

Management carefully evaluates all retention of risks for the cell shareholders and the company in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each insurance programme. In this way the security of the cell insurance structures is maintained, which enables the company to provide comprehensive insurance solutions to meet clients' needs.

Enterprise-wide risk management

The company subscribes to the highest standards of risk management in order to provide greater certainty to its clients, suppliers, shareholders and employees. Whilst taking measured risks is one of the cornerstones of the company's success, management recognises that understanding and managing risk effectively is fundamental to the company's future growth. In acknowledgement of the dynamic environment in which the company operates, the enterprise wide risk management programme includes the identification, analysis, registration and monitoring of all business risks, rating them in accordance with a consistent risk management framework, and constantly monitoring and improving the controls associated with the risks.

The board is ultimately responsible for the total process of risk management. Management is accountable to the board for designing, implementing and monitoring the process of risk management. The chief risk officer of the company is also an executive director.

Guardrisk's objective is to entrench risk management into the day to day business activities whereby each division:

- understands the risk events that may prevent it from achieving its objective;
- has identified the risk mitigating controls in place and has assessed their efficiency; and
- has formulated a plan wherever additional action is required.

GUARDRISK LIFE LIMITED

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING
for the year ended 30 June 2016

In accordance with the South African Companies Act requirements, the directors are required to maintain adequate accounting records and are responsible for the content and integrity of the company annual financial statements of Guardrisk Life Limited and related financial information included in this report. It is their responsibility to ensure that the financial statements for each financial year fairly present the state of affairs of the company at the end of the financial year and the results of their operations and cash flows, in conformity with International Financial Reporting Standards (IFRS).

The accounting policies supported by judgements, estimates and assumptions which comply with IFRS have been applied on a consistent and going concern basis.

The directors are ultimately responsible for the internal controls of the company. To enable the directors to meet these responsibilities, management design and implement standards and systems of internal controls to provide reasonable, but not absolute assurance as to the integrity and reliability of the financial statements in accordance with IFRS and to adequately safeguard, verify and maintain accountability for company assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management and the internal auditors, the directors are of the opinion that the system of internal controls provides reasonable assurances that the financial records may be relied on for the preparation of the company annual financial statements in accordance with IFRS. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of the internal controls, resulting in a material loss to the company, has occurred during the year and up to the date of this report.

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 representations made to the independent auditors during their audit were valid and appropriate.
The audit report of PricewaterhouseCoopers Inc. is presented on page 12.

The directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the annual financial statements.

DIRECTORS' APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The company's financial statements prepared in accordance with IFRS which appear on pages 14 to 76 were approved by the board of directors on 31 August 2016 and are signed on its behalf by:

[redacted]

NAS KRUGER [redacted]
Chairman

[redacted]

RJ EALES
Director

GUARDRISK LIFE LIMITED

AUDIT COMMITTEE REPORT
for the year ended 30 June 2016

We are pleased to present our report for the financial year ended 30 June 2016.

The Audit Committee of Guardrisk Group (Pty) Ltd (Guardrisk) acts as the audit committee for the company. The Audit Committee is an independent statutory committee appointed by the shareholders.

COMPOSITION AND PROCEEDINGS

The Guardrisk Audit Committee was fully functional during the financial year, and continued to discharge its responsibility with the support of the combined assurance forum established for various operating structures. The divisional combined assurance forum reports to the Guardrisk Audit Committee on a quarterly basis. The Guardrisk Audit Committee consists of two independent non-executive directors and one shareholder representative (non-independent, non-executive), and is also attended by some management representatives and other invitees representing the control functions.

EXTERNAL AUDIT

The Guardrisk Audit Committee is satisfied with the independence and objectivity of the external auditor in accordance with section 94(8) of the Companies Act, which includes consideration of the auditor's previous appointments, the extent of other work undertaken, and compliance with criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditor that internal audit governance processes within the audit firm support and demonstrate its claim of independence.

The Guardrisk Audit Committee nominated, for election at the annual general meeting, PricewaterhouseCoopers as the external audit firm and Mr FJ Kruger as the designated auditor responsible for performing the function of auditor for the 2016 year.

INTERNAL AUDIT

The Guardrisk Audit Committee is responsible for ensuring the internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to fulfil its duties. Guardrisk has outsourced its internal audit to MMI Internal audit which in turn has entered into a strategic internal audit co-sourcing agreement with KPMG as external service provider. The chief audit executive (CAE) of MMI has been appointed as head of the internal audit function (HIAF) and is responsible for the management and coordination of the co-sourcing relationship. The CAE in discharging of her duties as HIAF is accountable to the board and the Guardrisk Audit Committee. The Guardrisk Audit Committee decides on the HIAF's appointment and removal, and is also responsible for assessing the performance of the head of the internal audit function and the internal audit function.

Internal audit operates according to the internal audit charter, which was approved by the Guardrisk board. The group implemented a combined assurance methodology, and the results were reported to the Guardrisk Audit Committee.

INTERNAL FINANCIAL CONTROLS (IFC)

Nothing has come to the attention of the Guardrisk Audit Committee to indicate a material breakdown in the IFC during the financial year.

GUARDRISK LIFE LIMITED

AUDIT COMMITTEE REPORT
for the year ended 30 June 2016

GOVERNANCE OF RISK

The board has assigned oversight of the company's risk management function to the Guardrisk Risk Committee. Management is accountable to the board for designing, implementing and monitoring the process of risk management. The Chief Risk Officer is appointed as the head of the risk management control function and is an executive director. The Guardrisk Audit Committee oversees financial reporting risks, IFC, and fraud and information technology risks as these relate to financial reporting. The Guardrisk Investment Committee reviews all investments on the basis of total asset security and minimised credit and counterparty risk to the business.

FINANCIAL STATEMENTS

The Guardrisk Audit Committee has reviewed the financial statements of the company for the year ended 30 June 2016. The Guardrisk Audit Committee considers that the company's accounting policies and annual financial statements comply, in all material respects, with International Financial Reporting Standards (IFRS).

GOING CONCERN

The Guardrisk Audit Committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and made a recommendation to the board in accordance with this assessment.

[redacted]

D Konar
Chairman of the Guardrisk Group (Pty) Ltd Audit Committee

Centurion
31 August 2016

GUARDRISK LIFE LIMITED

CERTIFICATE BY THE COMPANY SECRETARY
for the year ended 30 June 2016

In terms of section 88(2)(e) of the Companies Act of 2008, as amended, I certify that in respect of the year ended 30 June 2016, the company has lodged with the Companies and Intellectual Property Commission all returns that are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

[redacted]

M CHETTY
Company Secretary
31 August 2016

GUARDRISK LIFE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF GUARDRISK LIFE LIMITED

We have audited the annual financial statements of Guardrisk Life Limited, which comprise the statement of financial position as at 30 June 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 75 and 77.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 30 June 2016, we have read the Directors' Report, the Audit Committee's Report, and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF GUARDRISK LIFE LIMITED

[redacted]

PricewaterhouseCoopers Inc
Director: FJ Kruger
Registered Auditor
Sunninghill

5 September 2016

GUARDRISK LIFE LIMITED

REPORT BY THE STATUTORY ACTUARY

1. Statement of Assets, Liabilities, Excess Assets and Capital Requirements at 30 June 2016

	Note	2016 R'000	2015 R'000
Published Reporting Basis			
Total value of assets as per balance sheet	4	**6 816 376**	5 655 009
Value of policyholder liabilities		**6 476 808**	5 372 411
Current and other liabilities as per balance sheet		**170 572**	169 990
Total value of liabilities		**6 647 379**	5 542 401
Excess Assets		**168 996**	112 608
Statutory Basis			
Value of assets on the Statutory Basis	4,5	**5 387 436**	4 565 912
Value of policy liabilities	6	**4 317 645**	3 813 114
Current and other liabilities		**230 841**	253 739
Total value of liabilities		**4 548 486**	4 066 853
Excess Assets		**838 950**	499 059
Capital Adequacy Requirement	7	**436 000**	195 680
Ratio of Excess Assets to Capital Adequacy Requirement		**1.9x**	2.6x
Represented by:			
Shareholder's interest		**838 950**	499 059
Ordinary share capital		**70 000**	50 000
Retained income - ordinary shareholder		**93 598**	60 999
Cell owners share capital		**394 035**	101 886
Retained income - cell owners		**281 318**	286 175

Both the assets and the policy liabilities on the Statutory Basis have been reduced by an amount for reassurance, thus showing amounts net of reassurance.

GUARDRISK LIFE LIMITED

REPORT BY THE STATUTORY ACTUARY

Certification of Statutory Financial Position

I hereby certify that:

- the valuation on the Statutory Basis of Guardrisk Life Limited at 30 June 2016, the results of which are summarised above, has been conducted in accordance with, and this Statutory Actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa Standards of Actuarial Practice and Advisory Practice Notes;
- Assets exceed liabilities plus the Capital Adequacy Requirements at the valuation date;
- The company met the asset spreading requirements of the Long Term Insurance Act at the valuation date; and
- In my opinion, the company is financially sound at the valuation date and is expected to remain so for the foreseeable future, where financially soundness includes meeting the asset spreading requirements as prescribed by the Long Term Insurance Act.

[redacted]

MJ Harrison FASSA
Statutory Actuary
31 August 2016

2. Analysis of change in excess assets on Published Reporting Basis

The excess of the value of assets over the value of liabilities has changed as follows over the reporting period:

	2016 R'000	15 months 2015 R'000
Excess assets as at end of reporting period	**168 996**	112 608
Excess assets as at beginning of reporting period	**112 608**	38 086
Change in excess assets over the reporting period	**56 388**	74 522
The change in the excess assets are due to the following factors:		
Investment return generated by excess assets over liabilities:		
Investment income	**56 643**	14 554
Capital appreciation	**2 045**	186
Total investment return	**58 688**	14 740
Operating profit	**(13 485)**	41 474
Tax	**(8 815)**	(15 693)
Total earnings	**36 388**	40 522
Capital raised	**20 000**	40 000
Dividends paid	**0**	(6 000)
Total change in excess assets	**56 388**	74 522

3. Reconciliation of excess assets between Published Reporting Basis and Statutory Basis

Excess assets on Published Reporting Basis	**168 996**	112 608
Excess assets on Statutory Basis	**838 950**	499 059
Difference	**(669 954)**	(386 451)

The main reason for this difference is that on the Published Basis the policyholder liabilities of first party cell owners, third party cell owners and the tax control cell is set to be at least equal to the assets held in these cells. This reduces the excess assets on the Published Basis by R674.5 million (2015: R388.1 million). In addition to this, some assets are disallowed under the Statutory Basis, but not under the Published Basis. As at the valuation date the disallowed assets consisted of intangible software assets of R1.1 million (2015: R1.6 million) and of deferred tax assets of R3.5 million (2015: R60.2 million). In 2015 the deferred tax asset was offset on the Statutory Basis by a PSR.

4. Reconciliation of Assets between Published Reporting Basis and Statutory Basis

Assets as per Published Reporting Basis	**6 816 376**	5 655 009
IFRS adjustments	**41 104**	60 223
Reclassifications	**(1 465 469)**	(1 147 711)
Disallowed assets	**(4 575)**	(1 609)
Assets as per Statutory Basis	**5 387 436**	4 565 912

5. Valuation basis of assets

The assets are valued at balance sheet values i.e. at carrying values which approximate the fair values as described in the Annual Financial Statements.

6. Valuation basis of policy liabilities

The valuation was performed in accordance with the Long-term Insurance Act 1998 and as outlined in Standard of Actuarial Practice 104 of the Actuarial Society of South Africa. Assumptions regarding future experience are on a best estimate basis plus further allowance for compulsory and discretionary margins. Appropriate allowance has been made for the expected impact of AIDS by increasing the assumptions for mortality and morbidity in line with current industry models.

A gross discount rate of 9.5% (2015: 8.75%) has been used for calculating the majority of reserves. This interest rate is based on long-term gilt rates of appropriate durations. This rate is before the adjustment for compulsory margins. There are two books of business for which different approaches are used:

- For the first book of business a risk-free yield curve is used, which is increased by an illiquidity premium, as the assets backing this book's liabilities are structured investment products held to maturity.
- The second book of business is valued using a risk-free yield curve.

The interest assumption for both of the above items is consistent with the gross discount rate that is mentioned above, as the discount rate of 9.5% is itself an estimate of a point on the risk-free yield curve.

The basis of taxation of long-term insurers applicable as at 30 June 2016 has been allowed for.

For a specific book of individual life business the decrement rates were adjusted to be consistent with reinsurance premiums, which are based on the most recent basis from the reinsurer. Since this book has limited claims experience on which assumptions can be based, this method is used to rely on reinsurance expertise to set assumptions as accurately as possible.

The lapse assumptions for two relatively large books of individual life business were updated to be based on the most recent lapse experience of these books of business.

