

Hollard.

Hollard Life Assurance Company Limited



These annual financial statements were audited in compliance with the Companies Act 71 of 2008.

These annual financial statements have been prepared by the Head: Life Reporting, Navashnie Pillay (ACMA, CGMA), under supervision of the Group Head of Finance, Prevashini Naicker (CA(SA)).

(Registration number: 1993/001405/06)

Audited consolidated annual financial statements for the year ended 30 June 2021

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GROUP SALIENT FEATURES

for the year ended 30 June 2021

	GROUP				
	2021 R'000	2020 R'000	2019 R'000	2018 R'000	2017 R'000
Statement of profit and loss information					
Gross written premiums ⁽¹⁾	6 855 416	6 941 676	6 729 148	6 497 835	5 859 951
Net written premiums ⁽²⁾	5 313 496	5 309 551	5 024 891	4 990 759	4 515 535
Investment income ⁽³⁾	389 891	169 401	238 330	483 223	580 816
Net Insurance claims	3 746 796	2 137 280	2 009 477	2 022 074	1 369 001
Profit attributable to equity holders of the parent	306 649	452 326	565 257	694 355	855 763
Statement of financial position information					
Insurance liabilities	28 449 401	25 216 067	18 317 099	11 515 866	8 428 789
Equity attributable to equity holders of the parent	1 317 456	1 483 372	1 223 673	1 517 841	1 515 433
Total assets	32 893 914	30 013 865	21 980 876	15 207 765	11 751 588
Financial assets	26 635 288	24 138 893	17 866 468	10 998 545	8 872 747
Cash and cash equivalents	2 171 715	3 097 180	2 534 326	2 046 511	1 223 768
Actuarial Information					
Value of in-force business ⁽⁴⁾	5 080 126	5 519 107	5 487 108	5 131 678	5 075 131
Total embedded value	6 427 694	7 014 397	6 731 984	6 629 552	6 553 718
Solvency capital requirement ⁽⁵⁾	3 227 076	3 001 562	3 116 305	2 942 693	2 702 653
Solvency capital requirement cover ⁽⁵⁾	1,39	1,63	1,55	1,58	1,61

(1) "Gross premium income" represents the total income arising from insurance contracts only. In accordance with IFRS 9: Financial Instruments: Recognition and Measurement (IFRS 9), all items of income and expenditure in respect of investment contracts are excluded from the income statement and accounted for directly against the liability under these contracts in the statement of financial position.

(2) "Net written premium income" is gross premium income less reinsurance premiums ceded to reinsurers.

(3) "Investment income" includes net investment income and unrealised profits and/or losses on the investment and trading portfolios.

(4) The "value of in-force business" and "total embedded value" information reported above include profits attributable to Hollard Life's holding company joint venture partners.

(5) The "Solvency Capital Requirement" from the 2019 year is based on SAM while the prior years were based on interim measures.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

In terms of the Companies Act of South Africa, the Directors are required to maintain adequate accounting records and to prepare annual financial statements that fairly present the financial position at year-end and the results and cash flows for the year of Hollard Life Assurance Company Limited ("Hollard Life" or the "Company") and its subsidiaries (the "Group").

To enable the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Group Audit Committee and other risk monitoring committees and functions.

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the Group's written policies and procedures. These controls are implemented by trained and skilled staff, with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a budgeting and reporting system operating within strict deadlines and an appropriate control framework.

As part of the system of internal control, the Group's Internal Audit function conducts inspections, financial and specific audits and co-ordinates audit coverage with the external auditor.

The External Auditors are responsible for reporting on the Group's and Company's annual financial statements..

The Group's and Company's annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate responsible disclosures in line with the accounting policies of the Group. The Group's and Company's annual financial statements are based on appropriate accounting policies consistently applied, except as otherwise stated and supported by reasonable and prudent judgements and estimates.

The Board believes that the Group and Company will be going concerns in the year ahead. For this reason the Board continues to adopt the going-concern basis in preparing the annual financial statements.

These annual financial statements, set out on pages 12 to 78 have been approved by the Board of the Group and Company and are signed on their behalf by:



ADH Enthoven
Chairman

22 October 2021



S Ntombela
Chief Executive Officer

22 October 2021

CERTIFICATION BY COMPANY SECRETARY

for the year ended 30 June 2021

In my capacity as Company Secretary, I hereby confirm that the Group and its subsidiaries has lodged with the Registrar of Companies all such returns as are required of the Company and that such returns are true, correct and up to date.



