THE STANDARD GENERAL INSURANCE COMPANY LIMITED
(Registration number 1948/029011/06)

AUDITED ANNUAL FINANCIAL STATEMENTS

30 September 2016

NOTE
Signatures blacked out for security purposes.

Standard | General

These annual financial statements were prepared under the supervision of E Mullah B.Compt (Hons). and have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008

Incorporated in the Republic of South Africa

Registered office:

1st floor
Grant Thornton Building
Wanderers Office Park
52 Corlett Drive
Illovo
2196

Standard | General

THE STANDARD GENERAL INSURANCE COMPANY LIMITED
(Registration number 1948/029011/06)
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2016

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DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for ensuring that the annual financial statements fairly present the financial position, operating results, statement of changes in equity and cash flow information of the company. The annual financial statements have been compiled by management in terms of International Financial Reporting Standards, and are based on the company's accounting policies and are supported, where appropriate, by reasonable and prudent judgements and estimates.

The directors are responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems occurred during the year under review.

The 2016 financial year was indeed challenging for the company, as was anticipated in the 2015 financial statements. Stangen sold its last African Bank Group Scheme credit life policy on 15 January 2016. This was the end result of a chain of events which started with the Share Purchase Agreement ("SPA") in September 2015 whereby African Bank Investments Limited ("ABIL"), the company's sole shareholder (subsequently renamed African Phoenix Investments Limited ("Phoenix")), had intended to sell all the issued share capital of the company to African Bank Limited ("ABL") as part of its business rescue plan and the planned restructuring of ABL. Certain minority shareholders of Phoenix, however, successfully obtained a court order on an urgent basis on 28 September 2015, in order to postpone the meeting for the adoption of the business rescue plan scheduled for 29 September 2015. Despite repeated attempts to reach an agreement during the extended period for the fulfillment of conditions precedent on the SPA, it lapsed at midnight on 15 October 2015. On 16 October 2015, the curator of ABL gave three months' notice of ABL's intention to stop selling, through its distribution channels new group scheme credit life policies (which generated the majority of the company's business). The company's credit life portfolio has therefore been in run-down since 16 January 2016. The company also had to stop selling its funeral policies through ABL from January 2016.

The financial statements have been audited by the independent auditors, Grant Thornton, who were appointed as new external auditors in the period under review. Grant Thornton has been provided with 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 Grant Thornton audit report is presented on pages 4 and 5.

Approval of the annual financial statements

The annual financial statements on pages 19 to 63 were approved by the board of directors via round robin resolution on 5 December 2016 and are signed on its behalf by:

DB Gibbon
Chairman

M Botha
Director

THE STANDARD GENERAL INSURANCE COMPANY LIMITED
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 September 2016

CERTIFICATION BY THE COMPANY SECRETARY

We certify, that to the best of our knowledge and belief, the Company has lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required of a public company in terms of section 88(2)(e) of the Companies Act, No 71 of 2008, as amended, in respect of the year ended 30 September 2016 and that all such returns appear to be true, correct and up to date.

CorpStat Governance Services (Pty) Ltd
Company Secretary
5 December 2016

GrantThornton

Independent Auditor's Report
To the directors of
The Standard General Insurance Company Limited

We have audited the financial statements of The Standard General Insurance Company Limited set out on pages 19 to 63, which comprise the statement of financial position as at 30 September 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Director's 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 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 about 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 Standard General Insurance Company Limited as at 30 September 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

Grant Thornton

Other reports required by the Companies Act
As part of our audit of the financial statements for the year ended 30 September 2016, we have read the Statutory Actuary's Report, Directors' Report, Company Secretary's Certificate and Audit Committee's Report 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.

Report on other legal and regulatory requirements
In terms of the IRBA Rule published in Government Gazette 39475 dated 04 December 2015, we report that Grant Thornton Johannesburg Partnership has been the auditor of The Standard General Insurance Company Limited for 1 years.

GRANT THORNTON JOHANNESBURG PARTNERSHIP
Registered Auditors

Sone' Kock
Partner
Registered Auditor
Chartered Accountant (SA)

5 December 2016

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

AUDIT, RISK AND CAPITAL MANAGEMENT COMMITTEE ("committee") REPORT

The committee presents its report for the financial year ended 30 September 2016 as required by section 94(7)(f) of the Companies Act. The committee has been constituted in accordance with applicable legislation and regulations.

Purpose of the committee

The main purpose of the committee, in so far as it relates to audit activity, is to assist the board in discharging its duties relating to the safeguarding of assets, accounting systems and practices, the integrity of internal financial control processes and the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards.

Membership and attendance

The committee consists of three members who are all independent, non-executive directors as per Board Notice 158 of 2014 of the Financial Services Board. The committee met four times during the period under review. The annual financial statements were provisionally approved at the 4 November 2016 meeting subject to minor changes, and finally approved by the main board via a round robin resolution on 5 December 2016.

The committee members remained the same and are as follows:

Independent non-executive directors
Colin Van der Meulen (chairman)
Dave Gibbon
Morris Mthombeni

Functions of the committee

The committee approved a revised committee charter during the period under review and has discharged the functions in terms of the charter which included:

- reviewing and approving the company's external audit plan including the proposed audit scope, approach to company operating risks and the audit fee;
- confirming the independence of the external auditors, Grant Thornton;
- reviewing external audit reports;
- assessing the nature and extent of non-audit services by the auditors;
- evaluating the role, independence and effectiveness of the internal audit function;
- approving the internal audit charter and internal audit plan;
- reviewing the accounting policies adopted by the company and all proposed changes in accounting policies and practices;
- reviewing the annual financial statements to confirm the financial statements are prepared in accordance with International Financial Reporting Standards and the Companies Act;
- reviewing the company compliance plan and assessing the procedures for identifying regulatory risks;
- reviewing the legal matters that could have a significant impact on the company's financial statements; and
- reviewing the company risk management plan and risk management processes.

AUDIT, RISK AND CAPITAL MANAGEMENT COMMITTEE ("committee") REPORT *(continued)*

Attendance by auditors, executive directors and statutory actuary

The internal and external auditors attended and reported at the meetings of the committee. The executive director, Marius Botha, and statutory actuary, Bill Haslam, attended the meetings by invitation.

Independence of external auditors

The committee has satisfied itself that the external auditors are independent of the company.

Internal financial controls, accounting practices and company annual financial statements

Based on the work of the company's assurance providers, nothing has come to the attention of the committee which indicates that the company's system of internal financial controls and accounting practices, in all material respects, does not provide a basis for reliable annual financial statements.

The committee is satisfied that the company's annual financial statements are in compliance, in all material respects, with the requirements of the Companies Act 71 of 2008 and International Financial Reporting Standards, and recommend the annual financial statements for approval by the board.

Colin Van Der Meulen
Chairman: Audit, Risk and Capital Management Committee

5 December 2016

DIRECTORS' REPORT

The directors present their report to the shareholder, together with the audited annual financial statements of the company for the financial year ended 30 September 2016.

Nature of the business

The Standard General Insurance Company Limited ("Stangen") is a registered long-term insurance company in terms of the Long-term Insurance Act 52 of 1998. During the year Stangen has undergone major changes as set out in the Directors Responsibility Statement. The credit life portfolio (now fully reinsured with Guardrisk Life Limited ("Guardrisk")) is in run-off and is expected to be transferred to Guardrisk in mid-2017. The credit life policy benefits include death, retrenchment, disability, short time and compulsory unpaid leave cover.

Stangen fully reinsured its credit life policies in terms of which premiums are payable monthly by customers. Before 4 April 2016 these premiums were collected by Residual Debt Services as part of the customers' African Bank loan repayment instalment. Stangen was therefore reliant on Residual Debt Services to collect these premiums each month and pay these premiums over to Stangen.

Since 4 April 2016, the premiums are collected by ABL ("Good Bank") and paid directly to Guardrisk as part of the reinsurance agreement between Stangen and Guardrisk and in line with the settlement agreements (defined in more detail under Operations below). Stangen now therefore relies on ABL to collect and pay over premiums each month to Guardrisk. Claims are also now fully recoverable from Guardrisk under the reinsurance agreement, but are in practice paid directly to ABL by Guardrisk and used to cover the customers' indebtedness towards either ABL or Residual Debt Services.

Stangen's current product offering also includes funeral cover and other non-underwritten products. Prior to January 2016, these funeral policies were sold to customers of Residual Debt Services. No policies were sold from January 2016 to 30 September 2016. From October 2016, new policies are sold via independent third parties following the lifting of the Section 12 restrictions on the company's licence by the Financial Services Board ("FSB").

Share capital

Ordinary shares

The authorised share capital remains unchanged at 5 000 100 'A' ordinary shares of R1 each and 1"B" ordinary share of R1.

Holding company

The company's holding company is African Phoenix Investments Limited ("APIL"), previously known as African Bank Investments Limited.

DIRECTORS' REPORT *(continued)*

Financial results

The financial results for the year ended 30 September 2016 are set out on pages 19 to 63 of these annual financial statements. The company reported a net profit after tax of R549 million for the 2016 financial year (2015: R1 358 million).

Going concern

The directors have satisfied themselves that the company is in a sound financial position and is able to meet its foreseeable cash requirements (refer to the directors' responsibility and approval of the annual financial statements and notes 3 and 3.1 Critical accounting judgements and key sources of estimation uncertainty – going concern on pages 27 and 28.

On this basis, the directors consider that the company has adequate resources to continue operating for the foreseeable future and therefore deem it appropriate to adopt the going concern basis in preparing the company's financial statements for this reporting period.

Operations

During the period under review Stangen successfully maintained its solvency despite a substantial reduction in premium income and earnings for the company. This reduction was anticipated in the previous going concern statement (September 2015 annual financial statements), whereby Stangen's credit life portfolio was expected to reduce substantially in the period to 30 September 2016 due to mass lapse events driven by ABL. These mass lapse were caused by the following unilateral decisions taken by the Curator of ABL:

- The reduction of the term of the premium advancement arrangement (whereby ABL paid premiums on behalf of defaulting customers);
- The migration of the group scheme credit card - credit life portfolio to Guardrisk, where ABL has a cell captive arrangement which was set up following the lapse of the Share Purchase Agreement;
- A failure to recognise the transfer of Stangen's group scheme credit life cover for in-force loan customers whose credit agreements were transferred from the old African Bank ("Residual Debt Services") to the new African Bank ("Good Bank", or now ABL) on the formation of the new Good Bank which commenced operations on 4 April 2016, resulting in another mass lapse event whereby significant volumes of sum assured cover terminated on 3 April 2016.

The Curator also did not transfer the intermediary agreement that was in place between the company and Residual Debt Services to Good Bank, which created further risks for the remainder of Stangen's credit life portfolio (consisting of the individual credit life customers, and group scheme credit life customers remaining in Residual Debt Services). The Curator also served the company with notice on this extant intermediary agreement whereby all intermediary service functions would terminate on 31 July 2016.

DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS *(continued)*

The above events, if left unchallenged, would have resulted in a material loss of earnings from the company's credit life portfolio and could have amounted to a contravention of legislation and certain agreements between Stangen and Residual Debt Services.

As the events unfolded the company attempted to resolve the disputed actions through negotiation, but eventually based on legal advice decided to institute, during the period under review, two separate legal applications against ABL and Residual Debt Services to enforce its contractual rights and thereby protect itself and its revenue streams. A settlement was eventually reached in May 2016 which culminated in a series of agreements ("settlement agreements") with retrospective effect to 1 April 2016. As part of the settlement, Stangen agreed to withdraw the legal applications and enter into a reinsurance agreement with Guardrisk, which was used as a basis for reaching a satisfactory financial settlement. A new intermediary agreement with ABL (Good Bank) was also concluded. The reinsurance agreement provided for a transfer of Stangen's latent claims obligations (IBNR) to Guardrisk, in exchange for an upfront guaranteed reinsurance premium rebate on the credit life portfolio in order for ABL's cell captive in Guardrisk to derive the economic benefit (underwriting margin) on the run-down of the credit life business with Stangen. These agreements were concluded with the support of the Financial Services Board ("FSB").

The net result is that all credit life policy administration has moved to Guardrisk and ABL, and Stangen now retains only the non-credit life business administration (mainly funeral business). The company is no longer materially exposed to changes in the credit insurance regulatory environment, nor the risk of higher retrenchments emerging in the current economic environment.

The company has also initiated a formal process to transfer the above-mentioned credit life business to Guardrisk, which expected transfer is still subject to regulatory approvals. A Transfer Agreement was signed on 31 October 2016, with an expected closing date in mid-2017. From that date Guardrisk will become the primary insurer and the reinsurance agreement with Guardrisk will be terminated. The board is comfortable that the transfer will not materially impact the solvency or liquidity of the company, nor be detrimental in any way to the policyholders, but is a necessary practical step as part of concluding its history with Residual Debt Services and ABL. Given the high likelihood of the transfer being approved by the respective regulators, the financial statements have been prepared to reflect the results of continued operations separately from discontinued operations (with discontinued operations representing the credit life business expected to be transferred).

Other than some operational requirements related to the proposed transfer of the credit life business, the company now intends to focus on re-positioning itself as a niche life insurance product provider with alternative distribution channels. It was unable to develop or implement alternative new business strategies during the period under review due to restrictions imposed by the FSB on the company's products and distribution channels since the curatorship of ABL in August 2014. The company has already successfully applied to the FSB to have these restrictions lifted. The FSB has also expanded the licenced product categories of the company.

The company has therefore started marketing its non-underwritten product range again and started selling new business through independent third parties since October 2016 (albeit at much lower sales volumes than historically achieved). More distribution channels are being implemented in November 2016, and management is piloting different routes to market before investing more seriously in those opportunities that have the potential to succeed.

DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS *(continued)*

As a result of all the above-mentioned developments, net operating profit after tax for the year under review is substantially less relative to prior years (R549m -2016 vs R1 358m - 2015). The expected profits for 2017 are also likely to be even lower further, as only the smaller non-credit life portfolio is expected to generate earnings going forward. It will furthermore take time for new initiatives to start generating underwriting margins again.

The above-mentioned events also necessitated material changes to outsourcing and control functions. Following the notice that was given by the curator of ABL in November 2015 on the historic Outsourcing Agreement, the company was also required to relocate offices, migrate its policyholder administration system and set-up new support services (previously shared with ABL). The company moved its policyholder administration system in February 2016 to a new cloud-based hosting solution with alternative back-up plans and implemented a new communications infrastructure, and new processes and procedures for all insurance activities (including premium collection and claims management). A new service call centre was also implemented in June 2016 to take over post-sales intermediary services on non-credit life business from ABL following the conclusion of the settlement agreements. The company now engages directly with its non-credit life customers, or through other third party call centres. New control functions and other material function appointments were also made (see risk management section for more detail).

The company's sole shareholder, APIL, also came out of business rescue in the period under review and a new board of directors was appointed in September 2016. The company has presented a revised strategy to the new APIL board.

Despite all the above challenges, the board and management of the company maintained core operations and retained specialist staff and continued delivering value to its shareholder. The company remains a registered long-term insurance company in terms of the Long-term Insurance Act. Its principal activity, however, is no longer the selling of credit life insurance policies to the banking clients of its erstwhile fellow subsidiary, ABL. It now competes as a niche direct insurer in the South African market offering life, assistance (funeral), disability, health and retrenchment cover to the market. The board and management will focus on building new business propositions and distribution channels in the short to medium term as the company puts a challenging three-year period behind it.

The directors have made an assessment of the company's ability to continue as a going concern and based on the various factors as set out in the section under 'Critical accounting judgements and key sources of estimation uncertainty – Going concern' (page 28 and 29) have a reasonable expectation that the company will be a going concern in the year ahead. It is expected that conservative levels of net equity (including capital reserves) will be retained to ensure the ongoing solvency and liquidity of the company (especially up until the expected transfer closing date of the credit life portfolio). This will ensure adequate protection of the interests of policyholders and assist management in attracting new business. Working capital is also required for planned initiatives to grow new business.

DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS *(continued)*

Events after the reporting period

The company signed a Transfer Agreement on 31 October 2016 with Guardrisk, Residual Debt Services, the curator of Residual Debt Services and ABL in respect of the credit life portfolio of the company, which is expected to be transferred to Guardrisk at a closing date by the middle of 2017, subject to regulatory approvals. The transfer, if approved, will result in a cancellation of the 100% reinsurance agreement with Guardrisk and is therefore not expected to impact the financial results to any material extent in 2017.

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not dealt with in the company annual financial statements, which significantly affects the financial position as at 30 September 2016 or the results of its operations or cash flows for the year then ended.

Corporate governance

Stangen is a wholly owned subsidiary of APIL, a company incorporated in the Republic of South Africa and listed on the JSE and therefore subscribes to the values of good corporate governance contained in the King Report on Governance for South Africa and the King Code of Governance Principles (King III).

Regulatory approval

As at the date of this directors' report, there is no outstanding regulatory approval in respect of the company's insurance license.

The company has applied for an additional Financial Services Provider licence under the FAIS Act, in order to sell its own products (as opposed to being reliant on third parties).

Dividends to ordinary shareholder

The board of directors declared and paid dividends of R350 million (2015: R882 million) during the current financial year.

Directors and changes in directors

The following directors are represented on the board of Stangen:

		Date appointed to board	Date resigned from board
Marius Botha	Executive director	10/02/2014	
Charles Chemel	Non-executive director	08/02/2013	
Dave Gibbon	Non-executive Chairman	26/11/2004	
Mojankunyane Gumbi	Non-executive director	13/09/2012	28/10/2015
Morris Mthombeni	Non-executive director	01/11/2013	
Colin Van Der Meulen	Non-executive director	10/02/2014	

DIRECTORS' REPORT ***(continued)***

Company secretary and registered office

The company secretary role is performed by CorpStat Governance Services (Pty) Ltd. Their business and postal address is Hurlingham Office Park, 59 Woodlands Avenue, Hurlingham Manor, Sandton 2188 and P O Box 724, Melville, 2109.

Financial performance

The company reported a net profit after tax of R549 million for the financial year ended 30 September 2016 (2015: R1 358 million). The 60% decrease was mainly attributable to the mass lapse events on credit life business that substantially reduced the business underwritten, and the fact that no new credit life business was written through Residual Debt Services or ABL channels since 16 January 2016. The company has net equity of R1.3 billion (2015: R1.1 billion) after declaring R350 million in dividends to its sole shareholder during the period under review.

Risk management

Following the notice of termination issued by the curator of Residual Debt Services on the historic Outsourcing Agreement, the company needed to revise its control functions and material function appointments. KPMG Services (Pty) Ltd. was appointed as internal auditor, CorpStat Governance Services as Company Secretary and HRCS for human resource consulting. Key information technology support functions include the appointment of Cirrus Managed Services for the hosting of the policyholder administration system.

The statutory actuary appointment remained unchanged, and the risk function and compliance function remain internal appointments.

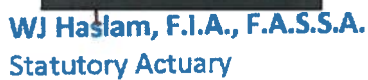
The risk management framework was substantially reviewed following the settlements reached with the banking parties, and as part of the review of business strategy.

REPORT OF THE INDEPENDENT ACTUARY TO THE MEMBER OF THE STANDARD GENERAL INSURANCE COMPANY LIMITED

Certification of statutory financial position

I hereby certify that:

- the actuarial valuation on the statutory basis of The Standard General Insurance Company Limited ("the company") has been conducted as at 30 September 2016 (the valuation date) in accordance with the applicable Actuarial Society of South Africa Professional Guidance Notes, the results of which are summarised below;
- this Statutory Actuary's report has been produced in accordance with the applicable Actuarial Society of South Africa Professional Guidance Notes;
- the assets exceeded the sum of the liabilities and Capital Adequacy Requirements as at the valuation date;
- the company met the requirements of section 31 of the Long-term Insurance Act (the asset spreading requirements) as at the valuation date, and
- in my opinion the company is financially sound at the valuation date, and likely to remain so for the foreseeable future.