No other investigations have been performed into the experience of the cells in respect of mortality, morbidity or other risks underwritten as the experience is limited. Also, a high level analysis of surplus did not identify any business lines where demographic assumptions needed to be reviewed.

Renewal expenses incurred in the operation of the cells are often incurred by 3rd parties and not paid by the cell. Expenses have been allowed for on some cells by calculating the present value of future expected expenses to be incurred. An inflation rate of 7.75% (2015: 7.25%), before compulsory margins, has been assumed. This inflation rate is derived from the gap between fixed interest and index linked government bonds of appropriate durations. For cells that are valued using a yield curve for the discount rate the inflation rate is based on the yield curve, using the same gap as for other cells.

Bonuses have been allowed for with-profit annuities consistent with the investment return assumption and the long-term bonus carrying capacity.

For monthly premium group risk business, including death, disability, funeral and credit life business, the liability was taken as an appropriate IBNR reserve.

Valuation basis of policy liabilities (continued)
For the individual annuities, disability business in payment and post-retirement health business, the liability was taken to be the present value of the annuity cash flows.

For post-retirement healthcare business and disability business in payment the liability was increased, using a combination of Bonus Stabilisation Reserves (BSR) and Profit Share Reserves (PSR), to be equal to at least the value of the assets supporting the product. For with-profit disability benefits the BSR have been set equal to the maximum potential annuity payments in excess of those allowed for in the discounted cash flow reserves, based on a one year time horizon. For post-retirement health business the BSR was set such that the total policyholder liability is at least equal to the total assets supporting the business.

For risk benefits sold to individual annuitants and the largest blocks of individual life business, excluding blocks of business where reserves are known to be negative, policy liabilities were determined as the present value of expected future outgo less the present value of expected future premiums, plus a discretionary margin where negative reserves are eliminated.

For other individual life business high-level calculations showed that per policy reserves will be negative. Since these reserves will be eliminated under the current valuation method the size of these negative reserves were not quantified.

In addition, a discretionary margin in respect of tax has been established as a result of prior years' tax profits.

In total these discretionary margins amounted to R3 252.4 million (2015: R2 553.3 million). The large increase in the discretionary margins is mainly due to growth in the business and model improvements made for a book of relatively complex individual life business.

7. Statutory Capital Adequacy Requirements

The Capital Adequacy Requirement (CAR) is calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of actual future experience departing from the assumptions made in calculating the policyholder liabilities and against fluctuations in the value of assets. The level of departure or fluctuation allowed for is as required by the Long-term Insurance Act, 1998. The CAR is calculated as the greater of:

- R10m minimum capital requirement,
- CAR formula as per Standard of Actuarial Practice 104, which sets out 2 bases for calculation:
  - The Termination CAR (TCAR) which allows for the impact of all policies with positive surrender or lapse strains being cancelled
  - The Ordinary CAR (OCAR) which allows for a variety of stress test scenarios covering investment, mortality, morbidity, medical, assumption, expense, credit and operational risk.
- 13 weeks' operating expenses.
- 0.3% of gross contingent policyholder liabilities.

As at the valuation date the total CAR is R436.0 million (2015: R195.7 million). Due to the ring-fencing methodology employed by Guardrisk the total CAR is based on the sum of the following:

- For the promoter business it is based on TCAR, since this exceeds the OCAR for this business. For 2015 the CAR for this part of the business was based on the OCAR.

Statutory Capital Adequacy Requirements (continued)

- For all other business it is based on the OCAR, as was the case in 2015, since this exceeds the other requirements.

The excess of assets over liabilities, on the Statutory Basis, is sufficient to cover the CAR 1.9 times (2015: 2.6 times).

The following assumptions were used to calculate the OCAR:
For the resilience CAR component, the following fall in assets has been assumed:

Equities	30%
Property	15%

Fixed interest Impact of 25% relative increase/decrease to maturity by factor of 25% of real yield to maturity.

We have allowed for the effect of retrenchment, credit and operational risk.

The assets backing the CAR are generally invested in short-term money market instruments, with top quality credit taking counterparties, with some part of the CAR also being backed by equity and property.

The following are the assumptions that are used in calculating the CAR.

- It is assumed that the BSRs and PSRs can be used to offset various CAR items. The BSR and PSR remaining after the removal of the fluctuation CAR items are used to absorb a fall in market values. In addition, where necessary, further management action is assumed, as future bonuses will be under-declared over the next three years, resulting in negative BSRs being allowed in the CAR calculations. Due to claim limitation clauses on first party cells Guardrisk also assumes negative PSRs in the CAR calculations, effectively allowing it to restrict claim payments from the cell. These actions reduced the CAR by R193.7 million (2015: R170.7 million).
- For a specific book of individual life business it is assumed that fees payable to cell owners will be waived when the cell's solvency reduces to a pre-determined level. This reduced the CAR by R7.3 million (2015: R7.5 million).

I have been informed that the off-setting management actions described above have been approved by specific resolutions by the board of directors. We are satisfied that these actions will be taken if the corresponding risks were to materialise.

8. Individual cell surpluses

The surplus of any cell is not available to meet the solvency requirements (including capital adequacy requirement) of other cells. An alternative measure of the extent to which the CAR is covered can be obtained by excluding the excess of assets over liabilities (after capital adequacy requirements), for all cells where this surplus is positive, from the total excess of assets over liabilities shown in the actuarial balance sheet. The total of these surpluses amounted to R295.3 million (2015: R270.5 million) at the valuation date. Excluding these surpluses from the excess of assets over liabilities in the actuarial balance sheet results in the CAR being covered 1.2 times (2015: 1.2 times).

9. Material changes in valuation basis since previous report

The valuation methodology was updated for a number of cells and these changes increased earnings on the Statutory Basis by R0.1 million (2015: reduced earnings by R12.1 million).

The investment return and bonus rate assumptions were updated over the year, in line with changes in market yields observed in the market. The assumed expense inflation rate was updated in line with the gap between yields on fixed interest and index-linked government bonds. The combined impact of these economic assumption changes was to increase earnings by R16.3 million (2015: reduced earnings of R10.1 million).

For the majority of business lines there is insufficient experience to enable an investigation into actual experience and assumptions have thus been left unchanged.

10. Reconciliation with Statement of Comprehensive Income on Statutory Valuation Method

	2016 R'000	15 months 2015 R'000
Excess Assets as at end of reporting period – SVM	**838 950**	499 059
Less Excess Assets as at start of reporting period – SVM	**499 059**	301 175
Increase in excess of assets over liabilities	**339 891**	197 884
Less increase in share capital during the year	**312 149**	77 840
Plus increase in disallowed software assets	**2 966**	1 609
Plus dividend paid and provided during the year	**307 212**	459 040
Earnings for the year - SVM	**337 920**	580 693
Plus IFRS adjustments	**(301 531)**	(540 171)
Earnings for the year on Published Basis	**36 388**	40 522

11. Analysis of Earnings on the Statutory Valuation Method

Investment income on free assets	**56 643**	43 003
Capital appreciation on free assets	**2 045**	1 990
New business profit	**(53 708)**	22 598
Changes to valuation margins	**(13 886)**	-
Changes to valuation basis and assumptions	**16 884**	(10 065)
Changes to methodology	**(1 304)**	(12 118)
Balance of earnings for the year	**331 246**	535 284
Total	**337 920**	580 693

The items are shown gross of corporate fund tax with tax being included in the balance of earnings of the year.

The balance of earnings in the above table is mainly due to underwriting profits on the most profitable cells, as well as profits from cells that were created during the year.

12. Alterations, notes and qualifications

The actuarial assumptions will be reviewed from time to time to reflect changes in experience and/or expectations.

DIRECTORS' REPORT
for the year ended 30 June 2016

The directors present their report which forms part of the annual financial statements of Guardrisk Life Limited for the year ended 30 June 2016.

Nature of business

The company was South Africa's first cell captive long-term insurer. The company is licensed to underwrite assistance, disability, fund, health, life policies and sinking fund policies (i.e. endowments), primarily as a cell captive and alternative risk transfer insurer.

The company primarily offers the following structured insurance and risk financing solutions:

Cell captive: A cell captive is a contractual arrangement entered into between the insurer and the cell owner whereby the risks and rewards associated with certain insurance activities accrue to the cell owner. Cell captives allow clients to purchase cell owner ordinary shares (or a "cell") in the registered insurance company which undertakes the professional insurance and financial management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analyses and investment and accounting services. The terms and conditions of the cell are governed by the cell owner shareholders agreement.

There are currently two distinct types of cell captive arrangements being:
- *"First party"* where the risks that are being insured relate to the cell owner's own operations or operations within the cell owner's group of companies; and
- *"Third party"* where the cell owner provides the opportunity to its own client base to purchase branded insurance products. The company is the principal to the insurance contact, although the business is underwritten on behalf of the cell owner.

GUARDRISK LIFE LIMITED

DIRECTORS' REPORT
for the year ended 30 June 2016

Review of the business

Both the level of business development and the overall financial position at the end of the year were satisfactory and the directors expect that the present level of insurance activity will continue for the foreseeable future. The company's results are set out in the statement of comprehensive income on page 60.

Key figures have been highlighted below:

	2016 R' 000	2015 R' 000
Total assets	**6 816 376**	5 655 009
Gross premium written - insurance contracts	**2 626 081**	2 366 435
Funds received from first party cell owners	**1 197 305**	447 464
Investment return	**229 874**	423 495
Profit before tax	**45 203**	56 215

Gross premium income increase of 11% in the income statement was as a result of an increase in third party business, new business as well as growth in existing business. Policyholder benefits and claims, net of reinsurance, increased by 614% due to increased third party business and a decrease in the amount of business reinsured.

Share capital

The authorised share capital remained unchanged during the year. Details of changes in the issued ordinary share capital and cell owner ordinary share capital are provided in note 7 to the financial statements. Changes are due to additional capital contributions by the ordinary shareholder, as well as new cells being opened or buy-backs when cells are closed.

Subsequent events review

There have been no major events subsequent to year-end.

Holding company

The company which is incorporated in South Africa is controlled by Guardrisk Group Proprietary Limited (also incorporated in South Africa) which owns 100% of the company's ordinary shares. Consolidated financial statements have not been prepared as the company is a wholly-owned subsidiary of Guardrisk Group Proprietary Limited and the ultimate holding company prepares consolidated accounts under IFRS, which are publically available. The ultimate holding company, MMI Holdings Limited prepares consolidated financial statements in terms of IFRS.

Consolidated financial statements have not been prepared as the company is a wholly-owned subsidiary of Guardrisk Group Propriety Limited and the ultimate holding company prepares consolidated accounts under IFRS, which are publicly available.

Dividends	**2016**	**2015**
	R	**R**
Dividends to ordinary shareholder	-	6 000 000
Dividends to cell owner ordinary shareholders	**307 211 649**	453 039 772

Details of dividends to cell owner ordinary shareholders

	2016
	R
Declared and paid to 00031 "L" ordinary shareholder on 19 August 2015	**1 799 000**
Declared and paid to 00090 "L" ordinary shareholder on 24 August 2015	**9 228 000**
Declared and paid to 00085 "L" ordinary shareholder on 02 September 2015	**6 625 000**
Declared and paid to 00069 "L" ordinary shareholder on 28 September 2015	**3 434 000**
Declared and paid to 00051 "L" ordinary shareholder on 29 September 2015	**1 967 990**
Declared and paid to 00094 "L" ordinary shareholder on 30 September 2015	**1 643 000**
Declared and paid to 00078 "L" ordinary shareholder on 30 September 2015	**19 611 000**
Declared and paid to 00029 "L" ordinary shareholder on 09 October 2015	**7 858 000**
Declared and paid to 00031 "L" ordinary shareholder on 29 October 2015	**2 003 000**
Declared and paid to 00109 "L" ordinary shareholder on 02 November 2015	**1 022 000**
Declared and paid to 00085 "L" ordinary shareholder on 30 November 2015	**6 411 000**
Declared and paid to 00089 "L" ordinary shareholder on 30 November 2015	**1 000 000**
Declared and paid to 00094 "L" ordinary shareholder on 30 November 2015	**227 000**
Declared and paid to 00033 "L" ordinary shareholder on 11 December 2015	**60 689 000**
Declared and paid to 00078 "L" ordinary shareholder on 11 December 2015	**10 088 000**
Declared and paid to 00107 "L" ordinary shareholder on 14 December 2015	**600 000**
Declared and paid to 00029 "L" ordinary shareholder on 27 January 2016	**634 000**
Declared and paid to 00090 "L" ordinary shareholder on 28 January 2016	**5 000 000**
Declared and paid to 00003 "L" ordinary shareholder on 11 February 2016	**695 000**
Declared and paid to 00098 "L" ordinary shareholder on 11 February 2016	**1 300 000**
Declared and paid to 00031 "L" ordinary shareholder on 22 February 2016	**1 325 000**
Declared and paid to 00068 "L" ordinary shareholder on 22 February 2016	**4 060 000**
Declared and paid to 00085 "L" ordinary shareholder on 29 February 2016	**7 331 000**
Declared and paid to 00097 "L" ordinary shareholder on 08 March 2016	**1 000 000**
Declared and paid to 00048 "L" ordinary shareholder on 17 March 2016	**107 000 000**
Declared and paid to 00078 "L" ordinary shareholder on 23 March 2016	**9 551 000**
Declared and paid to 00098 "L" ordinary shareholder on 24 March 2016	**2 000 000**
Declared and paid to 00094 "L" ordinary shareholder on 24 March 2016	**446 000**
Declared and paid to 00111 "L" ordinary shareholder on 24 March 2016	**1 800 000**
Declared and paid to 00071 "L" ordinary shareholder on 06 May 2016	**10 000 000**
Declared and paid to 00098 "L" ordinary shareholder on 11 May 2016	**71 659**
Declared and paid to 00031 "L" ordinary shareholder on 12 May 2016	**1 842 000**
Declared and paid to 00109 "L" ordinary shareholder on 25 May 2016	**4 647 000**
Declared and paid to 00085 "L" ordinary shareholder on 31 May 2016	**5 912 000**

