CENTRIQ LIFE INSURANCE COMPANY LIMITED

(Registration No. 1943/016409/06)

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2017

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RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements has been audited in terms of Section 90 (1) of the Companies Act, no 71 of 2008.

The Annual Financial Statements has been prepared by Livhuwani Mariba and reviewed by Terina Erasmus, CA (SA).

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The board of directors of Centriq Life Insurance Company Limited ("the Company") accepts responsibility for the integrity, objectivity and reliability of the annual financial statements of the Company. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors is to express an independent opinion on the fair presentation of the annual financial statements based on their audit of the Company.

The Risk and Financial Review Committee has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards ("IFRS").

The board is of the opinion that the Company is financially sound and operates as a going concern. The financial statements have accordingly been prepared on this basis.

The annual financial statements were approved by the board and signed on their behalf by:

DIRECTOR
13 February 2018

DIRECTOR
13 February 2018

CERTIFICATION BY THE COMPANY SECRETARY

In terms of Section 88(2)(e) of the Companies Act, no 71 of 2008 ("the Act"), as amended, I certify that in respect of the financial year ended 31 December 2017, the Company has lodged with the Companies and Intellectual Property Commission all such returns and notices as required in terms of the Act and that all such returns and notices are true, correct and up to date.

E PRICE
Company Secretary
13 February 2018

REPORT OF THE AUDIT COMMITTEE

Due to the practical implications of the governance requirements of the Companies Act 71 of 2008 the Company has, in terms of Section 94(2), agreed with its holding company, Santam Limited ("Santam") to perform the duties of an audit committee for the Company, as prescribed in Section 94(7).

The Financial Services Board ("FSB") approved, on 26 August 2013, in terms of section 23(4) of the Long-term Insurance Act, 1998 (Act No. 53 of 1998) ("the Act"), that the Company may be exempted from the appointment of an audit committee.

The approval is subject to the following conditions:

1.1 The Company's board of directors passes a resolution confirming that the Santam Limited's audit committee will be mandated to fulfil the role of an audit committee as contemplated in the Act and the Companies Act no 71, 2008;
1.2 The Santam Limited's audit committee will be accountable to fulfil the audit committee functions, duties and oversight for the Company;
1.3 The composition, knowledge, experience and the size of the Santam Limited's audit committee will comply with the requirements of section 23 of the Act;
1.4 The Santam Limited's audit committee shall at all times include members with technical, accounting and actuarial skills, experience in long-term and short-term insurance as well as cell captive structures;
1.5 To support the Santam Limited's audit committee, Centriq Insurance Holdings Limited ("CIHL") will have a Risk and Financial Review ("RFR") committee, which will be a subcommittee of the board of CIHL;
1.6 The RFR committee will fulfil the functions that the Act requires of an audit committee;
1.7 A formal sign-off will be done by the RFR committee to the Santam Limited's audit committee;
1.8 Further to par 1.7 above, an annual representation letter from the RFR committee to Santam Limited's audit committee will be signed, dealing with amongst others, but not limited to, financial and actuarial information, governance and risk management as well as confirmation that the Company is a going concern;
1.9 The Santam Limited's audit committee will ensure that adequate time and oversight is provided to all licensed entities; and
1.10 The above conditions are disclosed in the annual published financial statements of the Company.

In order to assist Santam to fulfil its duty under this arrangement, the Company has had a formal Finance and Risk Committee ("the Committee") comprising of 4 non- executive directors. The Committee met quarterly with the Chief Executive Officer and representatives from external and internal auditors, risk management as well as other assurance providers in attendance. The Committee operated in accordance with an annual work plan to cover all relevant matters. Items discussed at these meetings were formally minuted and, where needed, appropriate action plans were documented.

The mandate and responsibilities of the Committee encompass, amongst others, all actions required to:

- oversee annual financial reporting including the annual financial statements;
- ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- oversee the internal audit function;
- oversee the risk management process;
- oversee the external audit function; and
- receive and deal with complaints (whether from within or outside the Company relating either to the accounting practices and internal audit of the group, or to any related matter and report to the Santam Audit Committee on all complaints received and the action to be taken thereon.

REPORT OF THE AUDIT COMMITEE

During the year the Committee assisted the Santam Audit Committee and the Board of directors by performing an objective and independent review of the performance of the finance and risk management functions. This was achieved through close cooperation and communication with management and the internal and external auditors, who have unrestricted access to members of this Committee.

The Committee also reviewed the Annual Financial Statements for the year ended 31 December 2017 and recommended these financial statements for approval by the Board on 13 February 2018. The Committee has functioned well and has performed all its other duties properly.

The Committee considered the external auditor's independence for the financial year ended 31 December 2017 and is satisfied that the registered auditor, PricewaterhouseCoopers Inc., was independent of the Company.

The Santam Audit Committee with the appropriate assistance from the Committee is satisfied that it had fulfilled its responsibilities.

MJ Reyneke– Chairman Santam Audit Committee

REPORT OF THE DIRECTORS

1. Activities

The Company is incorporated in the Republic of South Africa and is authorised to transact in all classes of long–term insurance primarily as a cell captive alternative risk transfer insurer.

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

i. Cell captive insurance
The Company offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the Company with a cell shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captive insurers allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders agreement. There are currently two distinct types of cell captive arrangements a) first party and b) third party.

a. First party cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies. The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.

b. Third party cell captive arrangements are arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The Company is the principal to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholder's agreement however determines that the cell shareholders remain responsible for the solvency of the cell captive arrangement. In substance the Company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

ii. Own Risk assumption
The Company selectively participates in underwriting risk across the portfolio of traditional insurance business which our underwriting managers underwrite on our behalf.

2. Operating result

The following tables provide an overview of the operating results for the past two financial years.

	2017 R'000	2016 R'000
Total assets	498,038	468,238
Gross written premiums	321,745	255,525
Fair value gains on assets at fair value through profit and loss	17,528	14,326
Total comprehensive income for the year	7,280	5,799

3. Share capital

<u>Ordinary share capital</u>
The authorised and issued ordinary share capital remained unchanged during the year.

REPORT OF THE DIRECTORS (continued)

3. Share Capital (continued)

Non-convertible redeemable preference share capital

During the year the following shares were issued to cell shareholders as a result of capitalisation of cell captives:

Description	Class	Number of shares	Value (R)
Preference shares	P31	10	1,000,000
Preference shares	P32	50	1,000,000
		60	2,000,000

The following shares were redeemed by cell shareholders:

Description	Class	Number of shares	Value (R)
Preference shares	P4	2	250,000
		2	250,000

4. Dividends

The following dividends were declared and paid during the year and are recorded in the statement of changes in equity and note 10 of the annual financial statements:

	2017 R's	2016 R's
Ordinary shares	5,000,000	5,500,000
Preference shares – (Class P4)	581,646	-
Preference shares – (Class P9)	947,783	697,605
Preference shares – (Class P10)	-	620,779
Preference shares – (Class P14)	-	20,031
Preference shares – (Class P17)	95,491	85,992
Preference shares – (Class P20)	7,732,880	1,645,010
Preference shares – (Class P21)	-	-
Total preference share dividends paid	14,357,800	8,569,417

5. Related parties

Related party relationships exist between the Company and its fellow subsidiaries, the holding company and the Sanlam and Santam groups of companies. Transactions and balances with related parties are disclosed on note 25. There are no related party transactions with key management other than directors' emoluments.

6. Holding company

Centriq Insurance Holdings Limited, the Company's holding company, holds 100% of the ordinary issued share capital. Santam Limited holds 100% of the ordinary issued capital in Centriq Insurance Holdings Limited. The ultimate holding company is Sanlam Limited.

7. Directors emoluments and interests in share capital

The directors do not have any interest in the Company. The directors' remuneration was paid by the Company's fellow subsidiary, Centriq Insurance Company Limited. Refer to note 25.

REPORT OF THE DIRECTORS (continued)

8. **Directors and company secretary**

The directorship of the Company is as follows:

Executive directors

PA Jennett (3)	(appointed 16/05/2013 as executive director and 01/09/2016 as Chief Executive Officer)
MC le Roux	(appointed 16/05/2013)

Non–executive directors:

L Lambrechts (Chairman) (1)	(appointed 01/01/2015)
Q Matthew (1) (2)	(appointed 20/08/2009)
HD Nel (1) (2)	(appointed 15/11/2012)
J De Villiers Melville (2)	(appointed 16/04/2015)
MD Dunn (1) (2)	(appointed 18/05/2016)
PE Speckmann (2)	(appointed 01/11/2017)

Sub–committee membership
(1) Remuneration Committee members
(2) Risk and Financial Review Committee members
(3) Investment Committee members

Company secretary

E Price (appointed 21/02/2013)

The Company secretary's postal and business addresses are:

40 3rd Avenue
Parktown North
2193

9. **Auditors**

PricewaterhouseCoopers Incorporated will continue in office in accordance with Section 90 (1) of the Companies Act, no 71 of 2008.

10. **Corporate governance report**

The Corporate Governance and integrated reporting function for the Company is performed at the parent level, Santam Limited, and as a result a stand-alone corporate governance and sustainability report for the Company has not been prepared.

11. **Audit committee**

The FSB approved, on 26 August 2013, in terms of section 23(4) of the Long-term Insurance Act, 1998 (Act No. 53 of 1998) ("the Act"), that the Company may be exempted from the appointment of an audit committee. The approval is subject to certain conditions as detailed in the report of the audit committee (page 3).