WJ Haslam, F.I.A., F.A.S.S.A.
Statutory Actuary

5 December 2016

REPORT OF THE INDEPENDENT ACTUARY TO THE MEMBER OF THE STANDARD GENERAL INSURANCE COMPANY LIMITED

1. STATEMENT OF ASSETS, LIABILITIES, EXCESS ASSETS AND CAPITAL REQUIREMENTS

1.1 Published reporting basis

	2016 R000	2015 R000
Total value of assets as per statement of financial position	1 776 758	2 024 824
Total value of liabilities	468 411	915 845
Value of policy liabilities under insurance contracts	436 299	709 592
Current and other liabilities as per statement of financial position	32 112	206 253
Excess assets	1 308 347	1 108 979

1.2 Statutory basis

	2016	2015
Value of assets on the Statutory basis	1 530 507	1 947 709
Total value of liabilities	222 574	921 267
Value of policy liabilities under insurance contracts	190 462	715 014
Current and other liabilities as per statement of financial position	32 112	206 253
Excess assets	1 307 933	1 026 442
Capital Adequacy Requirements	44 235	283 351
Ratio of excess assets to Capital Adequacy Requirements	29.6x	3.62x

2. ANALYSIS OF CHANGE IN EXCESS ASSETS ON THE PUBLISHED REPORTING BASIS

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

	2016 R000	2015 R000
Change in excess assets over the reporting period	199 368	475 378
Excess assets as at end of reporting period	1 308 347	1 108 979
Excess assets as at beginning of reporting period	1 108 979	633 601

2.2 This change in the excess assets may be analysed as follows:

	2016	2015
Total investment income	118 861	128 444
Less: Investment income allocated to policyholders	(29 771)	(72 230)
Investment income allocated to shareholders	89 090	56 214
Policyholder operating profit excluding changes in valuation methods and assumptions	863 013	1 472 981
Changes in valuation methods, assumptions and data (see note 5)	(189 190)	(200 296)
New business surplus	-	556 530
Tax	(213 545)	(527 920)
Total earnings	549 368	1 357 509
Capital raised	-	-
Dividends paid	(350 000)	(882 131)
Total analysed change in excess assets	199 368	475 378

3. RECONCILIATION TO REPORTED EARNINGS (NET OF TAX)

	2016 R000	2015 R000
Total earnings as per the above table	549 368	1 357 509
Reported earnings in annual financial statements	549 368	1 357 509
Difference	-	-

4. RECONCILIATION OF EXCESS ASSETS BETWEEN PUBLISHED REPORTING BASIS AND STATUTORY BASIS

	2016	2015
Excess assets on published reporting basis	1 308 347	1 108 979
Excess assets on statutory basis	1 307 933	1 026 442
Difference	414	82 537
Statutory margin on IBNR reserve included in statutory basis not included in the published basis	89	52 408
Intangible assets inadmissible on statutory basis	325	30 129
Total differences between published and statutory bases	414	82 537

5. CHANGES IN PUBLISHED REPORTING VALUATION METHODS, ASSUMPTIONS AND DATA

The value of the liabilities as at 30 September 2016 increased by R189.2 million as a result of changes to the valuation assumptions, methods and data. Assumptions were revised to reflect the recent actual experience of the company and the current economic environment.

The breakdown of the impacts of the assumption, methodology and data changes is as follows:

	2016 R000	2015 R000
Establishment of a discretionary actuarial liability	189 190	193 229
Changes to non-economic assumptions	-	55 529
Changes to economic assumptions	-	(48 462)
Total assumption change	189 190	200 296

6. PUBLISHED REPORTING VALUATION AND ASSUMPTIONS

The valuation was performed using the Financial Soundness Valuation method for insurance contracts in accordance with the requirements of the Long-term Insurance Act.
The result of the valuation methods and assumptions is that profits for insurance contracts are released appropriately over the term of each policy. This avoids the premature recognition of profits which could give rise to losses in later years.

7. PUBLISHED REPORTING LIABILITY VALUATION METHODS AND ASSUMPTIONS

In the calculation of liabilities for insurance contracts provision has been made for:

- The best estimate of the future experience, plus the compulsory margins prescribed by SAP 104, plus a discretionary margin equal to the elimination of the overall negative reserve for all insurance contracts.

The effects of the discretionary margins are as follows:

	2016 R000	2015 R000
Elimination of overall negative reserves	**2 941**	1 147 491
Total discretionary margin	2 941	1 147 491

- The assumptions (before adding margins) with regard to future surrender, lapse, temporary and permanent disability payment, retrenchment, mortality and morbidity rates were consistent with the company's recent and expected future experience and provision has been made for the expected occurrence of AIDS-related claims.

- The most recent experience investigation was for the period 1 October 2014 to 30 September 2015 for expenses and 1 July 2015 to 30 March 2016 for funeral business mortality. For funeral business lapse experience the period investigated was 1 April 2015 to 31 March 2016.

- Provision for expenses (before adding margins) commences at a level consistent with that used previously, as increased by inflation, and allows for a 6.4% per annun escalation thereafter. An additional expense reserve allows for the shortfall in the expense margins recovered from premiums paid compared to the amount of the future budgeted expenses.

- Where relevant, liabilities include provisions to meet maturity, mortality and disability guarantees and for losses in respect of potential lapses and surrenders.

- A discount rate of 7.00% (previous year: 7.25%). No allowance has been made for tax as the policyholder fund is in an excess of E situation and consequently not expected to pay tax in the fund.

The policyholder fund does not currently pay tax. Shareholders are entitled to all the profits on the shareholders' funds and on the life insurance business.

8. PUBLISHED REPORTING ASSET VALUATION METHODS AND ASSUMPTIONS

All assets (including the excess of assets over liabilities) have been valued at fair value.

9. STATUTORY CAPITAL ADEQUACY REQUIREMENTS

The statutory capital adequacy requirement (CAR) has been calculated in accordance with section 6 of SAP 104.
The capital adequacy requirement is calculated to ensure that the excess of assets over liabilities is sufficient to provide for the possibility of significant adverse departures in actual future experience compared to the assumptions adopted in calculating policy liabilities and against significant fluctuations in the value of assets.

The following main assumptions have been adopted in calculating the capital adequacy requirement (CAR):

- The policy liabilities are backed by cash. A reduction in asset values is thus unlikely, which renders the need for a resilience reserve unnecessary.

Other risks which are not specified in SAP104 and which rely on the actuary's judgement on risks which are specific to the company concerned were also allowed for in the ordinary capital adequacy requirement (OCAR). Other risks allowed for were:

- Operational Risks. SAP104 is not specific about the amount that should be determined for operational risks and leaves it to the actuary's judgement. The practice is usually for the capital to be of the order of 3% of the company's annual premiums. This has been used in the past, but an allowance for operational risk of R30 million has been made for the current valuation.

The ordinary capital adequacy requirement (OCAR) exceeded termination capital adequacy requirement (TCAR) and the minimum capital adequacy requirement (MCAR), and thus the capital adequacy requirements have been based on the OCAR.

THE STANDARD GENERAL INSURANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
as at 30 September 2016

	Notes	2016 R000	2015 R000
ASSETS			
Intangible assets	5	325	30 129
Equipment	6	1 423	283
Other assets	7	523	45 491
Reinsurance assets	8	-	46 986
Cash and cash equivalents	9	1 508 031	1 901 935
Disposal group	11	266 456	-
Total assets		1 776 758	2 024 824
EQUITY AND LIABILITIES			
Share capital	10	5 000	5 000
Share premium	10	21 500	21 500
Retained earnings		1 281 847	1 082 479
Total equity (capital and reserves)		1 308 347	1 108 979
Deferred tax liability	12	25	15 661
Taxation		1 211	25 714
Policyholders' liabilities under insurance contracts	13	190 373	762 058
Other liabilities	14	-	59 897
Reinsurance creditor	15	-	49 933
Accounts payable	16	10 346	2 582
Disposal group	11	266 456	-
Total liabilities		468 411	915 845
Total equity and liabilities		1 776 758	2 024 824

THE STANDARD GENERAL INSURANCE COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2016

Continuing operations	Notes	2016 R000	2015 R000
Insurance premium and reinsurance income	17	86 108	82 512
Interest and other investment income	18	89 380	92 557
Net income		**175 488**	175 069
Insurance claims	19	(203 286)	(19 522)
Operating and administration expenses	20	(24 619)	(17 311)
(Loss) / profit before taxation from continuing operations		**(52 417)**	138 236
Taxation	21	14 748	(38 706)
(Loss) / profit for the year from continuing operations		**(37 669)**	99 530
Profit for the year from discontinuing operations	11	587 037	1 257 979
Profit for the year		**549 368**	1 357 509
Other comprehensive income		-	-
Total comprehensive income for the year		**549 368**	1 357 509

THE STANDARD GENERAL INSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2016

	Ordinary Share capital 'A' shares R000	Share premium R000	Retained earnings R000	Total R000
Balance at 30 September 2014	5 000	21 500	607 101	633 601
Total comprehensive income for the year	-	-	1 357 509	1 357 509
Dividends	-	-	(882 131)	(882 131)
Balance at 30 September 2015	5 000	21 500	1 082 479	1 108 979
Total comprehensive income for the year	-	-	549 368	549 368
Dividends	-	-	(350 000)	(350 000)
Balance at 30 September 2016	**5 000**	**21 500**	**1 281 847**	**1 308 347**

THE STANDARD GENERAL INSURANCE COMPANY LIMITED
STATEMENT OF CASH FLOWS
for the year ended 30 September 2016

	Notes	2016 R000	2015 R000
Cash (outflows) / inflow from continuing operations	22	**(90 282)**	115 071
Cash receipts from policyholders and investments	23	**220 448**	549 931
Cash paid to policyholders, suppliers and employees	24	**(310 730)**	(434 860)
Taxation paid	25	**(253 685)**	(516 525)
Net cash outflow from continuing operating activities		**(343 967)**	(401 454)
Net cash inflow from discontinuing operating activities	11	**492 340**	1 918 647
		148 373	1 517 193
Cash flows from investing in continuing operation activities		**(1 645)**	(261)
Acquisition of equipment		**(1 537)**	(190)
Acquisition of intangible assets		**(108)**	(71)
Cash flows from investing in discontinuing operation activities		**190 632**	
Net payment made on reinsurance transaction	11	**(190 632)**	-
Net cash outflow from investing activities		**(192 277)**	(261)
Cash flows from financing activities			
Dividends paid		**(350 000)**	(480 000)
Net cash outflow from financing activities		**(350 000)**	(480 000)
(Decrease) / increase in cash and cash equivalents		**(393 904)**	1 036 932
Distribution of funds held with ABL		**-**	(402 131)
Cash and cash equivalents at the beginning of the year		**1 901 935**	1 267 134
Cash and cash equivalents at the end of the year	9	**1 508 031**	1 901 935

1. GENERAL INFORMATION

The Standard General Insurance Company Limited ("Stangen") is a registered long-term insurance company in terms of the Long-term Insurance Act. Its principal activity was the selling of credit life insurance policies to African Bank Limited's (ABL) clients as part of the ABL loan offering. The credit life policy benefits include death, retrenchment, disability, short time and compulsory unpaid leave cover. During the period under review, the run-down credit life portfolio was 100 percent reinsured to Guardrisk Life Limited effective from 1 April 2016.

Stangen retains only the non-credit life business which is mainly funeral cover.

2. ADOPTION OF NEW STANDARDS AND INTERPRETATIONS

2.1 New and revised IFRSs affecting amounts reported in the current year

In the current year, there are no new standards and interpretations that are effective for the current year and that are relevant to its operations.

2.2 New and revised IFRSs in issue but not yet effective

The company has not applied the following new and revised IFRSs that have been issued but with a future effective date.

IFRS effective for periods beginning on or after 1 January 2016 (applicable to the annual financial statements for the year ended 30 September 2017)

IFRS/IFRIC		Title and Details	Expected impact
IFRS 5	**Title:**	**Non-current Assets Held for Sale and Discontinued Operations**	The company will comply with the standard when the standard becomes effective.
	Details:	Annual Improvements 2012 – 2014 Cycle: Amends IFRS 5 to clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of IFRS 5 does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29.	