GUARDRISK LIFE LIMITED

DIRECTORS' REPORT
for the year ended 30 June 2016

Details of dividends to cell owner ordinary shareholders (continued)

Declared and paid to 00078 "L" ordinary shareholder on 20 June 2016	**8 391 000**
	307 211 649

Directors and secretary
The directors of the company at the date of this report are:

Independent Directors
MH Zilimbola * #
D Konar *

Non-executive Directors
NAS Kruger (Chairman)
EC De Waal
DJ Botes

Executive Directors
SH Schoeman (Managing Director) □ # ▪
LJ Botha □ # ▪
FC Schaap
MZ Sibanda □ ▪

* *Audit Committee Member*
□ *Audit Committee Attendee*
Investment Committee Member
▪ *Risk Committee Member*

Registered office and postal address

Physical office:
Third Floor, 102 Rivonia Road
Sandton
2196

Postal address:
P O Box 786015
Sandton
2146

Company secretary
M Chetty

Public officer
LJ Botha CA(SA), ACMA

Auditors
PricewaterhouseCoopers Inc will remain in office in accordance with section 90(1) of the Companies Act.

GUARDRISK LIFE LIMITED

ACCOUNTING POLICIES
for the year ended 30 June 2016

BASIS OF PREPARATION OF THE STATEMENTS

The financial statements, as set out below, have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements, the SAICA Financial Reporting Guides (as issued by the Accounting Practices Committee), Financial Pronouncements (as issued by the Financial Reporting Standards Committee) and the Companies Act, 71 of 2008. These statements have been prepared on the historical cost basis, except for the following items which are carried at fair value or valued using another measurement basis:

Fair value

- financial assets designated at fair value through income, derivative financial assets and available-for-sale financial assets;
- investment contract liabilities designated at fair value through income, financial liabilities designated at fair value through income and derivative financial liabilities.

Other measurement basis

- insurance contracts, investment contracts with discretionary participation features (DPF) and reinsurance contracts valued using the *financial soundness valuation* basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. There are areas of complexity involving a higher degree of judgement and areas where assumptions and estimates are significant to the financial statements. These judgements, assumptions and estimates are disclosed in detail in the notes to the annual financial statements.

Published standards, amendments and interpretations effective for 2016 financial period
There were no new published standards or amendments to standards and interpretations that became effective in the current financial period.

Improvements project amendments
There were no new published standards or amendments to standards and interpretations that became effective in the in the current period.

Standards, amendments to and interpretations of published standards that are not yet effective and have not been early adopted by the company

- IFRS 10, IFRS 12 and IAS 28 Investment entities (Amendments) - Applying the consolidation exception (effective from annual periods beginning on or after 1 January 2016).
- IFRS 11 (Amendments) - Accounting for an acquisition of an interest in a joint operation that constitutes a business (effective from annual periods beginning on or after 1 January 2016).
- IAS 1 (Amendments) - Disclosure initiative (effective from annual periods beginning on or after 1 January 2016).
- IAS 16 and IAS 38 (Amendments) - Clarification of acceptable methods of depreciation and amortisation (effective from annual periods beginning on or after 1 January 2016).
- IAS 27 (Amendment) - Equity method in separate financial statements (effective from annual periods beginning on or after 1 January 2016).
- IAS 7 (Amendment) - Cash flow statements disclosure initiative (effective from annual periods beginning on or after 1 January 2017).
- IAS 12 (Amendment) - Clarification of recognition of deferred tax assets for unrealised losses (effective from annual periods beginning on or after 1 January 2017).
- IFRS 15 - Revenue from contracts with customers (effective from annual periods beginning on or after 1 January 2018).
- IFRS 9 - Financial instruments (effective from annual periods beginning on or after 1 January 2018).
- IFRS 2 (Amendment) - Classification and measurement of share-based payment transactions (effective from annual periods beginning on or after 1 January 2018).
- IFRS 16 Leases - Replacing IAS 17 (effective from annual periods beginning on or after 1 January 2019).
- IFRS 10 and IAS 28 (Amendments) - Sale or contribution of assets between an investor and its associate or joint venture (postponed but was initially effective from annual periods beginning on or after 1 January 2016.

Management is currently assessing the impact of these amendments and improvements but it is not expected to have a material impact on the company's financial statements.

Improvements project amendments

- IFRS 5 - Non-current assets held for sale and discontinued operations (effective from annual periods beginning on or after 1 January 2016).
- IFRS 7 - Financial instruments: disclosures (effective from annual periods beginning on or after 1 January 2016).
- IAS 19 - Employee benefits (effective from annual periods beginning on or after 1 January 2016).
- IAS 34 - Interim financial reporting (effective from annual periods beginning on or after 1 January 2016).

Management is currently assessing the impact of these improvements, but it is not expected to be significant.

ACCOUNTING FOR INSURANCE AND RISK FINANCING ARRANGEMENTS

The company offers the following structured insurance and risk financing solutions:
Cell captive: A cell captive is a contractual arrangement entered into between the insurer and the cell shareholder whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase cell owner ordinary shares (or a "cell") in the registered insurance company which undertakes the professional insurance and financial management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analyses, investment and accounting services. The terms and conditions of the cell are governed by the cell owner shareholders agreement.

Under IFRS 10 - Consolidated Financial Statements, cell arrangements issued and entered into by Guardrisk Life Limited are not deemed to be separate entities. Cell captive arrangements are governed by contractual arrangements which provide for the separation of funds and limitation on cross-subsidisation between cells. To the extent that the legal enforceability of the ring-fenced nature of the assets and liabilities of each cell upon liquidation is not conclusive, the cell arrangements are not deemed to be separate entities in terms of IFRS 10.

There are currently two distinct types of cell captive arrangements being:
First party cell arrangements
Where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies.
Third party cell arrangements
The cell shareholder provides the opportunity to its own client base to purchase branded insurance products.

First party cell arrangements meet the definition of financial liabilities measured at fair value and are therefore accounted for in line with IAS 39. For these contracts, deposit accounting is applied which entails not recognizing premiums and claims relating to these contracts in the company's Statement of Comprehensive Income. Expenses are also not recognized as the company acts as agent on behalf of the cell owner.

For third party arrangements the cell shareholders agreement meets the definition of a reinsurance contract and is accounted for as such.

All agreements for services provided in respect of third party arrangements are transacted between the company and the third party. All transactions with third parties and policyholders are recorded in the statement of comprehensive income, with the third party cell owner being a reinsurer of the cell.

The impact of the application of this on the company's financial statements is that the results of the cell captive arrangements have no impact on the company's profit or loss.

Contingency/rent-a-captive: An insurance contract to provide entry-level insurance cover for first party risks. These policies provide for payment of a performance bonus to the insured based on claims experience and related expenses at the end of the policy period.

The company's Statement of Comprehensive Income therefore includes several income and expense items related to insurance business written through cell arrangements, and in particular those relating to third party cells.

The Statement of Financial Position also recognises assets and liabilities relating to all cell captive arrangements. Because the assets are owned by the company, the income and expenses relating to these assets are recognised in full in the Statement of Comprehensive Income. Where the risk and reward of these transactions relate to cell business, the transactions are transferred or recovered from cell owners for both first and third party cells to ensure that they do not impact on the company's net results.

ACCOUNTING FOR INSURANCE AND RISK FINANCING ARRANGEMENTS (CONTINUED)

Recognition and measurement

Below is a summary of the way in which these arrangements are recognised as financial instruments or as insurance contracts in the financial statements:

Recognition and measurement		Financial Instruments	Insurance Contracts	
		1st party cell arrangements A	3st party cell arrangements B	Other C
1.	Insurance premium revenue	Excluded	Included	Included
2.	Insurance premium ceded to reinsurers	Excluded D	Included	Included
3.	Commission and profit commission revenue	Excluded D	Included	Included
4.	Contract management fee	Included	Excluded D	N/A
5.	Fair value gains on assets at fair value through profit or loss	Included	Included	N/A
6.	Investment income	Included	Included	Included
7.	Insurance claims incurred	Excluded	Included	Included
8.	Insurance claims recovered from reinsurers	Excluded	Included	Included
9.	Acquisition expenses	Excluded D	Included	Included
10.	Operating expenses	Excluded D	Included	Included
11.	Other income	Excluded D	Included	Included
12.	Changes to policyholder liabilities under insurance contracts	Excluded	Included	Included
13.	Fair value adjustment to financial liabilities held at fair value through profit or loss	Included	Included	N/A
14.	Other assets	Included	Included	Included
15.	Premium debtors	N/A	Included	Included
16.	Other receivables	Included	Included	Included
17.	Reinsurance receivables	Included	Included	Included
18.	Reinsurance payables	Included	Included	Included
19.	Insurance liabilities	Excluded	Included	Included
20.	Other liabilities	Included	Included	Included

A. These contracts meet the definition of a financial instrument and not an insurance contract and are classified as financial liabilities at fair value through profit or loss, on the statement of financial position.
B. These contracts meet the definition of insurance contracts.
C. Other includes contingency/rent-a-captive policies and policies where the company accepts insurance and reinsurance inwards risks directly.
D. Guardrisk acts as agent for these transactions.

LONG-TERM INSURANCE AND INVESTMENT CONTRACTS

The contracts issued by the company transfer insurance risk, financial risk or both. As a result of the different risks transferred by contracts, contracts are divided into investment and insurance contracts for the purposes of valuation and profit recognition. Insurance contracts are those contracts that transfer significant insurance risk to the company, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime.

Classification of contracts

Investment contracts

Investment contracts are those where only financial risk is transferred.
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, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Insurance contracts

Insurance contracts are those under which the company accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.
Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance risk is significant if an insured event could cause an insurer to pay benefits (net of accumulated income and account balances) on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.
Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Contracts with discretionary participation features

The company issues insurance and investment contracts containing discretionary participation features (DPF). These contracts are smoothed bonus and conventional with-profit business. All contracts with DPF are accounted for in the same manner as insurance contracts. Where a contract has both investment with DPF and investment components, the policy is classified as investment with DPF.

Insurance contracts and investment contracts with DPF

Measurement

The liabilities relating to insurance contracts and investment contracts with DPF are measured in accordance with the financial soundness valuation (FSV) basis as set out in SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. The FSV basis is based on the best estimate assumptions regarding future experience plus compulsory margins and additional discretionary margins for prudence and deferral of profit emergence.
Assumptions used in the valuation basis are reviewed at least annually and any changes in estimates are reflected in the income statement as they occur.
The valuation bases used for the major classes of contract liabilities before the addition of the margins described under the heading of compulsory and discretionary margins below were as follows:

- For with-profit annuity business, the liability is taken as the discounted value of projected future benefit payments and expenses. Future bonuses are provided for at bonus rates supported by the assumed future investment return.

LONG-TERM INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

Insurance contracts and investment contracts with DPF (Continued)

Measurement (Continued)

• For group risk business, liabilities are held to reflect claims incurred but not reported (IBNR).

• For conventional non-profit business, including non-profit annuities and guaranteed endowment business, the liability is taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.

• Provision is made for the estimated cost of IBNR claims for all relevant classes of business as at the reporting date. IBNR provisions are calculated using run-off triangle methods or else as percentages of premium, based on historical experience. Outstanding reported claims are disclosed in other payables.

Where contract holders are entitled to a partial surrender in respect of certain policies, any partial surrender is recorded as a surrender claim in the income statement and the contract holder liability is therefore reduced.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit compulsory margins as required by SAP 104 – Calculation of the value of the assets, liabilities and capital adequacy requirement of long-term insurers. Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design, and in line with the risks borne by the company.

The main discretionary margins utilised in the valuation are as follows:

• Additional bonus stabilisation accounts are held to provide an additional layer of protection for policyholders against the risk of a reduction in future bonuses caused by fluctuations in the values of assets backing the with-profit liabilities. This liability is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions.