12. **Subsequent events**

An ordinary shareholders' dividend payable to Centriq Insurance Holdings Limited of R6,000,000 (2016: R5,000,000) was declared on 13 February 2018. Refer to note 24.

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Independent auditor's report

To the Shareholders of Centriq Life Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Centiq Life Insurance Company Limited (the Company) as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Centriq Life Insurance Company Limited's financial statements set out on pages 17 to 74 comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial statements, which includes the Report of the Directors, the Report of the Audit Committee and the Certification by the Company Secretary as required by the Companies Act of South Africa and the Statement of responsibility by the board of directors and the Report of the statutory actuary. Other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Centriq Life Insurance Limited for 7 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor
Johannesburg
26 April 2018

REPORT OF THE STATUTORY ACTUARY

Statement of Assets, Liabilities, Excess Assets and Capital Requirements of Centriq Life Insurance Company Limited as at 31 December 2017:

Published Reporting Basis (PRB)	2017 R000's	2016 R000's
Total value of assets	498,038	468,238
Total value of liabilities	474,819	447,299
Actuarial value of gross policy liabilities	103,427	66,801
Investment contracts	1,898	1,916
Current and other liabilities	26,700	20,511
Cell owners' interest	169,011	139,840
Reinsurance contract liabilities	173,783	218,231
Excess assets	23,219	20,939

Statutory Valuation Method (SVM)	2017 R000's	2016 R000's
Total value of assets	283,542	227,277
Total value of liabilities	98,964	71,442
Actuarial value of net policy liabilities	48,559	32,632
Investment contracts	-	-
Current and other liabilities	50,405	38,810
Excess assets	184,578	155,835
Capital Adequacy Requirement	49,947	28,370
CAR cover ratio	3.7	5.5

REPORT OF THE STATUTORY ACTUARY (continued)

1. Certification of statutory financial position

I hereby certify that:

- The actuarial valuation of Centriq Life Insurance Company Limited (Centriq Life) as at 31 December 2017, the results of which are summarised above, has been conducted in accordance with, the Long-term Insurance Act,1998 ("LTIA") and applicable Actuarial Society of South Africa professional guidance notes.
- This Statutory Actuary's Report has been produced in accordance with the Actuarial Society of South Africa's Advisory Practice Note (APN) 103.
- This Statutory Actuary's Report, read together with the annual financial statements, fairly represents the financial position of the company.
- Assets exceed liabilities plus the Capital Adequacy Requirement at the valuation date; Centriq Life met the asset spreading requirements of the Long Term Insurance Act at the valuation date.
- Centriq Life was financially sound as at the valuation date and is expected to remain financially sound in the foreseeable future.

Alexander Roux, FASSA
Statutory Actuary: Centriq Life Insurance Company Limited
Johannesburg
26 January 2018

REPORT OF THE STATUTORY ACTUARY (continued)

2. Analysis of change in excess assets on published reporting basis

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

	2017 R000's	2016 R000's
Excess assets as at end of reporting period	23,219	20,939
Excess assets as at beginning of reporting period	20,939	20,640
Change in excess assets over the reporting period	**2,280**	**299**

The change in the excess assets over the period may be analysed as follows:

	2017 R000's	2016 R000's
Total investment return	4,030	4,077
Operating profit/(loss)	6,083	3,993
Changes in valuation methods or assumptions	-	-
Tax	(2,833)	(2,271)
Total earnings	7,280	5,799
Capital raised/(reduced)	-	-
Dividends paid	5,000	5,500
Total change in excess assets	**2,280**	**299**

Note that the statement of comprehensive income reflects the perspective of Centriq Life and that profits of R36.78 million (before dividends – refer to note 10 in the notes to the annual financial statements) generated by client cells are not reflected in the analysis above.

REPORT OF THE STATUTORY ACTUARY (continued)

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

	2017 R000's	2016 R000's
Excess assets over liabilities - published	23,219	20,939
Excess assets over liabilities - statutory	184,578	155,835
Difference	161,359	134,896

The difference between the two bases is the IFRS adjustments and the premium debtors older than 90 days that is not permitted under the statutory basis. In addition the Cell owners' interest of R169.01 million is regarded as both an asset and a liability for published accounting purposes, but only as an asset on the statutory basis. The premium debtors over 90 days is R7.64 million and is disallowed from the assets under the statutory basis.

4. Changes in valuation methods and assumptions

There have not been any material changes in valuation methods or assumptions of assets or liabilities.

5. Published reporting valuation methods and assumptions

For the purpose of published reporting, Centriq Life's insurance contracts must be valued in terms of IFRS 4, which requires these contracts to be valued according to the Financial Soundness Valuation, as described in the Standards of Actuarial Practice (SAP) 104.

In addition, Centriq Life writes investment contracts without discretionary participating features. These contracts are valued in terms of IAS39 (AC133). The account balance has been held as the value of the liability for these contracts and no negative rand reserves have been held for these contracts.

The result of the valuation methods and assumptions is that profits for insurance contracts are released appropriately over the term of each policy, to avoid the premature recognition of profits that may give rise to losses in later years.

6. Published reporting valuation basis of assets

Assets were valued at statement of financial position values, i.e. market or fair value, as per the accounting policies in the financial statements.

7. Published reporting valuation basis of policy liabilities

For annually renewable business, Incurred but not Reported (IBNR) liabilities were estimated using loss ratio methods.

For long-term business, liabilities were calculated prospectively on a discounted cashflow method. The best estimate assumptions that are required for the liability valuations have been set by considering the company's most recent experience, adjusted for expectations regarding the future expected experience. Explicit assumptions regarding future economic and demographic experience were made in order to calculate the liabilities. For those classes of business where there was insufficient experience to set the best estimate assumptions, the liability valuation made use of either the reinsurers' demographic assumptions, or a demographic basis set by the statutory actuary.

Compulsory margins, as described in SAP104, have been added to the best estimate assumptions.

Where applicable, negative policy liabilities have been set equal to zero in order to avoid the premature recognition of profits. The negative liabilities that have been set equal to zero represent a discretionary margin. On a gross of reinsurance basis, this discretionary margin is for the Workers Cancer Protection business, Channel4Life's whole life policies, and All Life's term and whole life policies. The negative value of the policy liabilities amounted to approximately R0.14 million, R0.20 million and R94.85 million respectively.

There are no policies with discretionary participating features, and it has therefore not been necessary to make allowance for policyholders' reasonable benefit expectations in this regard. For the policies that provide risk benefits only, policyholder reasonable benefit expectations are allowed for by means of Centriq Life being solvent from a regulatory perspective. In addition, all cells were in a financially sound position as at 31 December 2017, with the exception of All Life, IDM and K2014. Excess assets are retained in the promoter cell (post any dividends foreseen subsequent to this valuation) to cover these shortfalls.

New business written is assumed to cover future expenses and the expense charges in premiums are expected to be sufficient to cover all other future expenses. As such no explicit provision in respect of future expenses has been raised.

Reserves are calculated gross of reinsurance and an appropriate reinsurance asset is established.

REPORT OF THE STATUTORY ACTUARY (continued)

8. Statutory Capital Adequacy Requirement (CAR)

The capital adequacy requirement (CAR) is an additional amount required over and above the statutory actuarial liabilities to provide for future experience that is more adverse than that assumed in the calculation of policyholder liabilities. This additional amount is required by the LTIA and is calculated in accordance with SAP104 issued by the Actuarial Society of South Africa. The absolute minimum value of the CAR is prescribed in the LTIA to be R10 million.

The company's excess assets over its liabilities must at least equal the CAR. CAR is a function of, amongst other items, expense fluctuations, credit and operational risk. The following shows Centriq Life's excess assets, CAR and CAR cover ratio for the 31 December 2017 valuation:

	2017 R000's	2016 R000's
Excess assets - incl. Cell Owners' interest	184,578	155,835
Capital adequacy requirement	49,947	28,370
CAR cover ratio	3.7	5.5

As at the financial year-end, the ordinary CAR (OCAR) applied to Centriq Life. The OCAR is driven by the underwriting and operational risk component. The operational risk component has been calculated by applying the suggested guidelines for operational risk allowance, as provided in SAP104 and the Solvency Assessment and Management (SAM) Technical Specifications.