2.2 New and revised IFRSs in issue but not yet effective *(continued)*

IFRS effective for periods beginning on or after 1 January 2016 (applicable to the annual financial statements for the year ended 30 September 2017) *(continued)*

IFRS 7	**Title:**	**Financial Instruments: Disclosures**	The company will comply with the standard when the standard becomes effective.
	Details:	• Annual Improvements 2012 – 2014 Cycle: The amendments provide additional guidance to help entities identify the circumstances under which a servicing contract is considered to be "continuing involvement" for the purposes of applying the disclosure requirements in paragraphs 42E – 42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount of turning of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset. • Annual Improvements 2012 -2014 Cycle: These amendments clarify that the additional disclosure required by the recent amendments to IFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with IAS 34 interim Financial Reporting when its inclusion would be necessary in order to meet the general principles of IAS 34.	
IAS 1	**Title:**	**Presentation of Financial Statements**	The company will comply with the standard when the standard becomes effective.
	Details:	Amendments clarifying IAS 1's specified line items on the statement(s) of profit and loss and other comprehensive income and the statement of financial position can be disaggregated. Additional requirements of how entities should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position.	

2. ADOPTION OF NEW STANDARDS AND INTERPRETATIONS *(continued)*

2.2 New and revised IFRSs in issue but not yet effective *(continued)*

IFRS effective for periods beginning on or after 1 January 2016 (applicable to the annual financial statements for the year ended 30 September 2017) *(continued)*

IAS 1	Title:	**Presentation of Financial Statements *(continued)***	The company will comply with the standard when the standard becomes effective.
	Details:	Clarification that entities have flexibility as to the order in which they present their notes to the financial statements, but also emphasising the need to consider fundamental principles of comparability and understandability in determining the order.	
IAS 16	Title:	**Property, Plant and Equipment**	The company will comply with the standard when the standard becomes effective.
	Details:	Amendments to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of economic benefits in such assets. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets. Amendments to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, Plants and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.	
IAS 38	Title:	**Intangible Assets**	The company will comply with the standard when the standard becomes effective.
	Details:	Amendments present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate except in two limited circumstances, as well as provide guidance in the application of the diminishing balance method for intangible assets.	

2. ADOPTION OF NEW STANDARDS AND INTERPRETATIONS *(continued)*

2.2 New and revised IFRSs in issue but not yet effective *(continued)*

IFRS effective for periods beginning on or after 1 January 2017 (applicable to the annual financial statements for the year ended 30 September 2018)

IFRS/IFRIC		Title and Details	Expected impact
IAS 12	Title:	**Income Tax**	The amendments are not expected to have a significant impact on the company.
	Details:	Recognition of Deferred Tax Assets for Unrealised Losses. (Amendments to IAS 12): Narrow-scope amendment to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	

IFRS/IFRIC		Title and Details	Expected impact
IAS 7	Title:	**Statement of Cash Flows**	The company will comply with the standard when the standard becomes effective.
	Details:	Disclosure Initiative: Amendments requiring entities to disclose information about changes in their financing liabilities. The additional disclosures will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash flows changes (such as foreign exchange gains and losses.	

IFRS effective for periods beginning on or after 1 January 2018 (applicable to the annual financial statements for the year ended 30 September 2019)

IFRS/IFRIC		Title and Details	Expected impact
IFRS 9	Title:	**Financial Instruments**	The company will comply with the standard when the standard becomes effective.
	Details:	IFRS 9 'Financial Instruments (2014)' replaces IAS 39 'Financial Instruments: Recognition and Measurement.	
IFRS 15	Title:	**Revenue from Contracts with Customers**	The amendments are not expected to have a significant impact on the company.
	Details:	New guidance on recognition of revenue that requires recognition of revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.	

2. ADOPTION OF NEW STANDARDS AND INTERPRETATIONS *(continued)*

2.2 New and revised IFRSs in issue but not yet effective *(continued)*

IFRS effective for periods beginning on or after 1 January 2019 (applicable to the annual financial statements for the year ended 30 September 2020)

IFRS 16	Title:	**Leases**	The company will comply with the standard when the standard becomes effective.
	Details:	IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and a lease liability. IFRS 16 also: • Changes the definition of a lease • Sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods. • Provides exemptions for short-term leases and leases of low value assets • Changes the accounting for sale and leaseback arrangements • Largely retains IAS 17's approach to lessor accounting • Introduces new disclosure requirements	

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about income, expenses and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates, judgements and assumptions.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A change in accounting estimate is defined as an adjustment to the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Estimates and judgements and assumptions made, predominantly relate to policyholders' liabilities arising from insurance contracts (note 13). Other judgements made relate to classifying financial assets and liabilities into their relevant categories and in the determination of their fair value for measurement and disclosure purposes.

The following are the critical judgements and key estimation uncertainties that management have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

3.1 Going concern

As stated in the directors' responsibility section, the annual financial statements have been prepared on the going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The directors have considered the following factors in deciding whether the company is a going concern:

- The company has sufficient excess assets held in cash to manage the business in a run-down, assuming the worst case scenario, should no new business opportunities or partnerships be secured;
- The company has fully reinsured its existing credit life portfolio to Guardrisk and therefore has minimal risk exposure to credit life risks. The reinsurance has also reduced the capital requirements of the company resulting in a higher Capital Adequacy Ratio (CAR);
- The restrictions on selling and marketing of insurance products were lifted by the FSB during the latter part of the year and the company can now focus on marketing and sales;
- The solvency and asset spread position of the company is substantially above the regulatory minimum requirements and based on various stress tests applied this is expected to be the position going forward;
- Stress tests were also performed on a forward-looking basis, having regard to the actuarial report and Own Risk and Solvency Assessment ("ORSA") conducted during the course of the year as part of preparation for the new Solvency Assessment and Management ("SAM") regime for insurers. It is management's view that sufficient risk mitigants are in place for the key financial risks facing the company in the new financial year; and

Based on the above, the directors consider the preparation of the annual financial statements as a going concern as appropriate as the company is expected to realise its assets and settle its commitments in the normal course of business for a period of not less than one year from the date of approval of these annual financial statements.

3.2 The ultimate liability arising from benefit payments under insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on the estimates made by the company. Policyholders' liabilities under long-term insurance contracts are comprised of the claims reported, assessed but not settled at the reporting date, the claims related to the events which might have taken place on or before the reporting date, but were not communicated to the insurer on the reporting date, as well as of the estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received or paid (net of expected service costs).

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

3.2 The ultimate liability arising from benefit payments under insurance contracts *(continued)*

The liability for long-term insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. At inception of the contract, the company determines assumptions in relation to future death, disabilities, voluntary terminations, investment returns and administration expenses.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered to reflect the latest estimates. Insurance contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, expenses, lapse and discount rates, and taxes.

Process used to decide on assumptions and changes in assumptions:

Mortality and morbidity rates
Assumptions are based on standard industry and national tables, according to the type of contract written and the country/area in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the company's own experiences. An appropriate, but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will reduce profits for shareholders.

Investigations into mortality experience are performed annually for all classes of business. The period of investigation extends over at least the latest three full years. The results of the investigation are used to set the valuation assumptions, which are applied as an adjustment to the respective base table.

In setting the assumptions, provision is made for the expected increase in AIDS-related claims. Allowance for AIDS-related deaths is made in the base mortality rates at rates consistent with the requirements of APN 105 issued by the Actuarial Society of South Africa (ASSA).

The incidence of disability claims is derived from the risk premium rates determined from annual investigations. The incidence rates are reviewed on an annual basis, based on the medical claims experience. The adjusted rates are intended to reflect future expected experience.

Retrenchment rates
The retrenchment rate assumptions are based on the most recent experience as well as on the expected future trends. The actual retrenchment rates are compared to the previously projected rates annually and the assumptions are adjusted if necessary,

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

3.2 The ultimate liability arising from benefit payments under insurance contracts *(continued)*

Lapse rates
The lapse rate assumptions are based on the most recent experience as well as on the expected future trends. The actual lapse rates are compared to the previously projected rates annually and the assumptions are adjusted if necessary. The lapsing rates are analysed by product type and policy duration.

Expenses
An expense analysis is performed on the actual expenses incurred in the financial year preceding the reporting date. The budgets approved by the relevant Board are also used to determine future per policy expense.

Discount rates
The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability in question.

Tax
The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the statutory actuary. Estimates are made as to the expected number of deaths, retrenchments and disabilities for each of the years for which the company is exposed to risk. These estimates are based on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience.

Future benefit payments are estimated as outlined in note 13. Where future premiums are payable, they have also been valued based on the expected premium to be paid. Future premiums are projected over the lifetime of each policy on a policy-by-policy basis. The value of the premiums takes into account the possibility that the policy may terminate early through lapsing or maturity. The interest rate used to discount the premiums reflect current economic conditions and the asset mix of the company.

Insurance risks are unpredictable and the company recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have an above average likelihood of being adequate to settle all its insurance obligations.

3.3.1 Incurred and Reported Claims (IAR)

Claims provisions are determined based upon previous claims experience, knowledge of events, the terms and conditions of the relevant policies and on the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard to the specific circumstances, information available from the insured and past experience with similar cases and historical claims payment trends.

The approach also includes the consideration of the development of claims payments trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The company employs individuals experienced in claims handling and applies standardised policies and procedures to claims assessment.

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

3.3.1 Incurred and Reported Claims (IAR) *(continued)*

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries.

3.3.2 Claims incurred but not reported (IBNR)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling the claims already notified to the company, where information about the claim event is available. Where possible, the company adopts multiple techniques to estimate the required level of provisions. This assists in developing a greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The appropriate estimation technique is selected, taking into account the characteristics of the various portfolios and the extent of the developments in each reporting period.

3.4 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the company is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

The main assumptions and estimates which management considers when applying valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms, is in doubt. Future cash flows may be sensitive to changes in market rates;

- Selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as an appropriate risk premium for the instrument over the appropriate risk-free rate; and

3. Critical accounting judgements and key sources of estimation uncertainty *(continued)*

3.4 Fair value estimation *(continued)*

- Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

3.5 Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that certain key assumptions may change, which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each company of assets. Expected future cash flows used to determine the value in use of goodwill, tangible and intangible assets are inherently uncertain and could materially change over time.

3.6 Current and deferred taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is provided for on the fair value adjustments of assets based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability or asset.

The company recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the deferred tax assets recorded at the end of the reporting period could be impacted.

The significant accounting policies set out below have been applied in the preparation and presentation of the company's financial statements in dealing with items that are considered material during this reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Statement of compliance

The annual financial statements are prepared in accordance with, and comply with, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standard Council and the requirements of the Companies Act (Act 71 of 2008).

4.2 Basis of preparation

The financial statements have been prepared in accordance with the going concern principle and using a historical cost basis, except where specifically indicated otherwise in the accounting policies.

The statement of financial position is presented in order of liquidity. Reference to the current maturities of financial liabilities is disclosed in the notes and in the analysis of financial liabilities.

The accounting policies and their application are consistent with the previous year except where specifically stated otherwise.