A Allardyce
Company Secretary

22 October 2021

AUDIT COMMITTEE REPORT

The Committee is composed of three independent non-executive directors. The work of the Committee is specified by its charter, and the provisions of the Long Term Insurance Act, 2017. The Committee has reviewed the Group's and Company's annual financial statements, and recommends them for approval to the board. The Committee further reviewed the Group's and Company's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee met three times during the year, and the chairman of the Committee reported on the work of the Committee to the Board.

The Committee reviewed the work of the external auditor, Deloitte & Touche, including the audit plan and budget, independence and recommended to the Board and shareholders the appointment of the auditor.



MR Bower
Chairman: Audit Committee

22 October 2021

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2021

The embedded value is determined by adding the discounted value of shareholder profits likely to arise in the future from business in-force as at the valuation date to the value of shareholder funds.

The embedded value has been calculated on a best estimate basis, where the assumptions have been arrived at by removing both compulsory and discretionary margins from the financial soundness basis. The risk discount rate used in the calculation was Risk Free Curve + 4% (2020: 12%).

- Expenses were allowed for based on an expense analysis carried out during the year;
- Expense inflation is derived as the difference between the real yield curve and the nominal yield curve;
- Mortality assumptions were set based on the results of a mortality experience analysis carried out during the year with explicit allowance for HIV/AIDS;
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year;
- The risk free interest rate curve and the inflation curve supplied by the Prudential Authority were used to determine the policyholder liabilities.
- Income tax was allowed for explicitly at the appropriate rates and capital gains tax was allowed for implicitly in the discount rate (unchanged).
- A discretionary margin of R160 million (2020: R214 million) was held as partial elimination of negative reserves;
- A contingency reserve to cover possible data problems of R30 million (2020: R30 million) was held as a discretionary reserve; and
- A R6 million (2020: R100 million) discretionary reserve is being held due to the uncertainty in amount and timing of Covid-19 claims; and
- Negative reserves were allowed for on the published reporting basis (unchanged).

	COMPANY	
	2021 R'000	2020 R'000
Value of in-force business	5 080 126	5 519 107
Excess of assets over liabilities	1 347 568	1 495 290
Total embedded value	6 427 694	7 014 397

The embedded value (EV) includes profits attributable to Hollard Life's holding company joint venture partners. The VIF is gross of tax and EV gross of cost of capital.

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2021

To the shareholder of Hollard Life Assurance Company Limited Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Hollard Life Assurance Company Limited and its subsidiaries ("the Group") set out on pages 12 to 78, which comprise the consolidated and separate statements of financial position as at 30 June 2021, and statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 30 June 2021, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

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 Consolidated and Separate Financial Statements section of our report. We are independent of the Group 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 Consolidated and Separate financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Hollard Life Assurance Company Limited '21" which includes the Directors' Report as required by the Companies Act of South Africa and Group Salient Features, Directors' responsibility Statement and Approval of the Annual Financial Statements, Certification by Company Secretary, Audit Committee Report, Embedded Value Statement and Audit and Compliance Committee Report (FY2021). The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 Consolidated and Separate Financial Statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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 Group and/or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 of the Group's and 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)


for the year ended 30 June 2021

- 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 Group's and 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 consolidated and separate 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 or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of The Hollard Life Assurance Company Limited for 29 years.



Deloitte & Touche
Registered Auditor

Per: Harshal Kana
Partner

31 October 2021

AUDIT COMMITTEE REPORT

for the year ended 30 June 2021

The Hollard Group Audit and Compliance Committee (“the Committee”) is pleased to present its annual report, for the financial year ended 30 June 2021, which outlines how the Committee discharged both its statutory and Board-delegated duties. The Committee serves as the Audit and Compliance Committee for Hollard Holdings (Proprietary) Limited, The Hollard Insurance Company Limited, Hollard Life Assurance Company Limited, Hollard Specialist Insurance Limited and Hollard Specialist Life Limited, (“the Group”). The Committee’s report is presented in terms of section 94(7) (f) of the Companies Act 71, 2008 and describes how the Committee has carried out its functions, including, without limitation, the consideration of the financial statements and accounting practices of the Group.

The Covid-19 pandemic has led to significant challenges for the business and the insurance industry at large. In the reporting period, the economic outlook has worsened from the impact of Covid-19 and market performance is expected to further deteriorate. The Group has experienced an unprecedented financial year, recognising the catastrophic impact of Covid-19 on the claims experience. The Committee continuously monitors the impact of Covid-19 on the businesses’ performance and the initiatives taken by the business to manage the interests of its policyholders and all its stakeholders. This includes ensuring that Hollard and its employees comply with the risk management practices prescribed by Covid-19 regulations (e.g. Covid-19 screening and a Work From Anywhere model to encourage social distancing), in response to the pandemic.