• An additional margin is held to reduce the risk of future losses caused by the impact of market fluctuations on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the value of assets backing guaranteed liabilities.

• Additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the company

• Future profits from voluntary group risk business are not recognised until they are earned.

• Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the reporting date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio. Explicit liabilities are set aside for expected credit losses to avoid a reduction in liabilities caused by capitalisation of credit spreads.

LONG-TERM INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

Liability adequacy test
The FSV methodology meets the requirements of the liability adequacy test in terms of IFRS 4 – Insurance contracts. However, at each reporting date the adequacy of the insurance liabilities is assessed to confirm that, in aggregate for each insurance portfolio, the carrying amount of the insurance liabilities, measured in accordance with the FSV basis, less any related intangible asset and present Value of Business Acquired (VOBA), is adequate in relation to the best-estimate future cash flow liabilities. Best-estimate liabilities are based on best-estimate assumptions in accordance with the FSV basis, but excluding compulsory margins as described in SAP 104 as well as all discretionary margins. If the liabilities prove to be inadequate, any VOBA or other related intangible asset is written off and any further deficiency is recognised in the income statement.

Reinsurance contracts
Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the company is entitled under reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each contract.

The company also has financial reinsurance agreements with registered reinsurers, whereby the reinsurer provides upfront funding to cells, with the cells then repaying this funding in an agreed manner subject to the underlying policyholder contracts remaining in-force. The liabilities associated with these repayments are disclosed as part of liabilities under reinsurance agreements and are valued consistently with the discounted cash flow approach for insurance contract liabilities that is outlined above.

Impairment of reinsurance assets
If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The impairment loss is calculated using the same method as that adopted for loans and receivables.

Insurance premiums
Insurance premiums and annuity considerations receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Where annual premiums are paid in instalments, the outstanding balance of these premiums is recognised when due. Receivables arising from insurance and investment contracts with DPF are recognised under insurance and other receivables.

Reinsurance premiums
Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims
Insurance benefits and claims relating to insurance contracts and investment contracts with DPF include death, disability, retrenchment, maturity, annuity and surrender payments and are recognised in the income statement based on the estimated liability for compensation owed to the contract holder. Death, disability, retrenchment and surrender claims are recognised when incurred. These claims also include claim events that occurred before the reporting date but have not been fully processed. Claims in the process of settlement are recognised in other payables in the statement of financial position. Maturity and annuity claims are recognised when they are due for payment. Outstanding claims are recognised in accounts payable.

LONG-TERM INSURANCE AND INVESTMENT CONTRACTS (CONTINUED)

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

Acquisition costs
Acquisition costs, disclosed as sales remuneration, consist of commission payable on insurance contracts and investment contracts with DPF and expenses directly related thereto (including bonuses payable to sales staff and the company's contribution to their retirement and medical aid funds). These costs are expensed when incurred. The FSV basis makes implicit allowance for the recoupment of acquisition costs; therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

Investment contracts
The company designates investment contract liabilities at fair value through income upon initial recognition as their fair value is dependent on the fair value of underlying financial assets, derivatives and/or investment properties that are designated at inception as fair value through income. The company follows this approach because it eliminates or significantly reduces a measurement or recognition inconsistency, referred to as an accounting mismatch, which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Measurement
The company issues investment contracts without fixed terms, contracts with fixed terms and guaranteed terms.
Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through income.
For investment contracts, other than those with fixed and guaranteed terms, fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the company's unitised investment funds linked to the related financial liability, multiplied by the number of units attributed to the contract holders at the valuation date.
A financial liability is recognised in the statement of financial position when, and only when, the company becomes party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value.
The fair value of financial liabilities is never less than the amount payable on surrender, discounted for the required notice period, where applicable.
For investment contracts with fixed and guaranteed terms (guaranteed endowments and term certain annuities), valuation techniques are used to establish the fair value at inception and at each reporting date. The valuation model values the liabilities as the present value of the maturity values, using appropriate market-related yields to maturity. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This deferred profit liability is recognised in profit or loss over the life of the contract based on factors relevant to a market participant, including the passing of time.

Amounts received and claims incurred
Premiums received under investment contracts are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The company's financial statements are presented in South African Rand, which is also the company's functional and presentation currency.

EQUIPMENT

Equipment is stated at historic cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the company and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to profit or loss when incurred.

Depreciation on equipment is calculated using the straight-line method to allocate their cost to their residual value over their estimated useful life. The expected useful lives applied are:

Furniture and fittings	5 years
Office equipment	3 years
Computer equipment	3 years

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. The carrying amounts of equipment are reviewed on an annual basis. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is recognised in profit or loss.

INTANGIBLE ASSETS

Value of in-force business acquired

On acquisition of a portfolio of insurance or investment with DPF contracts, the company recognises an intangible asset representing the value of in-force business acquired (VOBA). VOBA represents the present value of future pre-tax profits embedded in the acquired insurance or investment with DPF contract business. The VOBA is recognised gross of tax, with the deferred tax liability accounted for separately in the statement of financial position.

Measurement

The fair value calculation of VOBA on acquisition is based on actuarial principles that take into account future premium and fee income, claims outgo, mortality, morbidity and persistency probabilities together with future costs and investment returns on the underlying assets. The profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. This calculation is particularly sensitive to the assumptions regarding discount rate, future investment returns and the rate at which policies discontinue.
The asset is subsequently amortised over the expected life of the contracts as the profits of the related contracts emerge.

Impairment

VOBA is reviewed for impairment losses through the liability adequacy test and written down for impairment if necessary.

INTANGIBLE ASSETS (CONTINUED)

Computer software

Recognition and measurement

Acquired computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected *useful life* of three to 10 years, which is assessed annually using the straight-line method.

Internally developed computer software

Costs directly associated with developing software for internal use are capitalised if the completion of the software development is technically feasible, the company has the intent and ability to complete the development and use the asset, the asset can be reliably measured and will generate future economic benefits. Directly associated costs include employee costs of the development team and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their useful lives, up to 10 years, using the straight-line method.

Costs associated with research or maintaining computer software programmes are recognised as an expense as incurred.

Impairment

Computer software not ready to use is tested for impairment annually. Computer software in use is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the fair value less cost to sell and the value in use.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment at each reporting date. 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. Such indicators include changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds it recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. An impairment loss is recognised as a capital loss in profit or loss immediately unless the relevant asset is carried at a revalued amount, in which case the impairment charge is treated as a revaluation decrease.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. If the relevant asset is carried at a revalued amount, the reversal of the impairment loss is treated as a revaluation increase.

FINANCIAL ASSETS

Recognition and measurement

The company classifies its financial assets into the following categories:
• financial assets at fair value through profit or loss, including derivative financial instruments
• loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

• Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading at inception if it is acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading, unless they are designated as hedges.

Financial assets are designated at fair value through profit or loss at inception if they are:
- held to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets, thereby eliminating or significantly reducing an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases;
- managed, with their performance being evaluated on a fair value basis, in accordance with portfolio mandates that specify the investment strategy; or
- significant embedded derivatives that clearly require bifurcation.

These assets are initially recognised at fair value and transaction costs directly attributable to acquiring them are expensed in the income statement in net realised and fair value gains. Subsequent fair value adjustments are recognised in the income statement.

• Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as held for trading and those designated at fair value through income or available-for-sale assets.

FINANCIAL ASSETS (CONTINUED)

Recognition and measurement

A financial asset is recognised in the statement of financial position when, and only when, the company becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets are recognised on trade date, being the date on which the company commits to purchase or sell the financial assets. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Financial assets at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are recognised initially at fair value and subsequently carried at amortised cost, using the *effective interest rate method* less provision for impairment.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. Collective investments are valued at their repurchase price. For unlisted equity and debt securities, unquoted unit-linked investments and financial assets where the market is not active, the company establishes fair value by using valuation techniques. These include discounted cash flow analysis and adjusted price earnings ratios. Unquoted securities are valued at the end of every reporting period.

IMPAIRMENT OF FINANCIAL ASSETS

Equity investments

At each reporting date the company assesses whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost in the case of equity investments classified as available-for-sale. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit and loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments recognised in the income statement are not subsequently reversed in the income statement.

Debt securities

For debt securities, the company uses the criteria referred to under loans and receivables below. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment is reversed through the income statement.

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

• Loans and receivables

A provision for loans and receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the assets concerned. 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 original effective interest rate. The movement in the current year provision is recognised in the income statement.

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 loss was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

Derecognition of financial instruments

Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or has been transferred, and the company has transferred substantially all risks and rewards of ownership. The company also derecognises a financial asset when the company retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Realised and unrealised gains and losses

Financial instruments at fair value through profit or loss

Realised and unrealised gains and losses arising from changes in the value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise. Interest and dividend income arising on financial assets are disclosed separately under fair value gains and losses on financial assets at fair value through profit or loss on the statement of comprehensive income.

Offsetting

Financial assets and liabilities are set off and the net balance reported in the statement of financial position where there is a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability is the same, and where the financial asset and liability are denominated in the same currency.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at cost, which approximates fair value. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of change in value. Bank balances held to meet short-term cash commitments are included in funds on deposit and other money market instruments with a maturity of three months or less. Operating bank balances are included in bank and other cash balances.

FINANCIAL LIABILITIES

The company classifies its financial liabilities into the following categories:

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities at amortised cost.

The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities at initial recognition.

Financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, net of transaction costs incurred in the case of financial liabilities not at fair value through profit or loss

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial liability is designated as fair value through profit or loss because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the liability or recognising the gains or losses on it on different bases, or a group of financial liabilities is linked to a group of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the company is provided internally on that basis to key management personnel.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss.

FINANCIAL LIABILITIES AT AMORTISED COST

Financial liabilities are initially recognised at the fair value net of transaction costs incurred. These are then subsequently carried at amortised cost; using the effective interest rate method.

AMOUNTS DUE TO CELLS

The amounts due to cells represent the cells' funds in respect of the insurance arrangements conducted in cell structures. The premiums and claims payments relating to contracts in first party cells have been excluded from profit or loss and accounted for directly as part of the liability. These amounts meet the definition of a financial liability in terms of IAS 39. The premium and claims payments relating to contracts in third party cells have been included in profit or loss but as the third party cell is the reinsurer the net result is accounted for as part of the liability.

The amounts due to cells is the consideration received for cell owner ordinary shares plus the accumulated funds in respect of business conducted in the cells plus the investment return allocated to the surplus funds in the cells, which is determined in accordance with the investment mandate with the cell.

Financial liabilities are derecognised when they are legally extinguished.

PROVISIONS

Provisions are recognised when, as a result of past events, the company has a present legal or constructive obligation of uncertain timing or amount, and 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.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

Onerous contracts

The company recognises a provision for an onerous contract, except on insurance contracts, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

DEFERRED INCOME TAX

Measurement

Deferred income tax is provided for in full, at current tax rates and in terms of laws substantively enacted at the reporting date (and is expected to apply when realised or settled) in respect of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method. However, 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. Deferred tax assets, including tax on capital gains, are recognised for tax losses and unused tax credits and are carried forward only to the extent that realisation of the related future tax benefit is probable.

Deferred tax related to fair value re-measurement of available-for-sale financial assets and cash flow hedges, which are included in other comprehensive income, is also included in other comprehensive income and is subsequently recognised in the income statement when there is a realised gain or loss.

DEFERRED INCOME TAX (CONTINUED)

Offsetting

Deferred tax assets and liabilities are set off when the income tax relates to the same fiscal authority and where there is a legal right of offset at settlement in the same taxable entity.

CURRENT TAXATION

Measurement

Current tax is provided for at the amount expected to be paid, using the tax rates and in respect of laws that have been substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Individual policyholder tax and corporate policyholder tax is included in tax on contract holder funds in the income statement.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend, unless they are exempt in terms of the amended tax law. DWT is levied at 15% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not by the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

Securities transfer tax (STT)

STT is levied in respect of the cancellation or transfer of any share issued by the company. STT is levied at the rate of 0.25%.

SHARE CAPITAL

Share capital is classified as equity where the company has no obligation to deliver cash or other assets to shareholders. Ordinary shares with discretionary dividends are classified as equity.

Issued cell owner ordinary share capital is included in the financial liabilities or insurance contracts at fair value through profit or loss.

DIVIDENDS PAID

Dividends paid to shareholders of the company are recognised on declaration date.

Dividends distributed to cell owner ordinary shareholders are included as a deduction from the financial liabilities or insurance contracts at fair value through profit or loss, in the period in which they are declared.

EMPLOYEE BENEFITS

Provident fund obligations

The company provides a defined contribution provident scheme. The scheme is funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

A defined contribution scheme is a fund under which the company pays fixed contributions into a separate entity. Each member's fund value is directly linked to the contributions and the related investment returns. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The company's contributions are charged to the income statement when incurred.