4.3 Intangible assets

4.3.1 Value of in-force reinsurance business acquired

On cancellation of the reinsurance agreement with RLA, the company recognised an intangible asset representing the value of in-force reinsurance premiums acquired from RLA. The value of in-force reinsurance premiums represents the present value of future reinsurance premiums which would have been ceded to RLA.

4.3.2 Software

Software consists of purchased and internally developed software. Software acquired by the company is measured at cost less accumulated amortisation and any accumulated impairment losses. The estimated useful life of software is four years.

4.4 Equipment

Computer equipment and office equipment are stated at cost less accumulated depreciation and impairments.

Depreciation is charged to profit and loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis. Useful lives have been determined to be as follows:

Computer equipment	4 years
Office equipment	6 years

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.5 Impairment of non-financial assets

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use. Impairment losses recognised are allocated first to reduce the carrying amount of any goodwill allocated, and then to reduce the carrying amounts of the other assets on a pro rata basis.

4.6 Financial instruments

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities held for investment, trading or liquidity purposes, but exclude employee benefit plans, equipment, intangible assets, taxation payable, deferred tax assets and liabilities, and assets and liabilities arising from insurance contracts.

Financial instruments are accounted for under IAS 32 *Financial Instruments*: Presentation, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*.

4.6.1 Classification of financial assets and financial liabilities

Financial assets are classified into the following categories:

- loans and receivables;

Financial liabilities are classified into the following categories:

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

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

4.6.2 Initial recognition

Financial instruments are recognised on the statement of financial position when the company becomes a party to the contractual provisions of a financial instrument.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6 Financial instruments *(continued)*

4.6.3 Initial measurement

All financial instruments are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately through profit or loss.

4.6.4 Subsequent measurement

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification:

- Financial assets and financial liabilities at fair value through profit or loss
  Financial instruments at fair value through profit or loss consist of trading instruments and instruments that the company has elected, on the date of initial recognition, to designate as at fair value through profit or loss.

  Trade receivables and other receivables that are not held for trading purposes and have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment losses.

- Financial liabilities at amortised cost
  All financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost.

4.6.4.1 Fair value

In estimating the fair value of an asset or a liability the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6 Financial instruments *(continued)*

4.6.4 Subsequent measurement *(continued)*

4.6.4.1 Fair value *(continued)*

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received. Transaction costs that are directly attributable are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for a financial asset with similar terms and conditions.

4.6.4.2 Assets carried at amortised cost

The company within this context reviews the carrying amounts of such loans and advances to determine whether there is any indication that those loans and advances have become impaired, using objective evidence at a loan and insurance level and at the portfolio level.

Given the interconnectedness of the credit life business on the unsecured loans of RDS and ABL, the company considers the valuation of such loans in preparation of the financial statements.

4.7 Cash and cash equivalents

Cash and cash equivalents comprise of fixed and notice deposits as well as call and current accounts with financial institutions.

4.8 Insurance contracts

Classification of contracts
Contracts under which the company accepts significant insurance risks from the policyholder, by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event affects the policyholder or other beneficiary are classified as insurance contracts.

Recognition and measurement
Insurance contracts are classified into individual and group credit life and funeral depending on the duration of the risk and whether or not the terms and conditions are fixed.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.8 Insurance contracts *(continued)*

Individual and group credit life, funeral, crime injury and personal accident products
Credit life contracts are for the term of the policy covering insured events in the form of death, disability, retrenchment, short-time and compulsory unpaid leave. The contracts are designed to pay an amount equal to the outstanding loan or credit card balances with Residual Debt Services and African Bank Limited (subject to certain limitations) following death, disability, and retrenchment of the contract holder.

Funeral contracts are offered on a whole of life basis covering death. The amount paid upon a claim is set at the outset of the contract and remains constant throughout the term of the contract.

Crime injury products provides cover in the event of the murder of an assured life or upon the occurrence of a crime event which results in the temporary or permanent disability of an assured life; and the personal accident product provides cover and benefits in the event of the accidental death or accidental disability which results in the permanent and temporary disability of a policyholder. The policy provides term cover in respect of the assured lives meaning that the cover will cease at the end of a specified term. Personal accident products provides cover for accidental death and accidental disability.

Policyholder liabilities under insurance contracts
All policyholder contracts that transfer significant insurance risk are classified as insurance contracts.

These contracts that are under un-matured policies are computed annually at the statement of financial position date by the company's statutory actuary, in accordance with the provisions of the Long-term Insurance Act, 1998 and valued in terms of the Financial Soundness Valuation (FSV) basis contained in SAP 104 issued by the Actuarial Society of South Africa and represents the company's total policyholder liabilities. Claims incurred prior to the end of the financial year, but not reported until after that date, are brought into account in the valuation of policyholder liabilities.

The statutory actuary sets a discretionary margin that is equal to the net total liabilities (where negative) to reduce the negative reserves to the established IBNR reserve on the published basis. An additional discretionary actuarial provision for continued operations has also been raised.

The transfer to policyholder liabilities under insurance contracts reflected in the statement of comprehensive income is a result of the changes in actuarial liabilities.

Policyholder's benefits
Provision is made for the estimated cost of claims notified, but not settled, at the end of the financial year, using the best information available at the time. Claims payable include related internal and external claims handling costs. Claims are stated net of reinsurance recoveries.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.8 Insurance contracts *(continued)*

Liability adequacy test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. Long-term insurance liability is valued in terms of the Financial Soundness Valuation (FSV) basis. Under the FSV basis, a liability is determined as the sum of the current estimate of the expected discounted value of all the benefit payments and the future administration expenses that are directly related to the contract, less the current estimate of the expected discounted value of the contractual premiums.

The liability is based on assumptions as to mortality, morbidity, retrenchment, persistency and maintenance expenses that are established at the time of valuing the contract at each reporting date. Margins for adverse deviations are included in the assumptions.

Assumptions used for valuing policyholder liabilities are based on best estimates of future experiences, guided by recent past experience and increased by margins prescribed by the Actuarial Society of South Africa for prudence.

If the liability adequacy test shows that the carrying amount of the Insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

The company does not recognise negative reserves (i.e. an asset) that may arise if future insurance premium income is taken into account after allowance for unexpired risk. The statutory actuary sets a discretionary margin, allowed for in terms of SAP 104, such that it is equal to the elimination of the overall negative reserves (i.e. an asset) for insurance contracts.

4.9 Provisions

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligation.

Provisions for leave pay and bonuses are recognised when the company has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

4.10 Revenue recognition

Premium income

The company reflects premium income relating to insurance business gross of reinsurance and is accounted for when the premiums become due.

4.11 Investment income

Interest income is accrued on a yield to maturity basis by reference to the principal outstanding and the interest rate applicable.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.12 Other fee income

Administration fees received are recognised as the service is rendered.

4.13 Commission

Life insurance contracts business commission is expensed as incurred.

4.14 Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

4.15 Reinsurance recoveries

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

4.16 Taxation

4.16.1 Direct taxation

Direct taxation in profit or loss consists of South African corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred).

Current taxation is the expected taxation payable based on the taxable income, inclusive of capital gains, for the year, using taxation rates enacted or substantially enacted at the statement of financial position date, and any adjustment to taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non taxable or disallowed in terms of tax legislation.

Taxation in respect of the company is determined using the four fund method applicable to life insurance companies in terms of the Income Tax Act.

4.16.2 Deferred taxation

Deferred income taxation is provided on temporary differences using the balance sheet liability method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base.

Deferred tax is charged or credited in profit or loss, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred tax is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.16 Taxation *(continued)*

4.16.2 Deferred taxation *(continued)*

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited to other comprehensive income and accumulated in equity, is also credited or charged to other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

Deferred tax assets are recognised on the tax effects of income tax losses available for carry-forward, if the company considers it probable that future taxable income will be available against which the unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the taxable entity and the same taxation authority.

4.17 Defined contribution plans

Defined contribution plans have been established for eligible employees of the company, with the assets held in separate trustee administered funds. The company pays contributions on a contractual basis as determined in terms of the rules of each benefit fund. The company has no further legal or constructive obligations to pay any further contributions or benefits once the fixed contributions have been paid to the funds.

Contributions in respect of defined contribution plans are recognised as an expense in profit or loss as they are incurred.

4.18 Short term benefits

Short term benefits consist of salaries, compensated balances (such as paid annual and sick leave), bonuses and non-monetary benefits such as medical aid contributions.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus plans or accumulated leave if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.19 Discontinued operations

Classification as discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

4.20 Comparative figures

Where necessary, comparative figures within the notes have been restated to conform to changes in presentation in the current year.

5. INTANGIBLE ASSETS

	2016 R000	2015 R000
Value of in-force reinsurance business acquired	-	29 458
Computer software	325	671
	325	30 129

Value of in-force reinsurance business acquired		
Cost	36 958	36 958
Accumulated amortisation	(36 958)	(7 500)
Carrying value at end of year	-	29 458

Reconciliation of carrying value **Value of in-force reinsurance business acquired**		
Balance at beginning of the year	29 458	-
Acquisition	-	36 958
Amortisation	(29 458)	(7 500)
Carrying value at end of year	-	29 458

The company carried an intangible asset representing the present value of in-force future reinsurance premiums due to the cancellation of the reinsurance agreement with Relyant Life Assurance Company Limited and on 1 April 2016 the intangible asset was fully amortised due to the company reinsuring 100 percent of the remaining credit life portfolio to Guardrisk.

Software		
Cost	3 006	2 898
Accumulated amortisation	(2 681)	(2 227)
Carrying value at end of year	325	671

The remaining useful life of software is three years.

5. INTANGIBLE ASSETS *(continued)*

	2016 R000	2015 R000
Reconciliation of carrying value		
Software		
Balance at beginning of the year	671	1 318
Additions	108	71
Amortisation	(454)	(718)
Carrying value at end of year	325	671

6. EQUIPMENT

	2016 R000	2015 R000
Cost	3 766	2 229
Computer equipment	1 947	1 866
Office equipment	1 819	363
Accumulated depreciation	2 343	1 946
Computer equipment	1 714	1 601
Office equipment	629	345
Closing carrying value	1 423	283
Computer equipment	233	265
Office equipment	1 190	18

	2016 R000	2015 R000
Reconciliation of carrying value		
Computer equipment		
Balance at beginning of the year	265	504
Additions	81	190
Depreciation	(113)	(429)
Carrying value at end of year	233	265

	2016 R000	2015 R000
Reconciliation of carrying value		
Office equipment		
Balance at beginning of the year	18	25
Additions	1 456	-
Depreciation	(284)	(7)
Carrying value at end of year	1 190	18

7. OTHER ASSETS

	2016 R000	2015 R000
Premiums outstanding	-	45 491
Intercompany (refer note 26)	248	-
Administration fees	275	-
	523	45 491

Standard|General

8. REINSURANCE ASSETS

	2016 R000	2015 R000
Opening balance	-	156 084
Release from reinsurance asset	-	(39 926)
Settlement by RLA of the reinsurance liabilities	-	(116 158)
Reinsurance asset relating to RLA	-	-
Opening balance	46 986	-
(Release) / Transfer to reinsurance asset – Swiss Re	(49 659)	46 986
Settlement of Swiss Re	2 673	-
Reinsurance asset relating to Swiss Re	-	46 986
Transfer to reinsurance asset – Guardrisk	245 926	-
Reinsurance asset reflected under discontinued operation	(245 926)	-
	-	-

- The company reached an agreement with Swiss Re Life & Health ("Swiss Re") for early termination of the credit life treaty effective 1 April 2016.
- A new reinsurance treaty with Guardrisk was concluded effective 1 April 2016 whereby 100% of the insurance risk is transferred to Guardrisk in exchange for an upfront reinsurance premium rebate (refer note 11 – Discontinued operations).