No offsetting management actions were assumed in the calculation of the CAR.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

	Notes	2017 R'000	2016 R'000
ASSETS			
NON-CURRENT ASSETS		**306,986**	**341,935**
Financial assets at fair value through profit and loss	4	178,386	178,683
Deposit held with cell owner	6	128,600	162,641
Deferred tax asset	11	-	611
CURRENT ASSETS		**191,052**	**126,303**
Deposit held with cell owner	6	45,183	55,590
Short term money market instruments	4	34,838	10,085
Reinsurance assets	5	33,062	17,786
Income tax		79	378
Insurance and other receivables	7	48,587	26,019
Amounts owed by group companies	25	26,582	13,618
Cash and cash equivalents	8	2,721	2,827
TOTAL ASSETS		**498,038**	**468,238**
EQUITY AND LIABILITIES			
EQUITY		**23,219**	**20,939**
Ordinary share capital	9	15,000	15,000
Retained income		8,219	5,939
NON-CURRENT LIABILITIES		**297,640**	**302,481**
Liabilities due to cell shareholders	10	169,011	139,840
Reinsurance contract liability	13	128,600	162,641
Deferred tax liability	11	29	-
CURRENT LIABILITIES		**177,179**	**144,818**
Reinsurance contract liability	13	45,183	55,590
Policyholder liabilities under insurance contracts	5	103,427	66,801
Policyholder liabilities under investment contracts	12	1,898	1,916
Insurance and other payables	14	24,129	16,202
Provisions	15	200	2,500
Amounts owing to group companies	25	2,342	1,809
TOTAL EQUITY AND LIABILITIES		**498,038**	**468,238**

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	Notes	2017 R'000	2016 R'000
Gross premiums written		321,745	255,525
Less: reinsurance premium		(313,535)	(244,951)
Net written premium		8,210	10,574
Fees and commission income	16	26,459	12,904
Fair value gains on assets at fair value through profit and loss	17	17,528	14,326
Net income		52,197	37,804
Gross claims and benefits incurred (including change in insurance contracts provisions)		(136,947)	(115,548)
Reinsurers' share of claims and benefits incurred (including change in insurance contracts provisions)		130,034	108,365
Net policyholder claims and benefits incurred	18	(6,913)	(7,183)
Acquisition costs		(17,868)	(7,529)
Investment return allocated to cell shareholders		(14,267)	(10,227)
Fair value movement for investment contract liabilities		1,018	193
Finance cost	19	0	(4)
Marketing and administration expenses	20	(4,054)	(4,984)
Expenses		(42,084)	(29,734)
Net income before tax		10,113	8,070
Income tax	21	(2,833)	(2,271)
Profit for the year		**7,280**	**5,799**
Other comprehensive income		-	-
Total comprehensive income for the year		**7,280**	**5,799**
Attributable to			
– equity holders of the Company		**7,280**	**5,799**

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Ordinary share capital R'000	Retained income R'000	Total equity shareholders interest R'000
Balance at 01 January 2016	15,000	5,640	20,640
Total comprehensive income for the year	-	5,799	5,799
Dividend paid to ordinary shareholders	-	(5,500)	(5,500)
Balance at 31 December 2016	15,000	5,939	20,939
Balance at 01 January 2017	15,000	5,939	20,939
Total comprehensive income for the year	-	7,280	7,280
Dividend paid to ordinary shareholders	-	(5,000)	(5,000)
Balance at 31 December 2017	15,000	8,219	23,219

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Notes	2017 R'000	2016 R'000
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES			
Cash generated from operations	22	21,324	67,726
Interest received		17,528	13,767
Interest paid		-	(4)
Taxation paid	23	(1,894)	(2,455)
Purchase of investments		(70,733)	(193,935)
Proceeds on investments matured and disposed		46,277	120,175
Net cash generated from operating activities		12,502	5,274
CASH UTILISED IN FINANCING ACTIVITIES			
Proceeds from issue of financial instruments to cell shareholders		2,000	3,474
Repayment of liabilities due to cell shareholders		(250)	(1,001)
Dividend paid to cell shareholders		(9,358)	(3,069)
Dividend paid to shareholders		(5,000)	(5,500)
Cash utilised in finance activities		(12,608)	(6,096)
Net change in cash and cash equivalents		(106)	(822)
Cash and cash equivalents at beginning of the year		2,827	3,649
Cash and cash equivalents at end of the year	8	2,721	2,827

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the years presented and are consistent with the previous year unless otherwise stated.

a) Basis of presentation

The financial statements have been prepared in accordance with IFRS and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and are in compliance with the requirements of the Companies Act of South Africa. The financial statements have been prepared under the historical cost convention, modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in section 2, critical accounting estimates and judgements in applying accounting policies.

The Company did not early adopt any of the IFRS standards.

All amounts in the financial statements are shown in South African Rands, rounded to the nearest thousand, unless otherwise stated.

(a) International Financial Reporting Standards and amendments effective for the first time for 31 December 2017 year-end

Changes for this financial year are not expected to have a material impact on the Company's financial reporting or disclosures

IFRS	Effective date	Executive summary
Amendment to IAS 7 – Cash flow statements Statement of cash flows on disclosure initiative	Annual periods beginning on or after 1 January 2017 (published February 2016)	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of presentation (continued)

(a) International Financial Reporting Standards and amendments effective for the first time for 31 December 2017 year-end (continued)

IFRS	Effective date	Executive summary
Amendment to IAS 12 – Income taxes Recognition of deferred tax assets for unrealised losses.	Annual periods beginning on or after 1 January 2017 (published February 2016)	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.
Annual improvements 2014-2016 (part)	Annual periods beginning on or after 1 January 2017 (published December 2016)	These amendments impact 3 standards: • IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

(b) International Financial Reporting Standards and amendments issued but not effective for 31 December 2017 year-end

Number	Effective date	Executive summary
IFRS 9 – Financial Instruments (2009 &2010) • Financial liabilities • Derecognition of financial instruments • Financial assets • General hedge accounting	Annual periods beginning on or after 1 January 2018 (published July 2014)	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of presentation (continued)

(b) International Financial Reporting Standards and amendments issued but not effective for 31 December 2017 year-end (continued)

IFRS	Effective date	Executive summary
Amendment to IFRS 9 - 'Financial instruments', • on general hedge accounting	Annual periods beginning on or after 1 January 2018	The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following: • The own credit risk requirements for financial liabilities. • Classification and measurement (C&M) requirements for financial assets. • C&M requirements for financial assets and financial liabilities. • The full current version of IFRS 9 (that is, C&M requirements for financial assets and financial liabilities and hedge accounting). The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9.
IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018 (published May 2014)	The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.
Amendment to IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018 (published April 2016)	The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of presentation (continued)

(b) International Financial Reporting Standards and amendments issued but not effective for 31 December 2017 year-end (continued)

IFRS	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2021 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.
Amendments to IFRS 2 – 'Share-based payments' Clarifying how to account for certain types of share-based payment transactions.	Annual periods beginning on or after 1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of presentation (continued)

(b) International Financial Reporting Standards and amendments issued but not effective for 31 December 2017 year-end (continued)

IFRS	Effective date	Executive summary
Amendment to IFRS 4, 'Insurance contracts' Regarding the implementation of IFRS 9, 'Financial instruments'	Annual periods beginning on or after 1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: • Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and • Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.
IFRIC 22, 'Foreign currency transactions and advance consideration	Annual periods beginning on or after 1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.
IFRIC 23, 'Uncertainty over income tax treatments'	Annual periods beginning on or after 1 January 2019 Published 7 June 2017)	IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

The Company is still evaluating the impact of IFRS 9,15, and 17.

The Company does not believe that the remaining statements will have a significant impact on the financial results and disclosures.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Insurance contracts

Classification of contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

A risk is a significant risk if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance and is assessed on a contract by contract basis except in circumstances where there is a relatively homogeneous book of small contracts which are known to transfer risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Cell insurance

The Company offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the Company with a cell shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders agreement. There are currently two distinct types of cell captive arrangements a) first party and b) third party.

- First party – where the risks that are being insured relate to the cell shareholders' own operations or operations within the cell shareholders' group of companies.

  The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Insurance contracts (continued)

- Third party – where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The Company is the principal to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholder's agreement however determines that the cell shareholders remain responsible for the solvency of the cell captive arrangement. In substance the Company therefore reinsurers this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

The cell shareholder's interest represents the cell shareholder's funds held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayments to cells.

Long-term insurance in these cell structures

Long-term insurance provides benefits under long-term policies, which include assistance, life and investment or a contract comprising a combination of any of those policies. Long-term insurance contracts are further classified into group, individual and fund.

Recognition and measurement of insurance contracts

Policyholder liabilities under insurance contracts

The liabilities under life insurance contracts are valued in terms of the Financial Soundness Valuation ("FSV") basis contained in Standards of Actuarial Practice ("SAP") 104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts" in the statement of financial position. The operating surpluses or losses arising from life insurance contracts are determined by the annual actuarial valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unmatured policies, provisions for profit commissions accrued and adjustments to other reserves within the policyholder liabilities.

Gross written premiums

Gross premiums exclude value added tax. Premiums are accounted for as income when the risk related to the insurance policy incepts. All premiums are shown before deduction of commission payable to intermediaries.

Acquisition costs

Commission and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are recognised as expenses when incurred.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Insurance contracts (continued)

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and charges for outstanding claims, as well as the movement in policyholder liabilities under insurance contracts, together with adjustments to claims from previous years.

Provision for outstanding claims

Provision is made for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. Provision for outstanding claims is estimated using the assessments on individual cases reported to the Company. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted as it is not expected to make a material impact to the estimate result.

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.The benefits to which the Company is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short–term balances due from reinsurers (classified within loans and receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are dependent on the gross outstanding claims and policyholder liabilities. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

Financial reinsurance

The amounts the Company is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities ("reinsurance contract liability").

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and are included under loans and receivables and insurance and other payables.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Insurance contracts (continued)

The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. Refer to note 1f – Impairment.

Liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the Company recognises the shortfall in income for the year.

Investment return allocated to cell shareholders

Investment return allocated to cell shareholders relate to investment returns earned on cell shareholder's funds which are payable to cell shareholders in terms of the shareholders' agreement between the insured and the cell shareholder.

c) Provisions

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

d) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

i) Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

ii) Deferred tax

Deferred income tax is provided in full, using the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Taxation (continued)

Enacted tax rates or substantially enacted rates at the statement of financial position date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

e) Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re–evaluates this at every reporting date.

Classification

(i) Financial assets at fair value through profit and loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit and loss at inception. A financial asset is classified as a 'financial asset at fair value through profit and loss' at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short–term profit–taking, or if so designated by management. Financial instruments are designated at fair value through profit and loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy.