1. THE COMMITTEE

1.1. Terms of Reference (“ToR”)

The Committee operates within the framework provided by its Board-approved Terms of Reference and carries out its mandate in compliance with these Terms of Reference. To ensure it is aligned with best practice, the Committee’s ToR are reviewed regularly. The Committee is satisfied that it has fulfilled its responsibilities in accordance with its Terms of Reference.

1.2. Composition and meeting attendance

The Committee is composed of three independent non-executive directors, namely, Mr M Bower (Chairman), Ms N Simamane and Ms B Ngonyama. In accordance with the requirements of the Companies Act, individual members of the Committee are appointed annually by the shareholders at the Annual General Meeting for the ensuing financial year. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Head of Finance, Heads of Control Functions and External and Internal Auditors attended the scheduled Committee meetings. In addition, the Committee holds closed sessions of members regularly, to deliberate on any matters that may require confidential assessment. This includes closed sessions with the Internal and External Auditors, to determine whether there were any significant issues identified during each audit process. The Committee also conducts annual reviews to consider the effectiveness and performance of the assurance areas of the business, and to ensure interactive collaboration between finance, compliance, internal audit and external audit.

1.3. Roles and responsibilities

The Committee’s key roles and responsibilities are focused on driving an integrated approach to assurance which ensures that the significant risks facing the Group are effectively mitigated. To achieve this, the Group is focused on improving the capability of the first line of defence and the system of internal controls. This is aligned to the Combined Assurance Framework adopted by the Board. Amongst other matters, the role of the Committee is to monitor the relationship between assurance providers, including approval of the Group Compliance, Group Internal Audit and External Audit coverage plans for each financial year.

In establishing the compliance culture of the Group, the Committee has identified and monitored all material compliance risks, as well as ensured that management performs formal compliance risk assessments. The Compliance Function has focused on achieving compliance with the relevant legislation and regulations, which included, but are not limited to, complying with the requirements of the Protection of Personal Information Act by 1 July 2021. Following a review of the Compliance Function’s performance and effectiveness, the Committee found the Compliance Function’s performance to be satisfactory.

Internal Audit

The Committee maintained oversight of the Internal Audit Function for the reporting period. An Internal Audit plan was presented and approved by the Committee for the 2021 financial year.

The Committee has found the Internal Audit Function to have sufficient capacity to assess the internal financial controls of the Group. Upon review of the Internal Auditor’s report in assessing the effectiveness of internal financial controls and the implementation of risk management processes, both the internal financial controls and risk management processes were found to be effective. The Committee has found the Internal Audit Function to be independent and competent to perform its duties for the 2021 financial year, in accordance with its approved charter.

Lovashnee Forte was appointed as the Group Head of Internal Audit with effect from 01 May 2021, following the resignation of Anusha Pillay on 22 January 2021. The Committee Chairman was integrally involved in and provided valuable input into the recruitment and appointment process of the Group Head of Internal Audit. The Internal Audit function has had direct access to the Committee Chairman and all the Committee members and has discharged its responsibilities during the reporting period for: developing risk-based audit planning methodologies in line with King IV recommendations; following up on each internal audit with a detailed report to Management and recommendations on aspects that require improvement; and reporting significant findings to the Committee.

External Auditor

The Committee has reviewed the quality and effectiveness of the External Audit process and confirms there is a suitable process in place for the Committee to be informed of any irregularities (as described in the Auditing Profession Act, 2005) that may be identified and reported by the External Auditor.

The Committee has adopted a policy for non-audit services rendered by the External Auditor and pre-approves the contracts for any such services rendered. This policy is regularly reviewed.

AUDIT COMMITTEE REPORT (CONTINUED)

for the year ended 30 June 2021

Internal Financial Controls and the Annual Financial Statements

A review of the financial reporting risks, internal audit report and the external audit report was conducted by the Committee in the assessment of the internal financial controls. This included consideration of any material business irregularities and litigious matters that may have a significant impact on the Annual Financial Statements. To this extent, the Committee has found the internal financial controls to be satisfactory.

The Committee reviewed the expertise, resources and experience of the finance function and found it to be adequate. The Committee has assessed the Annual Financial Statements for the financial year ended 30 June 2021, including the quality of the Group earnings and has recommended the Annual Financial Statements to the Board for approval.

2. STATUTORY DUTIES

2.1. Financial Statements and Accounting Policies

The Committee has reviewed the Group's Accounting Policies and Financial Statements for the financial year ended 30 June 2021 and is satisfied that same complies with International Financial Reporting Standards.