9. CASH AND CASH EQUIVALENTS

	2016 R000	2015 R000
Current accounts	4 305	1 002
Call accounts	18 660	540 705
Fixed deposit accounts	1 485 066	1 360 228
Cash and cash equivalents	1 508 031	1 901 935

10. SHARE CAPITAL AND PREMIUM

	2016	2015
Authorised:		
5 000 100 'A' ordinary shares of R1 each	5 000	5 000
100 'B' ordinary shares of R1 each		
	5 000	5 000
Issued:		
5 000 001 'A' ordinary shares of R1 each	5 000	5 000
1 'B' share of R1 each		
Share premium	21 500	21 500
Total share capital and premium	26 500	26 500

11. DISCONTINUED OPERATION

The company initiated a formal process to transfer the remaining credit life business to Guardrisk during the 2016 financial year, which is currently 100% reinsured to Guardrisk. On 31 October 2016, a transfer agreement between the company and Guardrisk was signed which would result in Guardrisk becoming the primary insurer of the credit life business sold via Residual Debt Services and African Bank Limited and the reinsurance agreement between the company and Guardrisk would then be terminated. The transfer is expected mid-2017, subject to the approval by the relevant regulatory bodies.

Results of discontinued operation

	2016 R000	2015 R000
Insurance premium and reinsurance income	1 352 693	3 705 371
Reinsurance outwards	(244 707)	(293 191)
Amortisation of future in-force value	(29 458)	(7 500)
Net insurance income	1 078 528	3 404 680
Interest and other investment income	29 951	35 887
Net income	1 108 479	3 440 567
Net insurance claims	14 035	(797 998)
Gross insurance benefits	(631 437)	(976 192)
Reinsurance recoveries	645 472	178 194
Operating and administration expenses	(307 184)	(895 376)
Profit before taxation	815 330	1 747 193
Taxation	(228 293)	(489 214)
Profit for the year	587 037	1 257 979
Other comprehensive income	-	-
Total comprehensive income for the year	587 037	1 257 979

The carrying amounts of assets and liabilities in the disposal group:

	2016 R000
Reinsurance assets	245 926
Reinsurance debtors	20 530
Total assets of disposal group	266 456
Policyholders' liabilities under insurance contracts	(245 926)
Reinsurance creditors	(20 530)
Total liabilities of disposal group	(266 456)

Cash flows from / (used in) discontinued operation

	2016 R000	2015 R000
Net cash used in operating activities	492 340	1 918 647
Net cash outflow from investing activities	(190 632)	-
Net cash from financing activities	-	-
Net cash flows	301 708	1 918 647

12. DEFERRED TAX LIABILITY

Temporary differences	Opening balance	Recognised in profit or loss	Closing balance
2016	R000	R000	R000
Deferred tax liability	15 661	(15 626)	25
2015	R000	R000	R000
Deferred tax liability	19 691	(4 030)	15 661
Deferred tax asset	(91)	91	-
	19 600	(3 939)	15 661

The deferred tax liability relates to the statutory margin of 7.5% added to the IBNR actuarial valuation.

The deferred tax asset relates to the 10% impairment on a portion of the interest receivable on the ABL call deposit as a result of the 10% haircut announced by the SARB as part of the restructuring of ABL.

13. POLICYHOLDERS' LIABILITIES UNDER INSURANCE CONTRACTS

The policyholders' liabilities under insurance at 30 September 2016 were lower than the amount of the actuarial value of liabilities and life assurance policies by R89k as a result of not including the statutory margin on the funeral IBNR actuarial valuation.

	2016	2015
	R000	R000
Balance at end of year	190 373	762 058
Opening balance	762 058	1 072 515
Release from the statement of comprehensive income at the end of the year	(142 906)	(310 457)
Transfer of policyholder liabilities to Guardrisk	(428 779)	-
Comprising:		
Policyholders' liabilities under insurance contracts	190 373	762 058
Total policyholders' liabilities	190 373	762 058
Policyholders' liabilities per claim category:		
Death	1 183	110 622
Permanent disability	-	17 868
Temporary disability	-	5 049
Retrenchment	-	561 461
Other (Discretionary Actuarial Liability)	189 190	67 058
Total	190 373	762 058

Process used to decide on assumptions

The business was divided into homogeneous groupings and each grouping was analysed. Best estimate assumptions were then derived based on the experience investigations. Where data was limited, market statistics were used. Allowance was made for recent trends evident in the data. Once the best estimate assumptions were arrived at, statutory margins were added as required in terms of local actuarial guidance notes.

13. POLICYHOLDERS' LIABILITIES UNDER INSURANCE CONTRACTS *(continued)*

The statutory margins are summarised as follows:

Assumption	Compulsory margin
Investment earnings	0.25% increase in rate
Expense inflation	10% loading i.e. 1.1 times the expense inflation assumption used
Mortality	Assumption increased by 7.5% i.e. 1.075 times the relevant mortality rate
Morbidity	Assumption increased by 10% i.e. 1.1 times the relevant disability rate
Retrenchment	Assumption increased by 20% i.e. 1.2 times the relevant retrenchment rate
Lapses	25% increase in lapse rate i.e. multiply by 1.25
Expenses	10% loading i.e. 1.1 times the expense assumption used

In addition to the above compulsory margins the following discretionary margins were incorporated:

Withdrawal	Fixed increase of 0.5%
Reduction of negative reserves	We have allowed for future profits emerging over the next four years when calculating the expense reserve. The discretionary margin is thus equal to the amount required to eliminate those negative reserves that arise after this four year period
Margins on the IBNR reserve	No margin is recognised on the IBNR reserve as this is covered by the discretionary margin held against the negative reserves.

The assumptions used for insurance contracts are as follows:

a) Mortality
Standard assured lives mortality tables were used as a base to reflect the company's recent claims experience. Allowance was also included for AIDS related claims based on the most recent local actuarial guidance notes and the tables were modified in the light of the company's overall mortality experience.

b) Morbidity
The morbidity tables that were used were derived from the mortality rates. These tables reflect the company's most recent claims experience.

c) Retrenchment
The retrenchment rate used in the valuation is based on the most recent retrenchment claims experience of the company.

d) Persistency
The repayment behaviour of borrowers in respect of loans underlying the credit life policies was analysed to determine the future lapse rates of policies.

e) Investment returns
The valuation rate of interest is based on the expected return on the assets backing the life fund. The expected return is determined with reference to the available rates in the market and actual returns earned in the past.

13. POLICYHOLDERS' LIABILITIES UNDER INSURANCE CONTRACTS *(continued)*

f) Renewal expenses and inflation

A detailed expense investigation was undertaken and the expenses split between acquisition and maintenance expenses. The maintenance expenses were adjusted for expected inflation in the future and spread over the anticipated volumes of business over the next year to derive a per policy expense for each class. A check was done to ensure that based on current business volumes, the acquisition expenses would continue to be covered by the future new business written.

A distribution of IBNR reserves was calculated stochastically using a bootstrap method sampling the actual observed development factors. The effect of moving from the 50th percentile to 95th percentile would increase the IBNR liability by R11.97 million, or 1.6%.

The above analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and the changes in some assumptions may be correlated – for example, change in interest rate and change in market values.

The above figures include an unchanged discretionary margin (in Rand terms) at the level included in the best estimate liabilities.

14. OTHER LIABILITIES

	2016 R000	2015 R000
Commissions payable	-	59 897
	-	59 897

15. REINSURANCE CREDITOR

	2016 R000	2015 R000
Amount due to reinsurance	-	49 933
	-	49 933

The company initiated a formal process to transfer the remaining credit life business to Guardrisk during the 2016 financial year which culminated in the signing of the transfer agreement between the two parties on 31 October 2016, whereby Guardrisk would become the primary insurer of all the credit life business. The credit life business was classified as a discontinued operation in terms of IFRS 5 and is disclosed separately under note 11.

16. ACCOUNTS PAYABLE

	2016 R000	2015 R000
Provision for leave pay and bonuses	8 232	851
Sundry creditors and accruals	2 114	1 731
	10 346	2 582

17. INSURANCE PREMUMS AND REINSURANCE INCOME

	2016 R000	2015 R000
Funeral premiums	86 108	82 512
	86 108	82 512

18. INVESTMENT INCOME

	2016 R000	2015 R000
Fixed deposit and call interest received	88 910	92 557
Administration fees received	470	-
	89 380	92 557
Interest income is attributable to:		
Loans and receivables (including cash and cash equivalents)	89 380	92 557

19. NET INSURANCE CLAIMS

	2016	2015
Individual benefits:		
Funeral claims and outstanding	(14 096)	(19 522)
Discretionary Actuarial Liabilities	(189 190)	
	(203 286)	(19 522)

(* An additional discretionary actuarial reserve of R189 million was raised which allows for the shortfall in the expense margins recovered from premiums paid compared to the amount of the future budgeted expenses.)

20. OPERATING AND ADMINISTRATION EXPENSES

Gross commissions	11 376	14 734
Operating and administration expenses	13 243	2 577
	24 619	17 311

The operating and administration expenses were all allocated between continuing and discontinuing operation based on the number of active policies.