Financial assets designated as fair value through profit and loss at inception are those that are:

- Held in funds to match investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be held at fair value through profit and loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on different bases.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets (continued)

- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest in equity and debt securities as considered appropriate and to evaluate them with reference to their fair values. Assets included in these portfolios are designated upon initial recognition at fair value through profit and loss.

(ii) Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as fair value through profit and loss.

Recognition and measurement

Purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are recognised in the statement of comprehensive income. Investments are derecognised when the rights to receive cash flows from the investments have expired and where the Company has also transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit and loss are subsequently carried at fair value. Movements arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the statement of comprehensive income in the period in which they arise.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective-interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to their original terms.

Determination of fair value

The fair values of quoted investments are based on current stock exchange close prices on the statement of financial position date. If the market for a financial asset is not active or if it is unquoted, the Company establishes fair value by using valuation techniques. These include discounted cash flow analysis, recent market related transactions, premium/discount to net asset value and price–earnings techniques. The Company's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. Debt securities are measured at fair value based on the market rate of an equivalent non-convertible bond. Unit trusts are measured at fair value based on the quoted repurchase prices

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial assets (continued)

Derecognition of financial assets

Financial assets are derecognised when the Company loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered.

f) Impairment

(i) Financial assets carried at amortised cost

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset should be impaired. A financial asset is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about one or more of the following events:

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Impairment (continued)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Other non–financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which it belongs.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks. Cash on hand and deposits held on call with banks are carried at cost which is deemed to be the fair value.

h) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

j) Trade and other payables

Trade and other payables are recognised when the Company has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the Company.

Trade and other payables are recognised initially at fair value, net of transaction costs incurred and are carried at amortised cost.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Liability to cell shareholders

Liability to cell shareholders is measured in accordance with the requirement set out in IFRS 4 detailed in the accounting policy under "Cell Insurance" (refer to accounting policy note (b)).

Liabilities to cell shareholders represent the cells' funds in respect of the insurance business conducted in the cell structures. The premiums and claims relating to first party cells have been excluded from the statement of comprehensive income and are accounted for directly in the liability. The premium and claims payments relating to contracts in third party cells have been included in the statement of comprehensive income but as the third party cell, in substance, is the reinsurer the net result is accounted for as part of the liability.

Fees earned from the contracts are disclosed separately.

l) Investment contracts

Long term insurance policies are disclosed as investment contracts in the following instances:

- *First party cells*

  First-party cells are disclosed in accordance with the requirement detailed in the accounting policy under "First party" (refer to accounting policy note 1 (b)).

- *Policies with no significant risk transfer*

  A risk is a significant risk if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance and is assessed on a contract by contract basis except in circumstances where there is a relatively homogeneous book of small contracts which are known to transfer risk. Should an insurance contract not result in significant risk transfer, the contract will be accounted for as an investment contracts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Financial liabilities

(i) Financial liabilities at amortised cost

Financial liabilities at amortised cost include interest–bearing loans and borrowings and are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the year of the borrowings on an effective interest basis.

Derecognition of financial liabilities

A financial liability is derecognised when it is legally extinguished.

n) Other revenue

(i) Interest income

Interest income from financial assets that are classified as at amortised cost and cash and cash equivalents is recognised using the effective interest rate method.

(ii) Fee income

Fee income comprises of management fees charged to cells and are contractually agreed. Fee income is recognised when services are rendered.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Preparing financial statements in accordance with IFRS requires that management make use of estimates, assumptions and judgements that affect the application of the accounting principles and reported amounts of assets, liabilities and contingent liabilities at the reporting date as well as the reported income and expenses for the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although estimates are based on management's best knowledge, experience, insight and judgement of current facts at the reporting date, the actual outcome may deviate from these estimates, possibly significantly.

i) Policyholder liabilities

Reserves are in general set using a combination of loss ratios and discounted cashflow techniques. Loss ratios are set with reference to historic claims level and involve a measure of judgement. Loss ratios used range from 22% to 100% of gross premiums.

The reserve set for the cancer protection products was established on an individual member basis. The cashflows were projected for each active policyholder and a discounted reserve established. A mortality rate, including an AIDS loading and cancer rates were used. Due to the small number of lives, there is no past data to support these assumptions, thus these assumptions were based on the statutory actuary's best estimate of the insured lives. The reserve for level term assurance, decreasing term assurance and whole life products is calculated on an individual member basis by projecting the cashflows. The mortality assumption was set using past experience analysis, while expense assumption was based on the estimated policy renewal fees. These assumptions were reviewed and signed off by the statutory actuary. Moreover, one of the cells writing most of this type of business is 100% reinsured therefore no net reserves are required.

A discounted cashflow method is also used to calculate the reserve for future expected claim related to disability income benefits. The termination rates (i.e. the estimated probabilities of death or recovery) used for the calculation have been set with reference to standard Group Long-Term Disability ("GLTD") tables

Changes in assumptions

The loss ratio assumptions changed for a number of cells, based on historic claims experience and judgment about future expected experience. The impact of these changes to the Company's profitability has not been significant because only a small portion of business is retained by the Company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

ii) Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There might be transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit 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 income tax is provided in full, using the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Assessing the recoverability of deferred income tax assets requires the Company to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ from estimates, the ability of the Company to realise the net deferred tax assets recorded at the statement of financial position date could be impacted.

iii) Financial assets

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and assumptions that are mainly based in market conditions existing at each reporting date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT

a. Insurance risk

Objectives for risk management and controls for mitigating risk

The Company's main insurance activity involves the provision of structured insurance solutions to corporate clients that adopt good risk management principles. The Company also assumes the risk of loss from persons that are directly subject to the risk. Most of these insurance solutions are provided by way of first and thirty party cell captives.

For the cell captive business, policy wordings are designed specifically for the type of cover being provided within the cells.

The Company has ensured the successful implementation of Board Notice 158 of 2014 – Governance and Risk Management Framework for Insurers. The required framework was incorporated within all levels of the business and all Committee and Subcommittee Charters were aligned accordingly.

The board of directors has granted the management of the Company a general authority to conduct the business affairs of the Company subject to levels of authority.

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

Features of contracts written

Assistance business (Individual)

Provides a benefit in the event of death of the insured and possibly the insured's dependants. The benefit is meant to cater for the funeral expenses. The insured lives may not necessary have any common link, i.e. offered to members of the public on a voluntary basis.

Assistance business (Group)

Provides a benefit in the event of death of the insured and possibly the insured's dependants. The insured lives would necessarily have a common link, e.g. employer, church group, union, etc. Cover is often arranged on a compulsory basis, but voluntary options may be offered as well. Cover for the group is normally arranged on annually renewable terms.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

a. Insurance Risk (continued)

Terms and conditions of insurance contracts (continued)

Features of contracts written (continued)

Life (Individual)

Provides a benefit in the event of death, disability (as a result of injury or illness), or upon diagnosis of a defined illness (e.g. cancer) of the insured. The insured lives may not necessarily have any common link, i.e. offered to members of the public on a voluntary basis. The benefit is paid to the nominated beneficiary as stated by the insured when the policy was bought.

Life (Group)

Provides a benefit in the event of death, disability (as a result of injury or illness), or upon diagnosis of a defined illness of a member of the group. The group will typically be an employer who arranges a scheme to cover all employees. Cover for any employee ceases upon leaving employment. The death benefit is paid to the nominated beneficiary as stated by the member when the member joined the scheme.

A scheme could also be structured to provide similar benefits to a credit holder. The benefit is based on the outstanding balance at the time of the insured event and is meant to settle the outstanding balance. For these types of schemes, cover is given on annually renewable terms.

Insurance risks in the Company and how these are mitigated

For each of the above classes of business, the following insurance risks could result in underwriting losses:

Assistance business (Individual) and Life (Individual)

The main risks associated with these contracts are mortality and morbidity risks. These risks are on actual mortality or morbidity turning out to be higher than that assumed in the pricing. The mortality and morbidity assumptions in the pricing are based on historical experience on the said classes of contracts. Premium rates are annually renewable and this allows the Company to review the experience and adjust rates if necessary.

Geographical concentration is not a major risk under these contracts because policies are written on individual basis across the country. This ensures sufficient geographical spread, reducing the risk of several claims arising from a single event (i.e. catastrophe). Other risks such as withdrawals, new business mix and volumes, expenses and capital requirements are monitored regularly.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

a. Insurance Risk (continued)

Insurance risks in the Company and how these are mitigated (continued)

Assistance business (Group) and Life (Group)

As for Individual business above, the main risks with these contracts relate to mortality and morbidity where higher mortality or morbidity is experienced than that assumed in the pricing. Premium rates are annually renewable, allowing the Company to review and adjust rates if necessary.

Geographical concentration risk is possible, especially where employer groups are concerned. Several claims could result from a single catastrophic event because the insured lives are located in the same area. This risk is mitigated by buying an appropriate level of catastrophe reinsurance.

Other risks such as withdrawals, new business mix and volumes, expenses and capital requirements are monitored regularly.

Underwriting strategy

It is the Company's philosophy to accept only those risks that yield an acceptable rate of return on the capital exposed to risk and to an extent that limits the exposure to loss to an acceptable amount and where required, within regulated prudential limits. The net retention is therefore based on individual small occurrences exposing the Company mainly to attritional losses and reinsuring individual large loss, catastrophe and volatility exposures. All exposures in excess of the Company's individual risk appetite are either mitigated by client capital through cell captive arrangements or reinsurance.