Bonus plans

The company pays performance bonuses to senior employees of the company and thirteenth cheque bonuses to certain staff members. Performance bonuses are based on certain objectives, taking into account past business experience and future strategic issues, agreed upon by the board of directors of the holding company. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Leave pay liability

The company recognises a liability for the amount of accumulated leave if the company has a present or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Cash-settled compensation plans

The company recognises the value of the services received (expense), and the liability to pay for those services, as the employees render service. The liability is measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market-related vesting conditions. Non-market-related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at every reporting date. The impact of the revision of original estimates, if any, is recognised in the statement of comprehensive income, and a corresponding adjustment is made to the liability.

Compensation plans valued on the projected unit credit method

The company has certain MMI schemes in place whereby employees are rewarded based on something other than the shares and related share price of the holding company. In some instances the company recognises a liability that has been measured with reference to the applicable embedded value of a subsidiary company, and that will be used to settle the liability with the employees. The liability in these cases is measured using the projected unit credit method. Any change in the liability is charged to the statement of comprehensive income over the vesting period.

ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
for the year ended 30 June 2016

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

INSURANCE CONTRACTS

The ultimate liability for claims that are incurred but not reported (IBNR)

The estimation of the ultimate liability for claims that are incurred but not reported is a key accounting estimate.

For the contracts where an IBNR is held, the IBNR liability is calculated with reference to the monthly premiums payable on the contracts rather than by reference to the experience of the individual contract types, due to the relatively small number of claims in each type.

Long-term and short-term life insurance contracts

Process used to decide on assumptions

For all insurance contracts, best-estimate assumptions as to mortality, persistency, maintenance expenses and investment income are used that may vary at each reporting date. The compulsory margins, which are applicable to the company and margin for adverse deviations is included in the assumptions.

As a result, the effect of changes in the underlying variables on insurance liabilities and related assets shown below is symmetrical. Improvements in estimates have a positive impact on the value of the liabilities and related assets, while deteriorations in estimates have a negative impact.

Assumptions are considered to be 'best estimate' if, on average, the results are expected to be worse than the assumptions in 50% of possible scenarios and better in the other 50%.

The assumptions used for the insurance contracts covered by this note are as follows:

Mortality

The determination of the liabilities under long-term insurance is dependent on estimates made by the company. Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience. For contracts that pay annuity benefits to pensioners, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the amount of the premiums. In both cases, the company will increase the liability by applying compulsory margins for adverse experience, the minimum level of which is laid down by statute.

An appropriate base table of standard mortality is chosen depending on the type of contract. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the annual mortality investigations performed by independent actuarial bodies.

INSURANCE CONTRACTS (CONTINUED)

Long-term and short-term life insurance contracts (continued)

Morbidity

The rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the company's own experience.

Persistency

For contracts with fixed and guaranteed terms, assumptions are made as to appropriate persistency rates, but the high profitability nature of the business is such that variations in persistency do not represent a significant risk factor.

FINANCIAL INSTRUMENTS

Fair value of market-linked financial contracts

The company has issued a market-linked contract that is designated as a financial asset at fair value through profit or loss. The benefit is payable with reference to the payout obtained from a contract issued by another insurer. The financial instruments underlying this second contract are quoted in active markets, and their fair values are determined by using quoted prices in the open market. This defines the value of the second contract, which, in turn, is used to define the value of the contract issued by the company.

Fair value of unquoted instruments

Fair values for unquoted equity instruments are estimated using applicable fair value models. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Where discounted cash flow techniques are used estimated future cash flows are based on management's best estimates and the discount rate is the risk free rate adjusted for credit risk relating to the instrument, at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

DEFERRED INCOME

Management fee income is earned by the company for providing an ongoing service to clients under insurance programmes. This income is brought to account on the effective commencement or renewal dates of the related insurance programmes. The company defers a portion of this income to cover the cost of managing the insurance programme, together with a reasonable profit margin thereon. The portion of income deferred varies depending on the nature of the insurance programme. Management makes assumptions in determining the amount of post-inception servicing required and these assumptions may vary between different insurance programmes. The assumptions are re-assessed at each reporting date based on actual post-inception experience and business conditions, and adjustments are made to the deferred income calculation, where necessary. The deferred income is brought into account over the insurance period on a consistent basis reflecting the pattern of the servicing activities.

ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
for the year ended 30 June 2016

PROVISIONS

Provisions are, by definition, liabilities of uncertain timing or amount. In order to establish a provision, management makes assessments of the expected amount of any future cash outflows and the estimated timing thereof. Where the effect of discounting is material, provisions payable in more than one year are discounted using pre-tax discount rates that reflect the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

TAXATION

The company is subject to income tax and has done calculations for which the ultimate tax determination may be uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax charges. Where the outcome of a transaction is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

RECEIVABLES

Receivables represent amounts owed to the company for services rendered. These balances are assessed for impairment by management, taking all objective evidence into account. The company's policy for determining the carrying amount of receivables is described in the accounting policies.

MANAGEMENT OF INSURANCE AND FINANCIAL RISK
for the year ended 30 June 2016

The objective within the company is to entrench risk management into the day to day business activities whereby each division:

- understands the risk events that may prevent it from achieving its objectives;
- has identified the risk mitigating controls in place and has assessed their efficiency; and
- has formulated a plan wherever additional action is required.

The company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the company manages these risks.

INSURANCE RISK

Risk Committee

The Risk committee considers both underwriting and counter party exposures in order to minimise risks of non-performance on portfolios as well as to clarify risk obligations with clients. The committee deals with specialised risks related to life insurance business being conducted by the company. Furthermore, the committee reviews the appropriateness and viability of major product development initiatives to confirm compliance with regulatory, legal, tax and accounting standards. Individuals with specialised industry and product knowledge are members of this Committee and are also co-opted on an ongoing basis. The committee reports directly to the Board. This committee comprises of one executive and two non-executive directors and independent specialists.

Risk Retention

The company carefully evaluates all retentions of risks in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each insurance programme. In this way security of cell insurance structures is maintained.

Risk participation with cell shareholders

The company participates with several of the cell shareholders in the underwriting risks of their business. The company carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited board mandates for each insurance programme.

Risk Management

The company's risk management programme focuses primarily on the integrity of underwriting programmes and the management of investment risk. The company's structure is examined by professional advisors to new clients, regular internal audits and independent rating programmes. Guardrisk Life subjects itself to an independent rating assessment by international rating agency, Global Credit Rating Co. A financial strength rating of AA+ (2015: AA-) was achieved.

The primary activity of the company relates to the assumption of the risk of loss from events involving persons or organisations on behalf of its cells. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the cell shareholder and ultimately the company faces under the insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amounts of claims and benefits will vary from year to year from the estimate determined using statistical techniques.

INSURANCE RISK (CONTINUED)

Risk Management (continued)

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. As each of the cell shareholders operate independently from the other, the company's total insurance risk profile is well diversified. The company has developed its marketing strategy to ensure that there is diversity in the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Terms and conditions of insurance contracts

- **Short-term life insurance contracts**
  These contracts consist of group life assurance and funeral contracts, which provide death benefits to policyholders and are normally annually renewable. These policies protect policyholders from the consequences of death or disability, which results in a large economic burden on the policyholder or his/her dependants. Fixed benefits are paid on the occurrence of the specified insurance event.

- **Long-term insurance contracts with fixed and guaranteed terms**
  These contracts insure events associated with human life (for example credit life or health insurance contracts) over a long duration.

- **Long-term insurance contracts without fixed terms**
  These contracts insure events associated with human life (for example post retirement medical aid and health insurance contracts) over a long duration.

Long-term insurance contracts

Frequency and severity of claims

For contracts where death is the insured risk, the main source of uncertainty is that epidemics such as AIDS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the company has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the company is exposed to longevity risk.

However, as a result of reinsurance programmes in place, the company's liabilities are not materially affected by variations in mortality. In addition, for contracts without fixed terms, it is assumed that the company will be able to increase mortality risk charges in future years in line with emerging mortality experience. At present, these risks do not vary significantly in relation to the location of the risk insured by the company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

INSURANCE RISK (CONTINUED)

Frequency and severity of claims (continued)

For contracts with fixed and guaranteed benefits and fixed future premiums, the risk is either reinsured to the cell or reinsurers.

The company has the right to alter the premium rates based on its mortality experience and hence minimise its exposure to mortality risk. Delays in implementing increases in rates and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The company manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the company balances death risk and survival risk across its portfolio. Medical selection is also included in the company's underwriting procedures for group contracts with sums assured in excess of agreed non-medical limits with premiums varied to reflect the health condition and family medical history of the applicant. The company's retention level varies from contract to contract. The company reinsures the excess over the retentions under a variety of quota share and surplus reinsurance arrangements. In certain contracts, stop loss reinsurance arrangements protect the retained line against attrition losses.

Concentration of risk

The following tables illustrate the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year-end.

Annuity payable per annum per life insured at the end of 2016 (R'000)	**Total annuities payable per annum**	
0-2	3	(0%)
2-5	102	(0%)
5-10	843	(3%)
10-20	3 848	(11%)
More than 20	30 556	(86%)
Total	**35 352**	**(100%)**

Annuity payable per annum per life insured at the end of 2015 (R'000)	**Total annuities payable per annum**	
0-2	3	(0%)
2-5	150	(0%)
5-10	1 193	(3%)
10-20	3 266	(9%)
More than 20	31 561	(88%)
Total	**36 173**	**(100%)**

INSURANCE RISK (CONTINUED)

Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

The company uses appropriate base tables of standard mortality according to the type of contract being written.

For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the annual mortality investigations performed by independent actuarial bodies.

Due to the nature of the business written by the company, selective termination behaviour is not a significant risk factor.

Short-term life insurance contracts

Frequency and severity of claims

These contracts are issued to employers to insure their commitments to their employees in terms of their retirement funds and other employee benefit plans, or to customers of that company. The risk is affected by the nature of the industry in which the employers operate, in addition to the factors noted under long term insurance contracts. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. Historical data indicates that recession and unemployment in an industry will increase the number of claims for disability benefits as well as reducing the rate of recovery from disability. The company manages this risk through its underwriting, claims handling and reinsurance policy. The amount of disability benefit cover provided per individual is restricted to a proportion of the individual's monthly income. For certain contracts, reinsurance contracts have been purchased by the company to limit the potential loss on any one life.

Concentration of risks

Due to the ring-fencing structure created by the cell owner Shareholders Agreement, the company does not consider that uncontrolled industry or geographic concentration risks are a risk factor.

The table below presents the concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above.

INSURANCE RISK (CONTINUED)

	Total benefits insured			
Benefits assured per life assured at the end of 2016 (R'000)	**Before reinsurance (R'000)**		**After reinsurance (R'000)**	
0-100	41 549 089	(21%)	33 308 976	(59%)
100-200	17 806 652	(9%)	7 140 236	(13%)
200-500	44 504 043	(23%)	7 614 566	(13%)
500-1,000	30 928 423	(16%)	4 011 603	(7%)
More than 1,000	60 751 995	(31%)	4 842 518	(9%)
Total	**195 540 202**	**(100%)**	**56 917 900**	**(100%)**

	Total benefits insured			
Benefits assured per life assured at the end of 2015 (R'000)	**Before reinsurance (R'000)**		**After reinsurance (R'000)**	
0-100	24 724 541	(13%)	16 193 339	(37%)
100-200	24 037 468	(13%)	4 996 629	(11%)
200-500	60 771 248	(33%)	12 234 258	(28%)
500-1,000	21 178 012	(11%)	3 792 053	(9%)
More than 1,000	54 927 093	(30%)	6 391 206	(15%)
Total	**185 638 362**	**(100%)**	**43 607 485**	**(100%)**

Sources of uncertainty in the estimation of future claim payments

There is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration. However, for disability income claims in payment, it is necessary to estimate the rates of recovery from disability for future years. Standard recovery tables are used as well as the actual experience of the company. The influence of economic circumstances on the actual recovery rate is the key source of uncertainty for these estimates.

FINANCIAL RISK

The company has defined its financial assets and financial liabilities in the following classes:

Class of asset	**Category of financial asset**
Debt securities and funds on deposit	Financial assets at fair value through profit or loss
Linked insurance policies	Financial assets at fair value through profit or loss
Gilts	Financial assets at fair value through profit or loss
Equities	Financial assets at fair value through profit or loss
Unit trusts	Financial assets at fair value through profit or loss
Cash and cash equivalents	Cash and cash equivalents
Receivables including insurance receivables	Loans and receivables
Class of liability	**Category of financial liability**
Amounts due to cell owners	Financial liabilities at fair value through profit or loss
Insurance and other payables	Financial liabilities at amortised cost

The company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts and financial liabilities. The most important components of this financial risk are credit risk, interest rate risk, liquidity risk and equity price risk. These risks arise from open positions in interest rate products, which are exposed to market movements. The risk that the company primarily faces due to the nature of its investments and liabilities is interest rate risk.