Total operating and administration expenses include:		
Administration and management costs	1 688	8 853
Actuarial fees	3 225	4 340
Amortisation of software	453	719
Audit fees	1 540	1 645
Binder fees	5 600	14 847
Debit order expenses	8 487	7 075
Donations	409	500
Commissions	267 502	848 672
Consulting fees	1 401	895
Depreciation	397	436
Non-executive directors' remuneration - fees	1 549	1 414
Legal fees	6 523	1 091
Other costs	3 945	816
Secretarial fees	468	-
Staff costs	23 844	18 070
Basic remuneration	11 352	10 343
Bonuses and incentives	11 053	6 343
Contributions to provident fund	1 439	1 384
Software maintenance costs	4 772	3 314
	331 803	912 687

21. TAXATION

	2016 R000	2015 R000
Total taxation	14 748	(38 706)
Current taxation: current year	14 748	(38 706)

	2016 %	2015 %
Tax rate reconciliation		
Effective tax rate	28.00	28.00
Non-deductible expense	0.14	-
Statutory tax rate	28.14	28.00

22. CASH FLOWS FROM OPERATING ACTIVITIES

	2016 R000	2015 R000
(Loss) / profit before taxation	(52 417)	138 236
Adjustment for:		
Amortisation of intangible assets	397	718
Depreciation	453	436
Movement in accruals	(52 125)	(24 319)
Movement in gross IBNR	13 409	-
Cash generated from operations	(90 283)	115 071

23. CASH RECEIPTS FROM POLICYHOLDERS AND INVESTMENTS

	2016	2015
Interest and other income received	89 380	92 557
Insurance premium received	131 068	457 374
Cash receipts from policyholders and investments	220 448	549 931

24. CASH PAID TO POLICYHOLDERS, SUPPLIERS AND EMPLOYEES

	2016	2015
Remuneration, bonuses and incentives paid to employees and directors	1 806	381
Other operating expenses paid	111 502	40 094
Insurance benefits and claims paid	197 422	394 385
Cash paid to policyholders, suppliers and employees	310 730	434 860

25. DIRECT TAXATION PAID

	2016	2015
(Decrease) / increase in tax liability	(24 504)	15 334
Direct taxation charged to the income statement (note 21)	(213 545)	(527 920)
Deferred tax portion of amount charged to income statement (note 21)	(15 636)	(3 939)
Taxation paid	(253 685)	(516 525)

26. RELATED PARTY BALANCES & TRANSACTIONS

The company has entered into financial services transactions with its holding company. Transactions between the company and African Phoenix Investments Limited (formerly trading as African Bank Investments Limited) were in the ordinary course of business on market related terms and conditions similar to those arranged with third parties.

Balances	Intercompany type	Rate	Repayment terms	2016 R000	2015 R000
African Phoenix Investments Limited	Expenses	0.00%	None	248	-

Transactions	Transaction type	2016 R000	2015 R000
African Phoenix Investments Limited	Dividends	(350 000)	(882 131)
African Phoenix Investments Limited	Administration fees received	80	-
Total		(349 920)	(882 131)

27. CONTINGENT LIABILITIES

Level life liability

The company has not provided for a level life liability associated with credit life claims paid in the past. Historically, the company has not raised a provision for these benefits as a result of very low payout levels after having carried out an extensive exercise to locate and verify beneficiaries over many years, including the past few years.

The policy benefits are recognised in profit or loss when the claim is submitted.

28. FINANCIAL RISK

28.1 Interest rate risk

The company is exposed to interest rate risk associated with the effects of fluctuations in the prevailing levels of market rates on its financial positions and cash flows. The table below summarises the exposure to interest rate risk through grouping assets and liabilities into repricing categories, determined to be the earlier of the contractual repricing or maturity date.

28. FINANCIAL RISK *(continued)*

28.1 Interest rate risk *(continued)*

2016	Up to one month R000	One to three months R000	Four to twelve months R000	Beyond twelve months R000	Non-interest sensitive items R000	Non-financial instruments R000	Total R000
Assets							
Intangible assets	-	-	-	-	-	325	325
Equipment	-	-	-	-	-	1 423	1 423
Other assets	-	-	-	-	523	-	523
Disposal group	-	-	-	-	266 456	-	266 456
Cash and cash equivalents	22 965	-	1 485 066	-	-	-	1 508 031
Total assets	22 965	-	1 485 066	-	266 979	1 748	1 776 758
Liabilities and Equity							
Deferred tax liability	-	-	-	-	-	25	25
Taxation	-	-	-	-	-	1 211	1 211
Policyholder liabilities	-	-	-	-	190 373	-	190 373
Disposal group	-	-	-	-	266 456	-	266 456
Accounts payable	-	-	-	-	10 346	-	10 346
Total Liabilities	-	-	-	-	467 175	1 236	468 411
Ordinary shareholder's equity	-	-	-	-	-	1 308 347	1 308 347
Total liabilities and equity	-	-	-	-	467 175	1 309 583	1 776 758
On balance sheet interest sensitivity	22 965	-	1 485 066	-	(200 196)	(1 307 835)	-
2015							
Assets							
Intangible assets	-	-	-	-	-	30 129	30 129
Equipment	-	-	-	-	-	283	283
Other assets	-	-	-	-	45 491	-	45 491
Reinsurance assets	-	-	-	-	46 986	-	46 986
Cash and cash equivalents	1 901 935	-	-	-	-	-	1 901 935
Total assets	1 901 935	-	-	-	92 477	30 412	2 024 824

28. FINANCIAL RISK *(continued)*

28.1 Interest rate risk *(continued)*

2015	Up to one month R000	One to three months R000	Four to twelve months R000	Beyond twelve months R000	Non-interest sensitive items R000	Non-financial instruments R000	Total R000
Liabilities and equity							
Deferred tax liability	-	-	-	-	-	15 661	15 661
Taxation	-	-	-	-	-	25 714	25 714
Policyholder liabilities	-	-	-	-	709 592	-	709 592
Incurred and reported (IAR) provision	-	-	-	-	52 466	-	52 466
Other liabilities	-	-	-	-	59 897	-	59 897
Reinsurance creditor	-	-	-	-	49 933	-	49 933
Accounts payable	-	-	-	-	2 582	-	2 585
Total Liabilities	-	-	-	-	874 470	41 375	915 845
Ordinary shareholder's equity	-	-	-	-	-	1 108 979	1 108 979
Total liabilities and equity	-	-	-	-	874 470	1 150 354	2 024 824
On balance sheet interest sensitivity	1 901 935	-	-	-	(781 993)	(1 119 942)	-

28.2 Liquidity risk

2016	Up to one month R000	One to three months R000	Four to twelve months R000	Twelve to 24 months R000	24 to 36 months R000	Beyond 36 months R000	Non-financial instruments R000	Total R000
Assets								
Intangible assets	-	-	-	-	-	-	325	325
Equipment	-	-	-	-	-	-	1 423	1 423
Other assets	523							523
Disposal group	-	-	266 456	-	-	-	-	266 456
Cash and cash equivalents	22 965	-	1 485 066	-	-	-	-	1 508 031
Total assets	23 488	-	1 751 522	-	-	-	1 748	1 776 758

28. FINANCIAL RISK *(continued)*

28.2 Liquidity risk *(continued)*

2016	Up to one month R000	One to three months R000	Four to twelve months R000	Twelve to 24 months R000	24 to 36 months R000	Beyond 36 months R000	Non-financial instru-ments R000	Total R000
Liabilities and equity								
Deferred taxation	-	-	-	-	-	-	25	25
Taxation	-	-	-	-	-	-	1 353	1 353
Policyholder liabilities	190 373	-	-	-	-	-	-	190 373
Accounts payable	10 346	-	-	-	-	-	-	10 346
Disposal group		-	266 456	-	-	-	-	266 456
Total Liabilities	200 719	-	266 456	-	-	-	1 378	468 553
Ordinary shareholder's equity	-	-	-	-	-	-	1 308 205	1 308 205
Total liabilities and equity	200 719	-	266 456	-	-	-	1 309 583	1 776 758
Net liquidity gap	(177 231)	-	1 485 066	-	-	-	(1 307 835)	-

2015	Up to one month R000	One to three months R000	Four to twelve months R000	Twelve to 24 months R000	24 to 36 months R000	Beyond 36 months R000	Non-financial instru-ments R000	Total R000
Assets								
Intangible assets	-	-	-	-	-	-	30 129	30 129
Equipment	-	-	-	-	-	-	283	283
Other assets	45 491	-	-	-	-	-	-	45 491
Reinsurance assets	46 986	-	-	-	-	-	-	46 986
Cash and cash equivalents	1 901 935	-	-	-	-	-	-	1 901 935
Total assets	1 994 412	-	-	-	-	-	30 412	2 024 824

28. FINANCIAL RISK *(continued)*

28.2 Liquidity risk *(continued)*

2015	Up to one month R000	One to three months R000	Four to twelve months R000	Twelve to 24 months R000	24 to 36 months R000	Beyond 36 months R000	Non-financial instru-ments R000	Total R000
Liabilities and equity								
Deferred tax liability	-	-	-	-	-	-	19 600	19 600
Taxation	-	-	-	-	-	-	10 380	10 380
Policyholder liabilities	1 072 515	-	-	-	-	-	-	1 072 515
Incurred and reported (IAR) provision	25 655	-	-	-	-	-	-	25 655
Other liabilities	84 723	-	-	-	-	-	-	84 723
Accounts payable	2 115	-	-	-	-	-	-	2 115
Total Liabilities	1 185 008	-	-	-	-	-	29 980	1 214 988
Ordinary shareholder's equity	-	-	-	-	-	-	633 601	633 601
Total liabilities and equity	1 185 008	-	-	-	-	-	663 581	1 848 589
Net liquidity gap	(516 688)	-	838 426	339 996	-	-	(661 734)	-

The table above analyses the company's assets and liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to contractual maturity date.

29. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

29.1 Analysis of financial assets

2016	Loans and receivables at amortised cost R000	Non financial instruments R000	Total R000
Assets			
Intangible assets	-	325	325
Equipment	-	1 423	1 423
Other assets	523	-	523
Disposal group	20 530	245 926	266 456
Cash and cash equivalents	1 508 031	-	1 508 031
	1 529 084	247 674	1 776 758

2015	R000	R000	R000
Assets			
Intangible assets	-	30 129	30 129
Equipment	-	283	283
Other assets	45 491	-	45 491
Reinsurance assets	-	46 986	46 986
Cash and cash equivalents	1 901 935	-	1 901 935
	1 947 426	77 398	2 024 824

29. ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES *(continued)*

29.1 Analysis of financial assets *(continued)*

Income statement effect of financial instruments by category

	2016 R000	2015 R000
Interest income recognised – loans and receivables	119 331	128 444

The carrying amount of the financial assets carried at amortised cost approximates their fair value. The carrying amount reflected above represents the company's maximum exposure to credit risk for such loans and receivables.

29.2 Analysis of financial liabilities

2016	Liabilities held at amortised cost R000	Non financial instruments R000	Total R000
Deferred tax liability	-	25	25
Taxation	-	1 211	1 211
Policyholders' liability	-	190 373	190 373
Accounts payable	10 346	-	10 346
Disposal group	20 530	245 926	266 456
	30 876	437 535	468 411
2015			
Deferred tax liability	-	15 661	15 661
Taxation	-	25 714	25 714
Policyholders' liability	-	709 592	709 592
IAR provision	-	52 466	52 466
Other liabilities	59 897	-	59 897
Reinsurance creditor	-	49 933	49 933
Accounts payable	2 582	-	2 582
	62 479	853 366	915 845

The carrying amount of financial liabilities measured either at fair value or at amortised cost approximates their fair value.