Policy and claims administration for volume business is generally outsourced to independent administrators and the Company performs regular actuarial evaluations of the risk written through these arrangements. The evaluations include reviewing the pricing, individual risk exposures and accumulation risk exposures to ensure that the particular facility is able to produce the required return on capital. The Company generally purchases excess of loss reinsurance cover on a per loss basis for each facility to ensure that the Company is not adversely exposed to large individual losses.

The Company uses a balance of traditional insurance underwriting expertise and actuarial input to price its underwriting risk. Outsourced underwriting risk is further monitored by regular reviews by the client service teams, audits and detailed contractual mandates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

a. Insurance Risk (continued)

Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses and to protect capital resources. The Company purchases individual proportional and non-proportional reinsurance on a per deal basis, thereby ring-fencing the exposures and profit share arrangements per client. The Company also purchases group catastrophe reinsurance to protect its net account.

In addition, underwriters and actuarial staff are also permitted to purchase facultative reinsurance from a pre-approved list of reinsurers up to the mandated amounts. The mandates prescribe that underwriters and actuarial staff may not cede more than a specific percentage to any one reinsurer without prior approval to ensure diversification.

Reinsurers are generally pre-approved. Non-approved reinsurers must go through an approval process and if necessary, risk mitigating factors such as premium retention and pay as paid clauses are applied.

The Company also monitors the concentration of risks to single reinsurers and risk exposures to the reinsurers. The risk exposures are calculated using default probabilities based on the respective reinsurer's credit rating as allocated by recognised rating agencies. The risk exposure is fairly sensitive to the reinsurer's credit rating, for example if the credit rating of the reinsurer with the biggest exposure was downgraded the Company's overall exposure to reinsurers after applying the probabilities of default would increase concomitantly

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

a. Insurance Risk (continued)

Concentration risk

Within the insurance process, concentration risk may arise where a particular event or series of events could cause significant insurance losses that could impact heavily on the Company's financial resources. For this reason the Company monitors its net exposure to these events by identifying the concentration of risk by geographical area. The objective of this process is to source sufficient catastrophe cover in order to protect the Company's net retained position against these events.

Pricing risk

For third party cells and underwriting management agencies, the Company bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and brokers to ensure that this policy is consistently applied. The Company also has the right to re–price and change the conditions for accepting risks on renewal.

Through the use of extensive expertise, well–maintained data resources, selective underwriting practices and pricing techniques the Company is able to produce appropriate and competitive premium rates.

Sensitivity analysis

The loss ratio method of reserving can sometimes be quite sensitive to the assumed loss ratio. However, for the business written by the Company, historical loss ratios per scheme were used and these were not very sensitive to changes. On average, a 1% change in each scheme's loss ratio could result in approximately a 0.43% change in overall net non-linked reserves.

For the policyholder liabilities, where discounted cash flow techniques were used, interest rate shocks were applied as described below. The resulting change in net non-linked liabilities were not very significant, mainly because only two schemes has positive liabilities (in respect of permanent health insurance "PHI" claims) whilst the liabilities in other schemes were negative (and therefore zeroised) both before and after the shocks.

a. 50% increase in interest rates – this resulted in approximately a 6.56% decrease in overall policyholder liabilities.
b. 35% decrease in interest rates – this resulted in approximately a 7.02% increase in overall policyholder liabilities.

The impact of these shocks on the Company's profitability would be insignificant because only 4.10% of premiums are retained by the Company (with the cells and the reinsurers carrying 57.25% and 38.65% respectively).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

a. Insurance risk (continued)

Reserving

An extensive reserving exercise is carried out annually by the Company's actuaries. Each scheme is analysed individually and the results aggregated for the Company, the cells and the reinsured portion.

Following the annual reserving exercise, a reserving basis is set for each scheme, and this basis is used to update the reserves on a quarterly basis during the subsequent year. This ensures that the reserves are largely up to date and any discernible trends are appropriately factored in during the year.

Claims development

In terms of IFRS 4: Insurance Contracts, an insurer should disclose claims run-off information where uncertainty exists about the amount and timing of claims payments not resolved within one year. Generally, most of the Company's business is short-tailed i.e. any claim is generally settled within 12 months of the date of loss, and the claim benefit amounts are fixed. Consequently, detailed claims run-off information is not presented.

b. Financial risk

i. Risk management framework

The Company has established an enterprise risk management framework that is designed to identify, assess, measure and manage exposure to risk. Its primary objective is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

i. Risk management framework (continued)

For the discussions below, the following financial instruments and insurance balances are disclosed in classes based on their similar characteristics.

Financial and insurance assets	2017 R'000	2016 R'000
Quoted debt securities	54,876	36,311
Unquoted debt securities	123,510	142,372
Short-term money market instruments	34,838	10,085
Total investments	**213,224**	**188,768**
Cash and cash equivalents	2,721	2,827
Total financial assets at fair value through profit and loss	**215,945**	**191,595**
Insurance and other assets		
Insurance and other receivables	48,587	26,019
Reinsurance assets	33,062	17,786
Amounts due from group companies	26,582	13,618
Deposit held with cell owner	173,783	218,231
Total insurance and other assets	**282,014**	**275,654**
Total financial and insurance assets	**497,959**	**467,249**

Financial and insurance liabilities	2017 R'000	2016 R'000
Liabilities to cell shareholders	169,011	139,840
Policyholder liabilities under investment contracts	1,898	1,916
Financial liabilities at fair value through profit and loss	**170,909**	**141,756**
Amounts due to group companies	2,342	1,809
Financial liabilities at amortised cost	**2,342**	**1,809**
Insurance liabilities	103,427	66,801
Insurance and other payables	24,129	16,202
Provisions	200	2,500
Reinsurance contract liability	173,783	218,231
Total insurance liabilities	**301,539**	**303,734**
Total financial and insurance liabilities	**474,790**	**447,299**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

ii. Regulatory impact on risk and risk assessments

The Company's insurance operations are subject to regulatory requirements that prescribe the type, quality and concentrations of investments, and the level of assets to be maintained in local currency to meet insurance liabilities. These requirements help to maintain the Company's market risk at an acceptable level.

In monitoring risks, the Company makes use of compiled information on all material risks, along with information on likelihood and severity of risks, and the mitigating actions taken or planned. This enables the Company to assess its overall risk exposure and to develop a risk map, identifying any concentration of risk that may exist, and to define which risks and what level of risk the Company is prepared to accept.

iii. Market risk

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

Market risk arises due to fluctuations in both the value of financial liabilities and the value of investments held.

The Company has established a Risk Appetite statement and an Investment policy which management utilises in the management of the key market risks to which the Company is exposed. Adherence to the Risk Appetite statement and Investment policy is monitored and reviewed through the Investment Committee. For each of the major components of market risk, described in more detail below, the Company has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

a. Price risk

The Company is subject to price risk due to daily changes in the market values of its equity and debt securities portfolios.

The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high–quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively monitored and managed by the Investment Committee. The Company's holdings are diversified across companies, and concentrations in any one company are limited by parameters established by management and statutory requirements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

iii. Market risk (continued)

b. Interest rate risk

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored and managed by the Investment Committee.

The fair value of amounts due to cells is not sensitive to changes in interest rates as the amounts are undiscounted and the cash component of the amounts earn interest at market related rates.

An increase or decrease of 1% (100 basis points) in the interest rates relating to floating debt securities and cash and cash equivalents would result in an increase in total investment income of R140 630 (2016: R415 048) or a decrease of R202 001 (2016: R472 249) respectively of which approximately R34 506 (2016: R236 395) is attributable to profit before tax.

iv. Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations.

Key areas where the Company is exposed to credit risk are:

- investments in debt securities and cash and cash equivalents;
- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries; and
- reinsurance receivables.

The credit ratings provided were determined as follows: Sanlam Investment Management ("SIM") provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to the equivalent Standard & Poors international long-term rates. The Company seeks to avoid concentration of credit risk to groups of counterparties, to business sectors and product types.

Financial assets are graded according to current credit ratings issued and are classified as above. Financial assets which fall outside this range are classified as not rated. Credit limits for each counterparty, are set based on default probabilities that are in turn based on the ratings of the counterparty concerned.