The company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts and financial instruments. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders.

The following table reconciles the balance sheet to the categories used in the company's ALM framework:

Assets	**2016**	2015
	R'000	R'000
Financial assets backing:		
– Long-term insurance contracts and financial instruments with guaranteed and fixed terms	**435 849**	94 042
– Long-term insurance contracts and financial instruments without fixed terms	**715 039**	756 338
– Financial instruments without fixed terms (unit-linked)	**2 991 371**	1 542 832
– Short-term life insurance contracts and financial instruments	**1 722 178**	1 919 887
– Other financial liabilities	**-**	128 839
Other assets	**951 939**	1 213 071
Total assets	**6 816 376**	5 655 009

FINANCIAL RISK (CONTINUED)

Liabilities	**2016**	2015
	R'000	R'000
Long-term insurance contracts and financial instruments with guaranteed and fixed terms	**472 517**	462 377
Long-term insurance contracts and financial instruments without fixed terms	**768 438**	808 821
Short-term life insurance contracts and financial instruments	**3 092 302**	2 154 023
Liabilities under insurance contracts net of reinsurance	**1 750 112**	1 747 624
Other liabilities	**564 011**	369 556
Total liabilities	**6 647 380**	5 542 401
Equity	**168 996**	112 608
Total liabilities and equity	**6 816 376**	5 655 009

The company's financial assets backing the above liabilities have a shorter duration than financial liabilities thereby reducing the company's liquidity risk.

Interest-rate risk is the only financial risk that has a materially different impact across the assets and liabilities categorised in the company's ALM framework.

The table below summarises the interest rates at the balance sheet date for all short-term investments.

As at 30 June	**2016**	2015
Financial assets at fair value through profit or loss	**%**	%
Funds on deposit	**8.18**	6.85
Cash and cash equivalents	**6.25**	5.00

MANAGEMENT OF INSURANCE AND FINANCIAL RISK
for the year ended 30 June 2016

CREDIT RISK

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- cell shareholders' obligation to restore solvency of cells when required by the company ;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- financial assets and cash and cash equivalents.

The relationship between the company and its cell owner shareholders is governed by the cell owner shareholders agreement entered into between the company, its holding company and the cell shareholder. This agreement determines that the cell owner shareholder has the obligation to restore any capital deficit in its cell on receipt of such a demand from the company. The company can demand recapitalisation of a cell in the event of the solvency ratio of the cell falling below the ratio required by the regulator or if the shareholders funds reflect a deficit. Claims of first and third party cells will be paid in terms of the policy. If the cell is in a deficit position after the claim, a request will be made to recapitalise the cell. However, in the case of first party cells, the claims are further limited to the policy limits.

This risk is managed by a detailed assessment of potential cell shareholders' creditworthiness based on the ability to meet the responsibility and obligations in terms of the shareholders agreement. Impairment is assessed at each reporting date.

Cash equivalents and financial assets are placed with reputable financial institutions and are managed by multiple asset managers. The company has policies that limit the credit exposure to any one financial institution. The Investment Committee carefully reviews all investments on the basis of total asset security and minimised credit risk to the company. Industry specialists as well as the company's panel of investment managers are invited to the quarterly Investment Committee meetings.

Accounts receivable for insurance contracts are presented net of any provisions for impairment. Credit risk with respect to accounts receivable is limited as reinsurers used are established entities.

The company is represented on the Guardrisk Risk Committee. One of the responsibilities of this Committee is to evaluate, approve and monitor both insurance and reinsurance markets of the company, and to report back to the company with recommendations accordingly. Committee decisions are supported by both local and international professional rating agencies. This includes involvement of the Financial Services Board, Global Credit Rating Agency as well as legal opinion which is sought if required.

The company also has reinsurance vetting procedures in place. These have been presented to and approved by the Risk committee and the company's board. These procedures include limiting individual cessions and accumulations per reinsurer in accordance with their credit rating.

GUARDRISK LIFE LIMITED

MANAGEMENT OF INSURANCE AND FINANCIAL RISK
for the year ended 30 June 2016

CREDIT RISK (CONTINUED)

The financial condition of the reinsurers and intermediaries in relation to their credit standing is evaluated on an ongoing basis. The company limits the level of credit risk it accepts by placing limits on its exposures to a single counterparty. The exposure limits of each reinsurer vary depending on their credit rating.

The carrying amounts of financial assets and reinsurance assets included in the balance sheet represent the company's exposure to credit risk in relation to these assets. The company considers the institutions with which the company places its investments and cash as the only concentration of credit risk.

The company's maximum exposure to credit risk is:

	2016	2015
	R'000	R'000
Cash and cash equivalents	**302 667**	69 837
Debt securities and funds on deposit	**3 817 337**	3 529 657
Unit-linked investments	**524 764**	128 861
Equity securities	**282 647**	-
Unit trusts	**202 641**	713 583
Receivables including insurance receivables	**235 717**	81 437
Reinsurance assets	**677 362**	563 490
Policyholder assets under insurance contracts	**734 382**	506 757
	6 777 517	5 593 622

Analysis of the credit quality of the company's assets

The ratings below are long term national credit ratings and the company invests only in local instruments. The company's investment strategy determines that investments with a local credit rating of AA-/F1 and above will be invested in.

2016 R'000	AAA	AA	A	BBB	Not rated	Total
Cash and cash equivalents	2 221	298 425	1 657		364	**302 667**
Debt securities and funds on deposit	535 665	3 150 492	103 273	27 907		**3 817 337**
Unit-linked investments	148 559				376 205	**524 764**
Equity securities					282 647	**282 647**
Unit trusts					202 641	**202 641**
Receivables including insurance receivables					235 717	**235 717**
Reinsurance assets	357 553	303 432			16 377	**677 362**
Policyholder assets under insurance contracts					734 382	**734 382**
Total	**1 043 998**	**3 752 349**	**104 930**	**27 907**	**1 848 333**	**6 777 517**

CREDIT RISK (CONTINUED)

Analysis of the credit quality of the company's assets (continued)

2015 R'000	AAA	AA	A	BBB	Not rated	Total
Cash and cash equivalents	1 014		68 006		817	**69 837**
Debt securities and funds on deposit	1 958 079	192 311	1 352 222	27 045		**3 529 657**
Unit-linked investments					128 861	**128 861**
Equity securities						**-**
Unit trusts					713 583	**713 583**
Receivables including insurance receivables					81 437	**81 437**
Reinsurance assets	267 231	291 992			4 267	**563 490**
Policyholder assets under insurance contracts					506 757	**506 757**
Total	**2 226 324**	**484 303**	**1 420 228**	**27 045**	**1 435 722**	**5 593 622**

None of the financial assets above are past due or impaired.

The assets analysed above are based on external credit ratings obtained from various reputable external rating agencies like Fitch and Standards and Poor. The rating scales are based on the following broad investment grade definitions:

AAA	National scale ratings denote the highest rating that can be assigned. This rating is assigned to the best credit risk relative to all other issuers.
AA	National ratings denote a very strong credit risk relative to all other issuers.
A	National ratings denote a strong credit risk relative to all other issuers.
BBB	National ratings denote an adequate credit risk relative to all other issuers.
BB	National ratings denote a fairly weak credit risk relative to all other issuers.
B	National ratings denote a significantly weak credit risk relative to all other issuers.
Unrated	The assets are invested with highly reputable asset management companies, with well diversified portfolios of investments.

CREDIT RISK (CONTINUED)

Receivables mainly comprise policyholder debtors. The creditworthiness of cell owners and policyholders is assessed upon inception of the cell and at each balance sheet date thereafter. Receivables do not represent a concentration of credit risk as they are spread across a number of companies. At year-end there were no receivables that were past due but not impaired.

INTEREST RATE RISK

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or cash flows of a financial instrument will fluctuate due to changes in market interest rate. Fluctuations in interest rates will impact on the fair value of the money market instruments and the company's investment fee which is based on the realised return of the instruments.

The majority of the financial assets are used to back financial liabilities and insurance liabilities.

The company earns fees based on assets under management and any change in interest rates that have an effect on these assets will have an effect on the company's fees.

The impact of changes in interest rates on the company's fees and investment income are set out in the table below:

2016:

	Increase in base points	Sensitivity of net profit after tax	Decrease in base points	Sensitivity of net profit after tax
		R'000		R'000
Short-term deposits	100	741	100	(741)
Cash and cash equivalents	100	607	100	(607)

2015:

	Increase in base points	Sensitivity of net profit after tax	Decrease in base points	Sensitivity of net profit after tax
		R'000		R'000
Short-term deposits	100	1 619	100	(1 619)
Cash and cash equivalents	100	149	100	(149)

INTEREST RATE RISK (CONTINUED)

ASSUMPTIONS USED FOR THE SENSITIVITY ANALYSIS

Bank, Call Accounts and Preference Shares

These investments all have variable interest rates. The sensitivity analysis is based on the effect that a 100 basis points change will have on the interest/dividend income for the following financial year. The sensitivity is calculated as the effect on the after-tax profits of the company. The balances at the end of the financial year are used, except where there are major fluctuations at year-end which will distort the effect materially. In these cases the average balance for the year is used to give a more realistic effect of the sensitivity. The interest/dividends are then calculated and the after-tax effect is shown on the sensitivity analysis.

Short-term deposits

These investments all have fixed interest rates. The sensitivity analysis is based on the effect that a 100 basis points change will have on the interest income/fair value revaluation for the following financial year. The sensitivity is calculated as the effect on the after-tax profits of the company. The balances at the end of the financial year are used. For investments that have maturity dates within the first 6 months after year-end, the same calculations as for bank, call and preference shares are used, since the matured investments will be subject to variable interest rates for most of the year. For investments that have maturity dates after the first 6 months after year-end, the effect on the fair value adjustments are determined by using the expected effect of interest rate changes on the instruments using yield curves of similar instruments. The after-tax effect is then shown in the sensitivity analysis.

EQUITY PRICE RISK

The portfolio of listed unit trusts which are carried on the statement of financial position at fair value, has exposure to price risk, being the potential loss in market value resulting from an adverse change in prices. The company's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is managed by placing the company's unit trust portfolio under the management of specialised and reputable asset managers. The company's sensitivity to movement in equity prices is not significant as the portfolio of unit trusts relate mainly to cell owners. The company does not earn a fee on the value of equities that are allocated to the cells and the movement in share prices have therefore no impact on net profit and equity.

LIQUIDITY RISK

The company is exposed to daily call on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due. The company sets limits on the minimum proportion of maturing funds available to meet such calls as well as any unexpected increase in levels of demand.

EXPENSE RISK

Expense risk is the risk of loss due to actual expense experience being worse than that assumed in premium rates and policy liabilities. Expenses are monitored monthly and managed through the company's budgeting process.

OPERATIONAL RISK

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, inadequate internal controls, fraud or human error. The company mitigates these risks through its culture and values, a comprehensive system of internal controls, internal audit and compliance functions and other measures such as back-up facilities, contingency planning and insurance.

The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

LEGAL RISK

Legal risk is the risk that the company will be exposed to contractual obligations that have not been provided for, particularly in respect of policy liabilities. The risk also arises from the uncertainty of the enforceability, through legal processes, of the obligations of the company's counter-parties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations.

For any material transaction entered into by the company, the legal resources of the company monitor the drafting of the contract documents to ensure that rights and obligations of all parties are clearly set out. The company seeks to minimise uncertainties, through consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

FAIR VALUE HIERACHY

Fair value investments classified as Level 1 include listed preference shares and quoted shares.

Fair value investments classified as Level 2 include short term deposits and unlisted preference shares. As market quotes generally are not readily available for these investments, their fair value measures are determined using relevant information generated by market transactions involving comparable securities. These are often based on option pricing techniques whose variables include only data from observable markets and discounted cash flow model that effectively discounts prospective cash flows to present value using a market related discount rate, also taking into account the issuer-specific credit quality and liquidity. These valuation methodologies have been evaluated by the company and determined to be representative of exit values.

At year-end, all financial liabilities at fair value through profit or loss are classified as level 2. The company applies appropriate procedures to validate the fair value for reasonableness based on its understanding of the markets including the use of internally developed assumptions about inputs a market participant would use to value the liability.

Refer to the accounting policies for further details regarding the determination of fair values of financial assets and financial liabilities.

GUARDRISK LIFE LIMITED

MANAGEMENT OF INSURANCE AND FINANCIAL RISK
for the year ended 30 June 2016

FAIR VALUE HIERACHY (CONTINUED)

The following tables present the company's assets and liabilities measured at fair value.