30. RISK MANAGEMENT

Financial assets and liabilities are measured either at fair value or amortised cost in the statement of financial position. Assets include bank balances stated at cost. Policyholder liabilities are valued in accordance with the long-term assumptions set out in the statement of actuarial values on pages 14 to 18 as well as note 13 of these annual financial statements.

30. RISK MANAGEMENT *(continued)*

30.1 Interest rate risk management

The more important financial risks to which the company is exposed and the manner in which they are managed are described below:

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and liabilities. The company follows a conservative investment policy as can be seen from the significant cash and cash equivalent holdings. Fixed and call deposit investments not exceeding six months make up the majority of the company's investments to minimize the company's interest rate risk exposure.

The table below summarises the company's exposure to interest rate risk through grouping assets into repricing categories, determined to be the earlier of the contractual repricing date or maturity. A possible change of one percent was used based on historic changes in the relevant categories within a twelve month period.

Sensitivity analysis					**Statement of comprehensive income impact**	
2016	**Carrying value at year end** R000	**Carrying value exposed to market risk** R000	**Index to which interest rate is linked**	**Reasonable possible change**	**Pre-tax** R000	**Post-tax** R000
Financial assets						
Cash and cash equivalents	**1 508 031**	**1 508 031**	**Prime**	**1.00%**	**15 080**	**10 858**
	1 508 031	**1 508 031**			**15 080**	**10 858**
Net effect on income statement and equity					**15 080**	**10 858**

Sensitivity analysis					**Statement of comprehensive income impact**	
2015	Carrying value at year end R000	Carrying value exposed to market risk R000	Index to which interest rate is linked	Reasonable possible change	Pre-tax R000	Post-tax R000
Financial assets						
Cash and cash equivalents	1 901 935	1 901 935	Prime	1.00%	19 019	13 694
	1 901 935	1 901 935			19 019	13 694
Net effect on income statement and equity					**19 019**	**13 694**

30. RISK MANAGEMENT *(continued)*

30.2 Credit risk

Fair values of financial assets may be affected by the credit worthiness of the issuer. All domestic large exposures are with South African banks licensed under the Banks Act no. 94 of 1990. The limitation of assets as regulated by the Long-term Insurance Act of 1998 is used as guidance for large exposures. The company has no foreign credit risk.

30.3 Currency risk

The company has no currency risk exposure.

30.4 Insurance risk

The risk under any one insurance contract is the probability 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 stochastic and individually unpredictable, but in aggregate subject to statistical evaluation.

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 determined insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance estimates are stochastic and the actual number and amount of claims and benefits will vary from year to year. For this reason the actual amount could be very different from the estimate which was calculated using statistical techniques.

Stangen is a wholly owned subsidiary within the African Phoenix Investments Limited ("Phoenix") group. Stangen's insurance business does not extend outside the Phoenix group.

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics such as AIDS. The company manages these risks through its underwriting strategy, appropriate pricing models and additional provisioning.

The tables below present the distribution of insured benefits across five bands of insured benefits per individual credit life assured:

	2016		2015	
	No. of policies	Sum assured R000	No. of policies	Sum assured R000
Before reinsurance				
R0 – R1 000	**30 038**	**7 037**	**140 162**	**29 386**
R1 001 – R5 000	**67 530**	**204 902**	**471 362**	**1 528 379**
R5 001 – R10 000	**69 041**	**496 504**	**405 543**	**3 004 600**
R10 001 – R50 000	**85 594**	**1 616 549**	**673 989**	**1 4 746 124**
> R50 001	13 078	1 047 830	184 811	16 283 684
Total	265 281	3 372 822	1 875 867	35 592 173

30. RISK MANAGEMENT *(continued)*

30.4 Insurance risk *(continued)*

	2016		2015	
	No. of policies	Sum assured R000	No. of policies	Sum assured R000
After reinsurance				
R0 – R1 000	-	-	140 162	23 509
R1 001 – R5 000	-	-	471 362	1 222 703
R5 001 – R10 000	-	-	405 543	2 403 680
R10 001 – R50 000	-	-	673 989	11 796 899
> R50 001	-	-	184 811	13 026 947
Total	-	-	1 875 867	28 473 738

The table below presents the distribution of insured benefits across two bands for the non-credit life benefits:

R5 000 – R10 000	53 318	533 180	74 407	744 070
R10 001 – R50 000	23 966	568 175	30 957	721 590
Total	77 284	1 101 355	105 364	1 465 660

The table below presents an analysis of the policyholders' liability across the claim categories (gross of reinsurance):

	2016 R000	2015 R000
Policyholders' liabilities per claim category:		
Death	215 709	110 622
Permanent disability	7 368	17 868
Temporary disability	1 922	5 049
Retrenchment	99 295	561 461
Other	-	14 592
Data reserve	112 007	-
Total	436 301	709 592

Sensitivity of the policyholders' liability to changes in assumptions:

		2016 R000	2015 R000
Policyholder liability	**Change in variable**	**Change in liability**	
Death	10%	21 571	11 062
Permanent disability	10%	737	1 787
Temporary disability	10%	191	505
Retrenchment	10%	9 930	56 146
Other	10%	-	1 459
Total		32 429	70 959

30. RISK MANAGEMENT *(continued)*

30.4 Insurance risk

Claims development
Claims development is a function of the period when the earliest material claim event arose and for which there remains uncertainty about the amount and timing of the claim payments. It is unnecessary for an insurer to disclose information on claims for which uncertainty about the amount and timing of claims payment is typically resolved within one year.

Based on the company's experience, claims are typically paid within a period of twelve months from the date of the claim event, with the majority of claims being settled within six months. As at year end, no uncertainty exists regarding the amount and timing of claims payments that would not be resolved within the following twelve months.

Sources of uncertainty in the estimation of the 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.

Where the number of deaths in future years differ by 10% from the statutory actuary's estimate, the liability would change by R21.6 million.

Where the number of retrenchments in future years differ by 10% from the statutory actuary's estimate, the liability would change by R9.9 million.

Where the number of disabilities in future years differ by 10% from the statutory actuary's estimate, the liability would change by R0.9 million.

Estimates are also made as to the future investment income arising from assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 7.00% per annum. Where the average future investment returns to differ by 1% from the statutory actuary's estimates, the insurance liability would change by approximately R4.2 million.

The company uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the company over the past year is carried out, and statistical methods are used to adjust mortality rates to produce a best estimate of expected mortality.

The company maintains termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at the best estimate of future termination rates.

Underwriting risk
The statutory actuary reports annually on the actuarial soundness of the premium rates in use and the profitability of the business taking into consideration the reasonable benefit expectation of policyholders.

30. RISK MANAGEMENT *(continued)*

30.4 Insurance risk *(continued)*

Underwriting risk (continued)
All new rate tables are approved and authorised by the statutory actuary prior to being issued. Regular investigations into mortality, morbidity and retrenchment experience are conducted.

Legal risk
During the development stage of any new product and for material transactions entered into by the company, group resources, internally and externally, monitor the drafting of contract documents to ensure that rights and obligations of all parties are clearly set out.

Capital adequacy and capital risk management
The company manages capital in order to comply with capital adequacy requirements as determined by generally accepted actuarial principles in terms of the guidelines issued by the Actuarial Society of South Africa. It is an estimate of the minimum capital that will be required to meet fairly substantial deviations from the main assumptions affecting the company's business. At 30 September 2016, the capital adequacy requirement was R44 million (2015: R283 million).

The decrease in required capital was mainly due to the net liability decreasing following the Guardrisk reinsurance arrangement.

The company further manages its capital to ensure that it complies with the solvency criteria as determined by the Long-term Insurance Act. The management of the company's solvency will enable the company to continue as a going concern.

The company's capital structure consists of the items listed under capital and reserves on the statement of financial position.

31. REINSURANCE ARRANGEMENTS

The company entered into a 100 percent proportional reinsurance agreement with Guardrisk effective from 1 April 2016 on the remaining credit life portfolio.

32. SUBSEQUENT EVENTS

As referred to in the Directors' Report, the company signed a Transfer Agreement with Guardrisk Life Limited on 31 October 2016 in respect of the credit life portfolio, with an expected closing date in mid-2017. From that date Guardrisk will become the primary insurer and the reinsurance agreement with Guardrisk will be terminated, subject to regulatory approvals.

This is a necessary practical step as part of concluding its history with Residual Debt Services and African Bank Limited. The company will still retain all non-credit life insurance business (eg. funeral policies).

32. SUBSEQUENT EVENTS *(continued)*

The company is partnering with third party call centres and other agents to sell its insurance policies as part of repositioning the business. The company is also exploring investing in certain business that will unlock distribution channel capabilities. The company made an indicative offer for minority shareholding in one such distribution partner on 24 October 2016, subject to due diligence, as part of securing access to direct distribution channel system-and process capability development.

The directors are not aware of any matter arising since the end of the financial year, not otherwise dealt with in the company's annual financial statements, which significantly affects the financial position at 30 September 2016.

33. DIRECTORS' REMUNERATION

33.1 Executive directors' remuneration

The remuneration of Marius Botha, the managing director of the company, is reflected below.

2016	Date appointed R000	Salary R000	Retirement, medical contributions and other R000	Total cost to company package R000	Annual bonus R000	Total cost to company package R000
Marius Botha	10/02/2014	2 280	505	2 785	5 155	7 940
2015						
Marius Botha	10/02/2014	2 151	380	2 531	3 345	5 876

Mr Botha was awarded R5.2 million in bonuses and performance related payments gross of tax made up as follows. R1 million was a deferred sign-on bonus from financial year 2014 which was paid in May 2016 for having remained employed with the company. R1.9 million was awarded from an Executive Retention scheme in May 2015 to executives of the company and African Bank Limited as part of the recovery phase of African Bank Limited (under curatorship) at the time (of which an amount was paid in February 2016 and an amount accrued as at September 2016). A further R2.2 million was from an Executive Retention scheme in November 2015 to executives of the company following the collapse of the Share Purchase Agreement in October 2015 (of which an amount was paid in November 2015 and an amount accrued as at September 2016). The accrued amounts are expected to be paid in financial year 2017.

33. DIRECTORS' REMUNERATION *(continued)*

33.2 Non - executive directors' remuneration

	Services to the company R000	Services to other group companies R000	2016 Total R000	Services to the company R000	Services to other group companies R000	2015 Total R000
Dave Gibbon	380	-	380	354	-	354
Charles Chemel	539	-	539	222	-	222
Mojankunyane Gumbi	-	-	-	242	476	718
Morris Mthombeni	290	430	720	290	407	697
Colin Van Der Meulen	340	-	340	306	-	306
	1 549	430	1 979	1 414	883	2 297

The non-executive directors are paid based on a fixed retainer for their responsibilities and duties as board members. They do not participate in any of the company's bonus and incentive schemes and neither do they receive any other benefits from the company.