Credit risk is managed on a client by client basis. Credit risk procedures are performed for new clients at inception and for existing clients at renewal. In addition, credit risk is re–evaluated on an exception basis if a client's solvency declines to an unacceptable level in management's view. Below are the controls that have been implemented to monitor and mitigate our credit risk:

1. A credit risk analysis is performed per client to assess the level of exposure that the Company faces.
2. If the analysis reflects an unacceptable level of risk, further steps are put in place to mitigate this risk. This is done through the engagement of a specialist attorney to secure the assets of certain individuals, for example by obtaining pledges, notarial bonds, suretyships, etc.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

iv. Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at 31 December 2017:

R'000	Credit rating										
	AA+	AA-	A-	BB-	BBB+	BBB	BBB-	BB+	BB	Not rated	Carrying value in B/S
Debt securities – quoted	-	-	-	2,031	-	20,284	26,511	5,048	1,002	-	54,876
Debt securities-unquoted	-	-	-	-	-	23,557	95,888	4,065	-	-	123,510
Short term money market instruments	-	-	-	-	9,394	19,377	3,012	3,055	-	-	34,838
Cash and cash equivalents	-	1,875	-	-	-	498	348	-	-	-	2,721
Total financial assets at fair value through profit and loss	**-**	**1,875**	**-**	**4,070**	**-**	**53,733**	**129,744**	**9,113**	**1,002**	**-**	**215,945**
Receivables due from contract holders	-	-	-	-	-	-	-	-	-	42,420	42,420
Receivables due from intermediaries	-	-	-	-	-	-	-	-	-	1,327	1,327
Reinsurance receivables	134	2,274	-	-	-	-	-	-	-	1,132	3,540
Reinsurance assets	-	-	36,244	-	-	-	-	-	-	(3,182)	33,062
Other loans and receivables	-	-	-	-	-	-	-	-	-	1,300	1,300
Amounts owed by group companies	-	18,606	-	-	-	-	-	-	-	7,975	26,581
Deposit held with cell owner	-	-	-	-	-	-	-	-	-	173,783	173,783
Total insurance assets and other receivables at amortised cost	**134**	**20,880**	**36,244**	**-**	**-**	**-**	**-**	**-**	**-**	**261,000**	**282,014**
Total	**134**	**22,755**		**4,070**	**-**	**53,733**	**129,744**	**9,113**	**1,002**	**261,000**	**481,551**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

iv. Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at 31 December 2016

R'000	Credit rating									
	AA	AA-	A	BBB+	BBB	BBB-	BB+	BB	Not rated	Carrying value in B/S
Debt securities – quoted	-	-	-	2,005	15,129	15,110	2,035	2,032	-	36,311
Debt securities-unquoted	-	-	-	-	133,250	6,069	3,053	-	-	142,372
Short term money market instruments	-	-	-	-	3,040	5,028	2,017	-	-	10,085
Cash and cash equivalents	1,797	-	-	-	-	1,030	-	-	-	2,827
Total financial assets at fair value through profit and loss	**1,797**	**-**	**-**	**2,005**	**151,419**	**27,237**	**7,105**	**2,032**	**-**	**191,595**
Receivables due from contract holders	-	-	-	-	-	-	-	-	22,357	22,357
Receivables due from intermediaries	-	-	-	-	-	-	-	-	654	654
Reinsurance receivables	-	1,849	-	-	-	-	-	-	99	1,948
Reinsurance assets	-	17,786	-	-	-	-	-	-	-	17,786
Other loans and receivables	-	-	-	-	-	-	-	-	1,060	1,060
Amounts owed by group companies	-	-	-	-	-	-	-	-	13,618	13,618
Deposit held with cell owner	-	-	-	-	-	-	-	-	218,231	218,231
Total insurance assets and other receivables at amortised cost	**-**	**19,635**	**-**	**-**	**-**	**-**	**-**	**-**	**256,019**	**275,654**
Total	**1,797**	**19,635**	**-**	**2,005**	**151,419**	**27,237**	**7,105**	**2,032**	**256,019**	**467,249**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

iv. Credit risk (continued)

Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The Company has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract.

The Company only reinsures with companies that have an investment grade credit rating (AAA to BBB). Reinsurers with a rating less than A- and whose risk of default is in excess of 2% are approved by the Board of directors. Where a reinsurer has a relatively lower credit rating, the Company will insist on a pay as paid clause in the reinsurance agreement.

Cell shareholders' interest

The Company is exposed to credit risk in relation to cell captive arrangements. Management has established and implemented credit risk evaluation procedures that are followed for all new and existing cells. These evaluation procedures involve the analysis of the cells' individual financial statements with a focus on solvency. Actuarial techniques are applied on the available information to determine the extent of underwriting risk.

Where underwriting risk is considered to be excessive, third party reinsurance is utilised to mitigate this risk. Where excessive underwriting losses are incurred by a client cell facility, the facility is either recapitalised, cancelled and a claim instituted for any residual losses or the facility is restructured to reduce on-going exposures and corrective underwriting measures are implemented to trade out of the loss position. In addition to this, the insurance product is structured in a manner that will minimise underwriting risk to levels appropriate for the credit risk extent.

In the event that claims incurred by the cell captive exceed the related assets, the Company will be exposed to the credit risk of the related cell shareholders until the solvency requirements of the cell captives have been met by the cell shareholder.

The solvency of all new and existing cells are monitored by management on a monthly basis. Cell captives identified as having insufficient capital are reviewed by the Executive committee and where appropriate additional capital is requested from the cell captive owner.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

iv. Credit risk (continued)

Impairment history

The following tables provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Impairment	Carrying value
	Neither past due nor impaired	0-3 months	3-6 months	6 months – 1 year	Greater than 1 year			
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
31 December 2017:								
Quoted debt securities	54,876	-	-	-	-	-	-	54,876
Unquoted debt securities	123,510	-	-	-	-	-	-	123,510
Short term money market instruments	34,838	-	-	-	-	-	-	34,838
Deposit held with cell owner	173,783	-	-	-	-	-	-	173,783
Receivables due from contract holders	22,280	15,365	4,575	-	-	200	(200)	42,420
Receivables due from intermediaries	971	311	46	-	-	-	-	1,327
Reinsurance receivables	1,577	1,782	181	-		-	-	3,540
Other loans and receivables	1,300	-	-	-	-	-	-	1,300
Amounts owed by group companies	26,582	-	-	-	-	-	-	26,582
Cash and cash equivalents	2,721	-	-	-	-	-	-	2,721

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

iv. Credit risk (continued)

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Impairment	Carrying value
	Neither past due nor impaired	0-3 months	3-6 months	6 months – 1 year	Greater than 1 year			
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
31 December 2016:								
Quoted debt securities	36,311	-	-	-	-	-	-	**36,311**
Unquoted debt securities	142,372	-	-	-	-	-	-	**142,372**
Short term money market instruments	10,085	-	-	-	-	-	-	**10,085**
Deposit held with cell owner	218,231	-	-	-	-	-	-	**218,231**
Receivables due from contract holders	9,999	8,727	3,631	-	-	700	(700)	**22,357**
Receivables due from intermediaries	632	-	6	10	6	-	-	**654**
Reinsurance receivables	260	1,370	318	-		-	-	**1,948**
Reinsurance assets	17,786	-	-	-	-	-	-	**17,786**
Other loans and receivables	1,060	-	-	-	-	-	-	**1,060**
Amounts owed by group companies	13,618	-	-	-	-	-	-	**13,618**
Cash and cash equivalents	2,827	-	-	-	-	-	-	**2,827**

No terms have been renegotiated. The impairment of financial assets was based on a high degree of uncertainty to recover the amounts that are due.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

v. Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

The Company is exposed to daily calls on its available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company actively manages its cash resources, split between short–term and long–term to ensure sufficient cash is at hand to settle insurance liabilities, based on monthly float projections. The Company has significant liquid resources to cover its obligations. For the purposes of the maturity analysis below, financial instruments are presented on an undiscounted, contractual and worse case basis while insurance assets and liabilities are presented based on expected cash flows.

The following maturity analysis provides details on the expected realisation of assets recognised at reporting date:

2017 R'000	Within 1 year	1-5 years	>5 years	Total
Deposit held with cell owner	45,183	104,270	24,330	173,783
Debt securities	-	178,386	-	178,386
Short term money market instruments	34,838	-	-	34,838
Cash and cash equivalents	2,721	-	-	2,721
Insurance and other receivables	48,588	-	-	48,588
Amounts owed by group companies	26,582	-	-	26,582
Reinsurance assets	33,062	-	-	33,062
Total	190,975	282,655	24,330	497,960

2016 R'000	Within 1 year	1-5 years	>5 years	Total
Deposit held with cell owner	55,590	124,318	38,323	218,231
Debt securities	-	178,683	-	178,683
Short term money market instruments	10,085	-	-	10,085
Cash and cash equivalents	2,827	-	-	2,827
Insurance and other receivables	26,019	-	-	26,019
Amounts owed by group companies	13,618	-	-	13,618
Reinsurance assets	17,786	-	-	17,786
Total	125,925	303,001	38,323	467,249

The Financial assets at fair value through profit and loss that have been allocated in the 1 to 5 years maturity classification based on the contractual maturity date can be sold immediately.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

v. Liquidity risk (continued)

The following maturity analysis provides details on the expected settlement of financial liabilities recognised at reporting date:

2017

R'000	Within 1 year	2-5 years	>5 years	Total
Reinsurance contract liability	45,183	104,270	24,330	173,783
Liabilities to cell shareholders	-	169,011	-	169,011
Amounts due to Group companies	2,342	-	-	2,342
Insurance liabilities under insurance contracts	103,427	-	-	103,427
Insurance liabilities under investment contracts	1,898	-	-	1,898
Provisions	200	-	-	200
Insurance and other liabilities	24,129	-	-	24,129
Total	177,180	273,280	24,330	474,790

2016

R'000	Within 1 year	2-5 years	>5 years	Total
Reinsurance contract liability	55,590	124,318	38,323	218,231
Liabilities to cell shareholders	-	139,840	-	139,840
Amounts due to Group companies	1,809	-	-	1,809
Insurance liabilities under insurance contracts	66,801	-	-	66,801
Insurance liabilities under investment contracts	1,916	-	-	1,916
Provisions	2,500	-	-	2,500
Insurance and other liabilities	16,202	-	-	16,202
Total	144,818	264,158	38,323	447,299

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

vi. Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for assets or liability that are not based on observable market data (unobservable inputs)

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss	-	178,386	-	178,386
Short term money market instruments	-	34,838	-	34,838
Total financial assets	-	213,224	-	213,224
Liabilities to cell shareholders	-	169,011	-	169,011
Policyholder liabilities under investment contracts	-	1,898	-	1,898
Total financial liabilities	-	170,909	-	170,909

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss	-	178,683	-	178,683
Short term money market instruments	-	10,085	-	10,085
Total financial assets	-	188,768	-	188,768
Liabilities to cell shareholders	-	139,840	-	139,840
Policyholder liabilities under investment contracts	-	1,916	-	1,916
Total financial liabilities	-	141,756	-	141,756

vii. Legal risk

Legal risk is the risk that the Company will be exposed to contractual obligations which have not been provided for. The risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of the Company's clients and counterparties, including contractual provisions intended to reduce credit and product exposure by providing for the netting of mutual obligations. During the development stage of any new products and for material transactions entered into by the Company, the legal resources of the Company monitor the drafting of the contract document to ensure that rights and obligations of all parties are clearly set out.

viii. Reputation risk

Reputation risk is the risk that the Company's brand may be negatively affected due to business practices of third parties who distribute insurance products and solutions on behalf of the Company.