2016	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Assets				
Financial assets at fair value through profit or loss				
- Cash and cash equivalents	-	302 667	-	302 667
- Debt securities and funds on deposit	157 991	3 659 346	-	3 817 337
- Unit-linked investments	-	524 764	-	524 764
- Equity securities	282 647	-	-	282 647
- Unit trusts	-	202 641	-	202 641
Total assets	**440 638**	**4 689 418**	**-**	**5 130 056**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Liabilities to cell owners	-	2 916 572	-	2 916 572
- Liabilities under investment contracts	-	1 143 309	-	1 143 309
Total Liabilities	**-**	**4 059 881**	**-**	**4 059 881**

2015	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Assets				
Financial assets at fair value through profit or loss				
- Cash and cash equivalents	-	69 837	-	69 837
- Debt securities and funds on deposit	77 465	3 452 192	-	3 529 657
- Unit-linked investments	-	128 861	-	128 861
- Equity securities	-	-	-	-
- Unit trusts	-	713 583	-	713 583
Total assets	**77 465**	**4 364 473**	**-**	**4 441 938**
Liabilities				
Financial liabilities at fair value through profit or loss				
- Liabilities to cell owners	-	2 337 542	-	2 337 542
- Liabilities under investment contracts	-	1 584 508	-	1 584 508
Total Liabilities	**-**	**3 922 050**	**-**	**3 922 050**

GUARDRISK LIFE LIMITED

STATEMENT OF FINANCIAL POSITION
at 30 June 2016

	Notes	2016 R'000	2015 R'000
ASSETS			
Equipment	1.1	**116**	-
Intangible assets	1.2	**1 052**	1 609
Deferred tax asset	3	**3 522**	59 778
Reinsurers' share of insurance liabilities	8.1	**677 362**	563 490
Policyholder assets under insurance contracts	8.2	**734 382**	506 757
Financial assets designated as at fair value through profit and loss	2	**4 827 389**	4 372 101
Receivables including insurance receivables	4	**235 717**	81 437
Taxation receivable		**34 169**	-
Cash and cash equivalents	5	**302 667**	69 837
Total assets		**6 816 376**	5 655 009
EQUITY & LIABILITIES			
EQUITY			
Interest of ordinary shareholders			
Share capital	6	**70 000**	50 000
Retained earnings		**98 996**	62 608
Total equity		**168 996**	112 608
LIABILITIES			
Financial liabilities at fair value through profit or loss – Amounts due to cell owners	7	**2 916 572**	2 337 542
Insurance liabilities	8.1	**1 755 923**	943 604
Liabilities under investment contracts designated as at fair value through profit and loss	8.1	**1 143 309**	1 584 508
Insurance liabilities under reinsurance contracts	8.2	**661 004**	506 757
Deferred income		**809**	696
Insurance related payables		**68 763**	56 945
Other payables	9	**101 000**	84 375
Taxation payable		**-**	27 974
Total liabilities		**6 647 380**	5 542 401
Total equity and liabilities		**6 816 376**	5 655 009

GUARDRISK LIFE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Notes	2016 R'000	15 months 2015 R'000
Income			
Insurance premium revenue	10	**2 626 081**	2 366 435
Insurance premium ceded to reinsurers	10	**(1 540 810)**	(1 378 756)
Net insurance premium revenue		**1 085 271**	987 679
Fees and commission income		**32 986**	27 603
Fair value gains on financial assets at fair value through profit or loss	11.1	**212 393**	412 165
Investment income	11.2	**17 481**	11 330
Total income		**1 348 131**	1 438 777
Policyholder benefits and claims		**(607 135)**	(380 239)
Recoveries from reinsurers		**373 451**	347 527
Change in policyholder liabilities under insurance contracts		**(67 406)**	(285 378)
Change in reinsurer's share of policyholder liabilities under insurance contracts		**64 441**	235 876
Change in insurance assets		**227 624**	506 757
Change in reinsurance liabilities		**(154 247)**	(506 757)
Net policyholder benefits and claims		**(163 272)**	(82 214)
Administration expenses	12	**(948 966)**	(916 282)
Fair value adjustment on liabilities to cell owners		**(190 690)**	(384 066)
Total expenses		**(1 302 928)**	(1 382 562)
Profit before taxation		**45 203**	56 215
Taxation	13	**(8 815)**	(15 693)
Profit for the year		**36 388**	40 522
Other comprehensive income for the year		**-**	-
Total comprehensive income for the year		**36 388**	40 522

GUARDRISK LIFE LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2016

	Share capital R'000	Retained earnings R'000	Total R'000
Balance at 31 March 2014	**10 000**	**28 086**	**38 086**
Shares issued	40 000	-	40 000
	-	34 522	34 522
Dividends paid	-	(6 000)	(6 000)
Total comprehensive income for the year	-	40 522	40 522
Balance at 30 June 2015	**50 000**	**62 608**	**112 608**
Shares issued	**20 000**	**-**	**20 000**
	-	**36 388**	**36 388**
Dividends paid	-	-	-
Total comprehensive income for the year	-	36 388	36 388
Balance at 30 June 2016	**70 000**	**98 996**	**168 996**

GUARDRISK LIFE LIMITED

STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

	Notes	2016 R'000	2015 R'000
Cash flows from operating activities			
Cash generated/(utilised) by operations	15	**216 717**	(97 401)
Interest received		**203 180**	336 055
Dividends received		**6 317**	4 708
Dividends paid	16	**-**	(6 000)
Taxation paid	17	**(213 208)**	(244 242)
Net cash inflow/(outflow) from operating activities		**213 006**	(6 880)
Cash flows from investing activities			
Disposal of equipment		**1**	-
Purchase of equipment		**(177)**	(1 966)
Net cash (outflow) from investing activities		**(176)**	(1 966)
Cash flows from financing activities			
Share capital issued		**20 000**	40 000
Net cash inflow from financing activities		**20 000**	40 000
Net increase/(decrease) in cash and cash equivalents		**232 830**	31 154
Cash and cash equivalents at beginning of year		**69 837**	38 683
Cash and cash equivalents at end of year	5	**302 667**	69 837

1.1 Equipment

	2016 R'000	2015 R'000
Cost	**537**	495
Accumulated depreciation and impairment	**(421)**	(495)
Net carrying value	**116**	-
Cost		
Cost at 1 July/1 April	**495**	460
Movement during period		
Additions to enhance existing operations	**131**	35
Written off	**(89)**	-
Cost at 30 June	**537**	495
Accumulated depreciation		
Accumulated depreciation at 1 July/1 April	**495**	363
Movement during period		
Depreciation charge	**15**	132
Written off	**(88)**	-
Accumulated depreciation at 30 June	**421**	495

1.2 Intangible assets

	2016 R'000	2015 R'000
Purchased and developed computer software		
Cost	**2 774**	2 729
Accumulated amortisation	**(1 722)**	(1 120)
Net carrying value	**1 052**	1 609
Cost		
Cost at 1 July/1 April	**2 729**	798
Movement during period		
Additions to enhance existing operations	**45**	1 931
Cost at 30 June	**2 774**	2 729
Accumulated amortisation		
Amortisation at 1 July/1 April	**1 120**	798
Movement during period		
Charge for the year	**602**	322
Amortisation at 30 June	**1 722**	1 120

2. Financial assets at fair value through profit and loss

	2016 R'000	2015 R'000
- Designated as such upon initial recognition	**4 827 389**	4 372 101
Consisting of:		
- Debt securities and funds on deposit	**3 817 337**	3 529 657
- Unit-linked investments	**524 764**	128 861
- Equity securities	**282 647**	-
- Unit trusts	**202 641**	713 583
	4 827 389	4 372 101

		2016 R'000	2015 R'000
2.	**Financial assets designated at fair value through profit and loss (continued)**		
	Open ended	**1 010 052**	842 444
	Current	**2 863 064**	2 020 569
	Non-current (more than 1 year)	**954 274**	1 509 088
		4 827 389	4 372 101
3.	**Deferred tax asset**		
	Balance at beginning of period	**59 778**	107 279
	Movement during period		
	Deferred tax for the period	**(56 256)**	(47 501)
	- Leave pay provision	**20**	65
	- Bonus provision	**1 971**	763
	- Deferred income	**31**	84
	- Revaluation of unit trusts	**1 918**	162
	- Assessed losses	**(60 196)**	(48 575)
	Balance at end of period	**3 522**	59 778
	Deferred tax is attributable to the following items:		
	Leave pay provision	**295**	275
	Bonus provision	**3 846**	1 875
	Deferred income	**226**	195
	Revaluation of unit trusts	**(845)**	(2 763)
	Assessed losses	**-**	60 196
		3 522	59 778
4.	**Receivables including insurance receivables**		
	Receivables	**44 923**	24 259
	Accrued premium from insurance contracts	**136 345**	27 518
	Due by reinsurers	**49 950**	25 160
	Loan to shareholder	**4 500**	4 500
		235 717	81 437

Receivables are measured at amortised cost and the carrying amounts of these receivables approximate their fair value. The receivables balances are all current.

The loan to shareholder is unsecured, has no fixed terms of repayment and bears no interest.

		2016 R'000	2015 R'000
5.	**Cash and cash equivalents**		
	Cash and cash equivalents comprise bank and cash balances	**302 667**	69 837
6.	**Share capital**		
	Authorised		
	10 020 000 (2015: 10 020 000) Ordinary shares of no par value comprising:		
	- Guardrisk ordinary shares		
	- Cell owner ordinary shares L1 – L500		
	Issued		
	10 000 200 (2015: 10 000 100) Ordinary shares of no par value	**70 000**	50 000
	No par value shares		
	Opening balance	**50 000**	10 000
	Shares issued	**20 000**	40 000
	Closing balance	**70 000**	50 000

The unissued ordinary shares have been placed under the control of the directors of the company until the forthcoming Annual General Meeting of shareholders.

		2016 R'000	2015 R'000
7.	**Liabilities to cell owners**		
	Designated as such upon initial recognition	**2 916 572**	2 337 542

Included in financial liabilities are cell owner ordinary shares:

Authorised

Cell owner ordinary shares L1 – L500

	2016 R'000	2015 R'000
Issued		
1 132 (2015: 1 114) cell owner ordinary shares of no par value	**394 035**	101 886

7. Liabilities to cell owners (continued)

	2016 R'000	2015 R'000
Cell owner ordinary no par value share capital		
Opening balance	**101 886**	64 046
Issued during period	**292 149**	37 840
Redeemed during the period	**-**	-
Closing balance	**394 035**	101 886

The directors have the authority to issue any cell owner ordinary shares until the next Annual General Meeting of the company.

The rights and obligations of the cell owner ordinary shareholder are set out in the cell owner shareholders agreement. In terms of the cell owner shareholders' agreement a cell owner shareholder cannot terminate the agreement in the first three years after inception. Although this would result in a contractual cash flow after three years since inception, it is the company's practice to settle amounts due to cell owners on termination even if the cell owner shareholders' agreement is less than three years. The cell owner ordinary shares are issued for an indefinite period and have no fixed redemption date but can be cancelled at the option of the cell owner shareholder and the company, and therefore no maturity analysis is required as these amounts are effectively payable on demand.

		2016 R'000	2015 R'000
8.1	**Liabilities under insurance and investment contracts**		
	The movements in insurance contract liabilities for the period, net of reinsurance, were as follows:		
	IBNR		
	Balance at beginning of the period	**29 312**	55 835
	Additional liabilities arising during the period	**562 766**	29 312
	Cash paid	**(29 312)**	(55 835)
	Balance at end of the period	**562 766**	29 312
	Prospective liabilities – Insurance contracts		
	Balance at beginning of the period	**662 748**	395 832
	Effect of changes in assumptions	**(19 544)**	(22 184)
	Effect of new business	**124 892**	124 294
	Effect of experience variances	**35 698**	164 806
	Balance at the end of the period	**803 795**	662 748
	Prospective liabilities – Investment contracts		
	Balance at beginning of the period	**1 584 508**	1 541 752
	Effect of new business	**-**	-
	Effect of experience variances	**(441 199)**	42 756
	Balance at the end of the period	**1 143 309**	1 584 508
	First party reinsurance assets	**(361 377)**	(311 946)
	Net Liabilities	**2 148 493**	1 964 622
	Split as follows:		
	Gross Policyholder Liabilities – Insurance contracts	**1 382 919**	943 604
	Gross Policyholder Liabilities – Investment contracts	**1 143 309**	1 584 508
	Gross Policyholder Liabilities	**2 526 228**	2 528 112
	Reinsurance assets (outside reinsurers)	**(377 735)**	(563 490)
	First party cells	**(361 377)**	(311 946)
	Third party cells	**(16 358)**	(251 544)
	Net Liabilities	**2 148 493**	1 964 622

8.2 Policyholder assets and liabilities under reinsurance agreements

	2016 R'000	2015 R'000
Policyholder assets under insurance contracts		
Balance at beginning of the period	**506 757**	-
Movement in insurance assets	**227 624**	506 757
Release of margins *	**236 104**	506 757
Change in estimate	**(8 480)**	-
Expected cash flows	**-**	-
Change in methodology of calculating value	**-**	-
Balance at end of the period	**734 382**	506 757

* The discretionary margins on a defined book of business were released as it is no longer necessary to hold these discretionary margins. This decision was based on an experience investigation performed by a third party who provided additional independent support for the view of the Statutory Actuary.