Take-on procedures for new business partners involve a thorough review of their history and the industry reputation of their principal members. The existing business partners are regularly reviewed to ensure that amongst other things no reputation risk to the Company arises.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

ix. Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. These risks are mitigated through a comprehensive system of internal controls, comprising policies and standards, procedures, systems and information to assist in achieving established objectives and goals.

This definition is intended to include all risks to which the Company is exposed, other than the strategic, legal and financial risks considered elsewhere. Hence, operational risks include for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks.

The Company is exposed to operational risk due to its outsourced business model whereby the UMA ("Underwriting Managing Agent")/Non-mandated intermediary performs binder functions relating to the insurance products sold. This operational risk is mitigated by contracting the UMA's/Non-mandated intermediary through binder agreements which stipulate the terms and conditions of the arrangement.

Periodic reviews and monitoring of operational activities at the UMA/Non-mandated intermediary are also performed, which further mitigates the company's operational risk.

The Company's management has the responsibility for the effective identification, management, monitoring and reporting of operational risks.

x. Capital management

The Company's capital management philosophy is to maximise the return on shareholder's capital within an appropriate risk framework. Two sources of capital are used in the business, being ordinary shareholder capital and preference shareholder capital. The aim of the capital management process is to increase shareholder wealth through optimal allocation of capital to the business. Preference share capital is used to underwrite insurance policies issued under cell captive arrangements.

Ordinary shareholder capital is used to write insurance policies for the Company's net account and at the option of the Company, to provide solvency capital to cell shareholders where the cell has insufficient capital. In accordance with the Long-term Insurance Act, a long term insurer is required to maintain an amount of capital as determined by its statutory actuary. In calculating this capital, the statutory actuary applies guidelines as set by the Actuarial Society of South Africa taking cognisance of the minimum requirements set in the Long-term Insurance Act. An actuarial valuation is carried out at the end of every financial year to determine the required capital. At 31 December 2017, the capital required was R49.9m (2016: R28,4m) per statutory requirements but the actual published capital held to support the business was R184,5 (2016: R155.8m), representing a ratio of excess assets to capital adequacy requirement of 3.7x (2016: 5.5x).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000
4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
INVESTMENTS		
Debt securities – fixed rate		
Quoted redeemable after 1 year	4,655	3,028
Unquoted redeemable after 1 year	29,799	32,870
	34,454	35,898
Debt securities – floating rate		
Quoted redeemable after 1 year	50,221	33,283
Unquoted redeemable after 1 year	93,711	109,502
	143,932	142,785
Total non-current debt securities	**178,386**	**178,683**
Financial assets at fair value through profit and loss	**178,386**	**178,683**
Short term money market instruments	34,838	10,085
	213,224	**188,768**
The movements in investments are as follows:		
Balance at beginning of year	188,769	114,449
Additions	70,733	193,935
Sales and redemptions	(46,262)	(120,444)
Fair value unrealised gain/(loss)	(15)	828
Balance at end of year	213,224	188,769

Debt securities comprises of investments in domestic corporate bonds.

	2017 R'000	2016 R'000
5. INSURANCE LIABILITIES AND REINSURANCE ASSETS		
Gross		
Outstanding claims provision	41,706	24,355
Policyholder liabilities for insurance contracts	61,721	42,446
	103,427	66,801
Analysis of movements in outstanding claims		
Balance at beginning of year	24,355	6,428
Claims paid	101,285	85,487
Movement in claims reported	(83,934)	(67,560)
Balance at end of year	41,706	24,355
Analysis of movements in policyholder liabilities for insurance contracts		
Balance at beginning of year	42,446	30,312
Change in mortality assumptions	11,479	3,430
Change in morbidity assumptions	7,392	8,210
Change in economic assumptions	404	494
Balance at end of year	61,721	42,446

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000
5. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)		
Reinsurance assets		
Reinsurers' portion of outstanding claims provision	18,001	6,056
Reinsurers' portion of policyholder liabilities for insurance contracts	15,061	11,730
	33,062	17,786
Analysis of movements in reinsurers' portion of outstanding claims provision		
Balance at beginning of year	6,056	2,955
Movement for the year	15,625	18,202
Transfer to cell owners' interest	(3,679)	(15,101)
Balance at end of year	18,002	6,056
Analysis of movements in reinsurers' portion of policyholder liabilities for insurance contracts		
Balance at beginning of year	11,730	7,073
Movement for the year	18,732	11,045
Transfer to cell owners' interest	(15,402)	(6,388)
Balance at end of year	15,060	11,730

Assumptions

At inception of the contract, the Company determines the mortality, morbidity and economic assumptions in relation to future deaths, disabilities and the rate at which policyholders are expected to recover from disability, retrenchments and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions in accordance with the Standards of Actuarial Practice ("SAP") 104 issued by the Actuarial Society. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in light of the latest current estimates.

The table below summarises the margins applied by the Company in the valuation of their liabilities:

	Mortality	Accelerator	Lapse	Expense	Risk Discount Rate	Inflation
Compulsory margins	7.50%	10%	-25.00%	10%	0.25%	10.00%

The above margins are as prescribed by SAP104.

The economic assumptions risk discount rates used are based on the SA government bonds yield curve at 30 November 2017 as developed for SAM Comprehensive Parallel Run. The inflation is assumed to be 5.66% (2016: 6%), the average nominal interest rate of the SAM yield curve over the next year. The assumptions and methodology used in determining these liabilities are detailed further in note 2 (i).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000
6. DEPOSIT HELD WITH CELL OWNER		
Balance at the beginning of the year	218,231	254,069
Movement during the year (refer to note 13)	(44,448)	(35,838)
Balance as at the end of the year	173,783	218,231
Non-Current portion of deposit held with cell owner	128,600	162,641
Current portion of deposit held with cell owner	45,183	55,590

The Company entered into a Financial Reinsurance agreement whereby the profit in respect of the book of business reinsured, was paid upfront by the reinsurer to the cell owner. The Company's reinsurance liability due to the reinsurer was recognised as "Reinsurance contract liability" in the Statement of Financial Position. The payment made to the cell owner is regarded by the Company as the upfront payment of profits to the cell owner in terms of the cell shareholder agreement and is therefore recognised as a deposit with the cell owner in the Statement of Financial Position.

7. INSURANCE AND OTHER RECEIVABLES

	2017 R'000	2016 R'000
Receivables arising from insurance contracts		
- contract holders	42,420	22,357
- agents and intermediaries	1,327	654
Reinsurance contract receivables	3,540	1,948
Other receivables and prepayments	1,300	1,060
	48,587	26,019

8. CASH AND CASH EQUIVALENTS

	2017 R'000	2016 R'000
Bank and cash balances	2,721	2,827

9. ORDINARY SHARE CAPITAL

	2017 R'000	2016 R'000
Authorised		
- 136 000 000 (2016: 136 000 000) ordinary shares of 50 cents each	68,000	68,000
- 30 000 (2016: 30 000) class B ordinary shares of 50 cents each	15	15
Issued		
- 30 000 000 (2016: 30 000 000) ordinary shares of 50 cents each	15,000	15,000

The unissued shares are under the control of the directors until the next annual general meeting.

10. LIABILITIES TO CELL SHAREHOLDERS

The preference shares are redeemable, non-convertible, participate in the profits and losses of the company on a basis agreed with the preference shareholder at the time of issue, and are preferred to the ordinary share capital in respect of capital and dividends in the event of liquidation.

The preference shares are issued to parties in order to provide the risk capital to underpin the insurance business introduced to the Company by that party. The shares are eligible to receive dividends based on the profitability of the business introduced. In the event that the business is not profitable the amounts at which the preference shares are redeemed are adjusted accordingly.

The preference shares are issued for an indefinite period and have no fixed redemption date. Should the preference shareholders cease to introduce insurance business to the Company, and once all related risks have expired, the preference shares are either redeemed or acquired by a company in the Centriq Group. However, the shareholders' agreements do provide the right to the cell shareholders to put the shares to the Company. As a result of this put option the preference shares are recognised as liabilities, as opposed to equity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000

10. LIABILITIES TO CELL SHAREHOLDERS (continued)

	2017 R'000	2016 R'000
Authorised share capital		
30,000 variable rate cumulative redeemable preference shares of 1 cent each	-	-
Issued share capital		
330 (2016: 272) variable rate cumulative redeemable preference shares of 1 cent each	-	-
Share premium	20,635	18,886
	20,635	18,886

During the year the Company issued 60 (2016: 85) non–convertible redeemable preference shares at par value of 1 cent each and at a premium of R2,000,000 (2016: R3,473,581) to entities which entered into cell arrangements with the Company.

Furthermore, 2 (2016:20) non-convertible redeemable preference shares at par value of 1 cent and at a premium of R250,000 (2016:R1,001,000) were redeemed and dividends of R9,357,800 (2016:R3,069,417) were declared and paid.

	2017 R'000	2016 R'000
Reconciliation of cell shareholders interest		
Balance at beginning of year	139,840	121,331
Proceeds from issue of financial instruments	2,000	3,474
Repayment of liabilities due to cell shareholders	(250)	(1,001)
Dividends paid	(9,358)	(3,069)
Movement in amounts due to cell shareholders	36,779	19,105
	169,011	139,840

11. DEFERRED TAXATION LIABILITY/ASSET

	2017 R'000	2016 R'000
Balance at beginning of year	611	461
Statement of comprehensive income charge	(640)	150
	(29)	611
Comprising:		
Unrealised investment gains	(85)	(89)
Provisions	56	700
	(29)	611

12. POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS

	2017 R'000	2016 R'000
Balance at beginning of the year	1,916	1,867
Receipts from investment contracts	7,245	7,245
Payments relating to investment contracts	(6,245)	(7,003)
Fair value adjustment on investment contracts	(1,018)	(193)
	1,898	1,916

13. REINSURANCE CONTRACT LIABILITY

	2017 R'000	2016 R'000
Balance at beginning of the year	218,231	254,069
Reinsurance contract liability created during the year	-	-
Impact of discounting over the period (unwinding)	13,336	14,374
Variance of exits during the period (lapses and deaths)	(3,808)	(56,101)
Repayments	(47,360)	(45,880)
Impact of change in reinsurance risk rates	-	(3,335)
New discount curve	(1,336)	6,050
New tranches written during the period (as at the end of the period)	-	55,467
Impact of estimation	(5,280)	(6,413)
Balance as at the end of the year	173,783	218,231
Non-Current portion of reinsurance contract liability	128,600	162,641
Current portion of reinsurance contract liability	45,183	55,590

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

13. REINSURANCE CONTRACT LIABILITY (continued)

The Company entered into a Financial Reinsurance agreement whereby the profit in respect of the book of business reinsured, was paid upfront by the reinsurer to the cell owner. The Company's reinsurance liability due to the reinsurer was recognised as "Reinsurance contract liability" in the Statement of Financial Position. The payment made to the cell owner is regarded by the Company as the upfront payment of profits to the cell owner in terms of the cell shareholder agreement and is therefore recognised as a deposit with the cell owner in the Statement of Financial Position.

	2017 R'000	2016 R'000
14. INSURANCE AND OTHER PAYABLES		
Direct insurance contract payables	7,414	1,511
Reinsurance contract payables	14,331	13,821
Other payables and accrued expenses	2,384	870
	24,129	16,202
15. PROVISIONS		
Provision for excess payable on professional indemnity insurance		
Balance at beginning of year	2,500	1,140
Provision utilised during the year	(2,500)	-
Provision created during the year	200	1,360
Balance at end of year	200	2,500
16. FEES AND COMMISSION INCOME		
Premium based fees	8,768	6,433
Fund management based fees	164	129
Reinsurance commission	17,527	6,342
	26,459	12,904
17. FAIR VALUE GAINS ON ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
Interest income	17,156	13,766
Interest income - SARS	12	1
Realised gain/(loss) on disposal of investments	375	(269)
Unrealised (loss)/profit on revaluation of investments	(15)	828
	17,528	14,326
18. NET POLICYHOLDER CLAIMS AND BENEFITS INCURRED		
Current year claims and loss adjustment expenses	101,285	85,487
Movement in gross outstanding claims	16,386	17,927
Movement in gross policyholder liabilities for insurance contracts	19,276	12,134
Gross claims and benefits	**136,947**	**115,548**
Reinsurance recoveries from reinsurers	(95,677)	(80,083)
Movement in reinsurers' share of outstanding claims	(15,624)	(17,237)
Movement in reinsurers' share of policyholder liabilities for insurance contracts	(18,733)	(11,045)
Reinsurers' share of claims and benefits incurred	**(130,034)**	**108,365**
Net policyholder claims and benefits incurred	**6,913**	**7,183**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000
19. FINANCE COST		
SARS: Interest and penalties	-	4
20. MARKETING AND ADMINISTRATION EXPENSES		
Administration fees	52	16
Audit fees - for audit services	1,015	893
Bad debt written off/(recovered)	199	(11)
FSB fees and levies	136	147
Insurance paid	-	1,360
Investment management fees	291	241
Legal fees	78	17
Management fees payable to group companies	2,342	1,809
Other costs	86	36
Sundry income	(684)	-
Professional fees	539	476
	4,054	4,984
21. TAXATION		
SA normal tax		
Current taxation – current year	16,683	9,667
Deferred taxation – current year	640	(150)
	17,323	9,517
Income tax portion in respect of cell business	(14,490)	(7,246)
	2,833	2,271
Tax rate reconciliation		
Profit before tax	10,113	8,070
	%	%
Official tax rate	28.00	28.00
Reconciling differences:		
- permanent differences	0.01	0.10
Tax charge as a percentage of accounting profit	28.01	28.10

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

22. CASH GENERATED FROM OPERATIONS

	2017 R'000	2016 R'000
Profit before tax	10,113	8,070
Fair value gain	(17,528)	(14,318)
Interest paid	0	(4)
Net loss before investment income	(7,415)	(6,252)
Adjustments for:		
- Fair value gain from revaluation of policyholder liabilities for investment contracts	(1,018)	(193)
- (Decrease) in net outstanding claims and policyholder liabilities for insurance contracts	21,350	22,303
- Cashflows from investment contracts	1,000	242
Operating profit before working capital changes	13,917	16,100
(Increase)/Decrease in insurance and other receivables	(22,568)	9,619
(Increase)/Decrease in net amounts due to group companies	(12,431)	24,952
Increase/(Decrease) in insurance and other payables	7,927	(3,410)
(Decrease)/Increase in provisions	(2,300)	1,360
Movement in liabilities to cell shareholders	36,779	19,105
	21,324	67,726

23. TAXATION PAID

	2017 R'000	2016 R'000
Amount refundable at the beginning of the year	378	344
Current tax charge gross of recovery from cell shareholders	(16,683)	(9,667)
Recovered from cell shareholders	14,490	7,246
Amount refundable at the end of the year	(79)	(378)
	1,894	2,455

24. SUBSEQUENT EVENTS

An ordinary shareholders' dividend payable to Centriq Insurance Holdings Limited of R6,000,000 (2016: R5,000,000) was declared on 13 February 2018.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

25. RELATED PARTY TRANSACTIONS

Parent and ultimate holding company:

Centriq Insurance Holdings Limited is the direct holding company of Centriq Life Insurance Company Limited with a 100% (2016:100%) shareholding of the issued ordinary shares. Centriq Insurance Holdings Limited's parent is Santam Limited who holds 100% (2016:100%) of the issued ordinary shares. The ultimate holding company is Sanlam Limited with a 61.6% shareholding in Santam Limited.

Fellow subsidiaries:

The following companies are fellow subsidiaries:

- Centriq Insurance Company Limited
- Nova Risk Partners Limited
- Beyonda Group (Pty) Ltd
- Nautical Underwriting Managers (Pty) ltd
- Ground Up Community Cycling Initiatives (Pty) Ltd
- Cenviro Solutions (Pty) Ltd

Key management:

Key management is defined as:

- Directors and executive committee members of Centriq Insurance Holdings Limited; and
- Directors and executive committee members of Centriq Life Insurance Company Limited.

A list of directors of the Company can be found on page 6 of the annual financial statements.

	2017 R'000	2016 R'000
Transactions with related parties:		
Management fees paid		
- Centriq Insurance Company Limited	2,042	1,809
Asset management fees paid		
- Sanlam Investment Managers	291	241
Reinsurance premium		
- Sanlam Limited	911	1,604
Sundry income		
- Stalker Hutchinson Admiral (Pty) Limited	3,219	-
Balances with related parties:		
Amount owed to Centriq Insurance Company Limited	(2,342)	(1,809)
Amount owed by Centriq Insurance Holdings Limited	7,976	13,618
Amount owed by Centriq Insurance Company Limited	18,606	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

25. RELATED PARTY TRANSACTIONS (continued)

Movement on balances with related parties:

Centriq Insurance Company Limited:		
- Balance at the beginning of the year	(1,809)	(1,627)
- Net (advance)/repayment during the year	(1,809)	(9,728)
- Current year management fee raised	2,342	1,809
- Expenses paid on behalf of the Company	-	(22)
- Premium receipt	-	11,377
	(2,342)	(1,809)
Centriq Insurance Holdings Limited:		
- Balance at the beginning of the year	13,618	38,388
- Net (decrease)/increase in cash held on behalf of the Company	(5,642)	(24,770)
	7,976	13,618
Centriq Insurance Company Limited:		
- Balance at the beginning of the year	-	-
- Premium receipt	18,606	-
	18,606	-

Amounts due from/(to) group companies

Amounts due from/(to) group companies do not have fixed or determinable repayment terms, however in practice the accounts are settled on a monthly basis. No interest is charged on these amounts.