Additional information relating to policyholder assets under insurance contracts
All actuarial assets under un-matured policies comprise of non profit business, individual life and group life. No losses have been recognised in the current year as a result of the liability adequacy test in respect of expired and unexpired risk exposure periods.

	2016 R'000	2015 R'000
Liabilities under reinsurance agreements		
Balance at beginning of the period	**506 757**	-
Change in liabilities under reinsurance agreements	**154 247**	506 757
New financial reinsurance agreements *	**275 185**	602 496
Repayments during the period	**(112 459)**	(95 738)
Change in estimates	**(8 480)**	-
Balance at end of the period	**661 004**	506 757

* The reinsurance liabilities relate to financial reinsurance agreements with registered reinsurers, whereby the reinsurer provides upfront funding to cells, with the cells then repaying this funding in an agreed manner subject to the underlying policyholder contracts remaining in force. These reinsurance agreements were entered into during the current and prior financial years.

	2016 R'000	2015 R'000
9. Other payables		
Accrued expenditure	**86 212**	76 697
Employee related payables	**14 788**	7 678
	101 000	84 375

MMI Long-term Incentive Plan (MMI LTIP)

Certain key senior staff members were identified as vital to the future success of the group, and its ability to compete in an ever-changing environment. The purpose of the MMI LTIP is to incentivise and retain these key senior staff members. The MMI LTIP comprises two separate long-term incentives, the first being an award of performance units, and the second being a grant of retention units.

The performance units have performance criteria based on minimum hurdles related to the return on embedded value of the group. The units will therefore vest after a period of three years, and the group's performance will be averaged over the same period to determine whether the criteria have been met.

The retention units have no imposed performance criteria and therefore vest on award date subject to the employee maintaining satisfactory performance during the period between the award date and the settlement date. When the retention units and performance units have vested on the vesting date, they represent the right to receive a cash sum on the settlement date equal to the fair market price of an MMI share (average of 20 trading days before the settlement date).

	MMI LTIP	
	Retention Units '000	**Performance Units '000**
Units in force at 30 June 2015 (thousands)	180	22
Units granted during year (thousands)	59	58
Units transferred from/(to) other group companies	(10)	(1)
Units exercised/released during year (thousands)	-	-
Market value of range at date of exercise/release	-	-
Units cancelled/lapsed during year (thousands)	-	-
Units in force at 30 June 2016 (thousands)	**229**	**79**

Units outstanding (by expiry date) for the MMI LTIP are as follows:

	MMI LTIP	
	Retention Units '000	**Performance units '000**
Financial year 2016/2017	163	-
Financial year 2017/2018	21	23
Financial year 2018/2019	45	56
Total outstanding shares	**229**	**79**

Valuation assumptions relating to outstanding units at 30 June:

	MMI LTIP	
	Retention units	**Performance units**
Award date	5-Mar-14	
Vesting date	5-Mar-17	
Outstanding units (thousands)	163	
Valuation assumptions include:		
Outstanding tranche period in years	0.09	
Take-up rate on units outstanding	94%	
Current vesting rate	100%	
Adjusted share price, adjusted for future dividends and past special distributions	22.64	
Award date	01-Oct-14	01-Oct-14
Vesting date	01-Oct-17	01-Oct-17
Outstanding units (thousands)	21	23
Valuation assumptions include:		
Outstanding tranche period in years	1.03	1.03
Take-up rate on units outstanding	88%	88%
Current vesting rate	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	22.64	22.64
Award date	01-Oct-15	01-Oct-15
Vesting date	01-Oct-18	01-Oct-18
Outstanding units (thousands)	45	56
Valuation assumptions include:		
Outstanding tranche period in years	2.03	2.03
Take-up rate on units outstanding	82%	82%
Current vesting rate	100%	100%
Adjusted share price, adjusted for future dividends and past special distributions	22.64	22.64

Guardrisk Embedded Value Scheme

Certain key senior staff members were identified as vital to the future success of the company, and its ability to grow the embedded value of the company in an ever-changing environment. The purpose of the Guardrisk Embedded Value scheme is to incentivise and retain these key senior staff members. The incentive has performance criteria based on minimum hurdles related to the return on embedded value of the Guardrisk Group. The benefits will vest over a period of 5 years in three tranches starting after year three based on meeting the performance criteria. When vesting occurs it will be paid in cash to participants.

	R'000
Opening Balance	1 032
Service cost	1 377
Interest cost	347
Actuarial gain or loss	3 681
Closing Balance	**6 437**

		2016 R'000	15 months 2015 R'000
10.	**Insurance premium revenue**		
	Insurance premium revenue is made up as follows:		
	Individual:		
	Recurring	**2 251 000**	1 700 484
	Single	**369 008**	229 443
	Group:		
	Recurring	**5 774**	12 181
	Single	**299**	424 327
	Total premium revenue	**2 626 081**	2 366 435
	Insurance premiums ceded to reinsurers:	**1 540 810**	1 378 756
11.	**Investment income**		
11.1	**Fair value gains on financial assets designated at fair value through profit or loss**		
	Fair value adjustment	**(131 926)**	71 946
	Realised gains on sale of investments	**152 303**	10 786
	Interest income	**185 699**	324 725
	Dividend income	**6 317**	4 708
		212 393	412 165
11.2	**Investment income**		
	Interest income on cash and cash equivalents	**17 481**	11 330
		17 481	11 330

	2016 R'000	15 months 2015 R'000
12. Administration expenses		
Administration expenses by nature include the following:		
Auditor's remuneration	**1 596**	1 430
- Fees for audit	**1 596**	1 430
- Fees for other services	**-**	-
Staff costs	**27 398**	26 520
Salary, wages and other benefits	**25 742**	24 814
Provident fund contribution	**1 656**	1 706
Depreciation on equipment (note 1.1)	**15**	132
Amortisation of computer software (note 1.2)	**601**	322
Administration fees	**15 950**	148 228
Advertising and marketing	**30 480**	49 354
Bank charges	**8 834**	10 363
Binder fees	**319 500**	50 935
Corporate charges	**330**	1 483
Consulting fees	**6 610**	3 015
Commission	**507 971**	570 504
Other professional fees	**2 743**	229
Operating lease expenses – buildings	**1 372**	1 701
Insurance	**-**	300
Software maintenance and computer costs	**414**	1 289
Travelling expenses	**464**	438
Other	**24 718**	50 039
	948 996	916 282
Number of employees at year-end	**21**	20

	2016 R'000	15 months 2015 R'000

13. Taxation

	2016 R'000	15 months 2015 R'000
Taxation attributable to company	**207 321**	276 626
Taxation recovered from cell owners	**(198 506)**	(260 933)
Net taxation on ordinary shareholder's profits	**8 815**	15 693
South African normal tax		
- Current tax	**10 831**	16 647
- Prior year adjustment	**-**	-
- Deferred tax	**(2 016)**	(954)
	8 815	15 693
Reconciliation of effective tax rate	**%**	%
Normal tax rate	**28.00**	28.00
(Decrease) / increase in rate of tax due to		
Other items	**(8.50)**	(0.08)
Effective tax rate	**19.50**	27.92

14. Related party transactions and balances

The company is controlled by Guardrisk Group Proprietary Limited (incorporated in South Africa) which owns 100% of the company's ordinary shares. The ultimate parent of the company is MMI Holdings Limited. All related parties to the company are disclosed in the ultimate parent company's Annual Financial Statements. Certain expenses are paid by Guardrisk Insurance Company Limited and reimbursed by Guardrisk Life Limited.

	2016 R'000	15 months 2015 R'000
14. Related party transactions and balances (continued)		
Balances at year-end		
Amount owing to Guardrisk Insurance Company Ltd	**600**	1 246
Amount owing by Guardrisk Group (Pty) Ltd	**4 500**	4 500
Assets under management by Momentum Asset Managers (Pty) Ltd	**495 512**	349 961
Amount owing by MMI Group Ltd for reinsurance premiums	**1 162**	9 456
Amount owing to MMI Group Ltd under reinsurance contracts	**(261 469)**	(159 197)
Amount owing by Momentum Ability under FinRe agreements	**34 903**	-
Transactions during the period		
Management fees and other expenses paid to MMI Group Ltd by Guardrisk Insurance Company Ltd and recovered from Guardrisk Life	**2 358**	3 844
Asset management fees paid to Momentum Asset Management (Pty) Ltd	**(1 231)**	(1 035)
Reinsurance premiums ceded to MMI Group Ltd	**(289 683)**	(113 375)
Reinsurance claims recoveries from MMI Group Ltd	**304 487**	31 636

Employee remuneration

Key management personnel are defined as the board of directors and also comprise the executive committee of the company. Certain directors and executive committee members of the company are employed by fellow subsidiaries and are remunerated by those subsidiaries for services provided including the services provided to this company. The remuneration of those directors and executive committee members are disclosed in the relevant subsidiary financial statements.

Salaries	**2 234**	2 655
Performance bonuses	**2 025**	2 523
Post employment benefits	**427**	380
Other	**-**	21
	4 686	5 579

The above employee benefits include an accrual made in respect of the bonuses to be approved by the remuneration committee for the period ended 30 June 2016. Further details of directors' and prescribed officer's remuneration is provided in Annexure B on page 77.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

		2016 R'000	15 months 2015 R'000
15.	**Reconciliation of cash utilised by operating activities**		
	Profit before tax	**45 203**	56 215
	Adjustments for:		
	Cash items:		
	Investment income (note 11.1 and 11.2)	**(209 497)**	(340 763)
	Non-cash items:		
	Depreciation (note 1.1)	**15**	132
	Amortisation of intangibles (note 1.2)	**602**	322
	Fair value adjustments to investments (note 11.1)	**131 926**	(71 946)
	Realised gains on sale of investments (note 11.1)	**(152 303)**	(10 786)
	Net fair value gains on financial liabilities at fair value through profit and loss	**190 690**	384 066
	Changes in operating assets and liabilities:		
	- (Increase)/decrease in receivables and accrued premium	**(154 280)**	(45 243)
	- Increase/(decrease) in deferred income	**113**	300
	- Increase/(decrease) in insurance related payables	**11 818**	51 171
	- Increase/(decrease) in other payables	**16 625**	43 703
	- Change in policyholder liabilities under insurance and investment contracts	**132 124**	519 025
	- Funds received from cell shareholders	**945 802**	315 479
	- Dividends paid to cell shareholders	**(307 211)**	(453 040)
	- Purchase of investments	**(5 525 536)**	(4 825 255)
	- Proceeds on disposal of investments	**5 090 626**	4 279 219
	Cash utilised by operations	**216 717**	(97 401)
16.	**Dividends paid**	**-**	6 000
17.	**Reconciliation of taxation paid**		
	Taxation payable at beginning of the year	**27 974**	43 091
	Current taxation	**151 065**	229 125
	Taxation payable at end of the year	**34 169**	(27 974)
	Taxation paid	**213 208**	244 242

18. Capital commitments

There are no capital commitments in the current year.

GUARDRISK LIFE LIMITED

ANNEXURE A - ANALYSIS OF EARNINGS

An analysis of the earnings on the Statutory Valuation Method (SVM) shows the following:

		2016 R'000	2015 R'000
Surplus at end of the year		**838 950**	499 059
Less	Surplus at beginning of year	**(499 059)**	(301 175)
Less	Increase in share capital during the year	**312 149**	77 840
Plus	Increase in disallowed assets	**2 966**	1 609
Plus	Dividends paid and provided during the year	**307 212**	459 040
	Earnings for the Year	**337 920**	580 693

Represented by:

	2016 R'000	2015 R'000
Guardrisk Profits	**36 388**	40 522
Investment Income on free assets	**21 531**	14 554
Investment capital appreciation on free assets	**102**	186
Profits from new cells / contracts	**5 034**	1 516
Excess of management fees over management expenses	**60 977**	40 670
Tax	**(8 792)**	(15 727)
Balance of earnings	**(42 464)**	(676)
Cell Profits	**283 219**	547 973
Investment income on free assets	**35 112**	28 840
Investment capital appreciation on free assets	**1 943**	1 804
Profits from new cells / contracts	**(58 743)**	21 083
Change in valuation basis	**2 997**	(10 065)
Change in valuation methodology	**(1 304)**	(12 118)
Post tax underwriting surplus of 1st party cells	**(33 071)**	(826)
Post tax underwriting surplus of 3rd party cells	**336 284**	519 255
Profits in Tax Control Cell	**18 311**	(7 802)
Total	**337 920**	580 693

GUARDRISK LIFE LIMITED

NOTES ON DIRECTORS' EMOLUMENTS
For the year ended 30 June 2016

Annexure B containing the detailed audited directors' remuneration disclosure per director as required under section 30 of the Companies Act has been treated as confidential information and has been removed from the distribution copies of the Annual Financial Statements. It is available on request from the company secretary at the following number 012 684 4255.