2.2. Going Concern

The Committee has undertaken an assessment of the Group's documented status, including key assumptions prepared by Management and is comfortable in recommending to the Board that the Group is a going concern, as reflected in the Annual Financial Statements.

2.3. External Auditor appointment and independence

The Committee has supported the reappointment of Deloitte and Touche as External Auditor for the 2021 financial year and agreed to the engagement letter, terms, audit plan and budgeted external audit fees.

After evaluating the extent of non-audit work the Auditor undertakes for the Group, and compliance with criteria relating to independence and conflicts of interest, the Committee has satisfied itself that Deloitte and Touche is independent of the Group. Guarantees provided by the auditing firm confirm that its claim to independence is supported and demonstrated by its own internal governance processes.

At the Annual General Meeting of the Shareholders, it will be recommended that Deloitte and Touche be re-appointed as External Auditor for the 2022 financial year.

3. CHIEF FINANCIAL OFFICER & THE FINANCE FUNCTION

The Committee is satisfied with the knowledge and experience of the Chief Financial Officer, Mr Dirk Viljoen. The Committee has found the knowledge and experience of the Group's finance function to be appropriate and that the financial reporting procedures are sufficient.

There is ongoing preparation for the implementation of International Financial Reporting Standards 17 (IFRS 17) within the finance function to ensure compliance with the standard. An IFRS 17 project team was established and the progress of the project is reported to the Committee at each meeting.

An Internal Financial Controls project has been implemented to assess the adequacy of the internal financial controls in the finance function as well as to remediate any identified gaps, in alignment to the IFRS 17 reporting requirements. Process documentation and interim testing have commenced, with the tracking of remediation initiatives. The finance function, together with Group Internal Audit have carried out interim testing, to ensure financial controls are adequate and effective. Management has ensured there is appropriate mitigation of risks that may impact successful project completion. The Committee monitors the overall status of the programme through the progress reports presented to the Committee at each meeting.

4. STATEMENT ON INTERNAL FINANCIAL CONTROLS

Ultimately, the Board is responsible for providing reasonable assurance that the Group has effective financial and non-financial controls in place. The Committee is able to assess the effectiveness of financial and non-financial controls by reviewing the combined assurance reports presented at every meeting. In the year under review, these mechanisms were assessed by Internal Audit in line with the Board approved annual audit plan. It was confirmed that there were no significant breakdowns in the design or operational effectiveness of the internal financial control systems and that matters to be addressed were either receiving attention or had already been resolved.

The Committee was able to advise the Board that the Group's internal financial controls form an effective basis for preparation of the Annual Financial Statements.

5. STATEMENT ON INTERNAL CONTROL AND RISK MANAGEMENT

Effectiveness of the Group's internal control systems are monitored by the risk management and internal audit functions, on the basis of which, recommendations are made to Management, the Committee as well as the Risk and IT Committee. The Risk and IT Committee is responsible for the governance of risk management in the Group.

Based on this information, together with discussions held with Management and the Committees, the Board confirms that the risks relating to internal controls and/or risk management shortcomings were highlighted to the Committees during the year under review, with sufficient plans in place to mitigate these risks.

The Committee is satisfied that it has fulfilled its responsibilities for the 2021 financial year in terms of its ToR, as well as its legal and regulatory responsibilities.



MR Bower

Chairman of the Audit and Compliance Committee

DIRECTORS' REPORT

for the year ended 30 June 2021

The Directors have pleasure in presenting the w which forms part of the Group's and Company's annual financial statements for the year ended 30 June 2021.

Nature of business

The Company is a registered life assurer and transacts in all classes of life assurance business throughout the Republic of South Africa. The activities and details of the interests in subsidiaries, associates and joint ventures are listed in notes 33, 34 and 40 on pages 74 and 77 of the annual financial statements.

General review

In the year under review the Group achieved net profit attributable to the equity holders of the parent of R306 649 000, (2020: R453 326 000), which arose from the Group's operations as follows:

	Notes	GROUP	
		2021 R'000	2020 R'000
Net premium income		5 311 895	5 306 488
Investment income and investment gains		389 891	169 401
Other operating income		235 967	(357 709)
Total revenue		5 937 754	5 118 180
Net Insurance claims		3 746 796	2 137 280
Other operating expenses		2 648 008	3 073 979
Total expenses		6 394 804	5 211 259
Result of operating activities		(457 051)	(93 079)
Share of income in associates		11 954	18 156
Profit before taxation		(445 097)	(74 923)
Taxation		751 746	528 249
Profit for the year		306 649	453 326
Non-controlling interests		-	-
Net profit attributable to equity holders of parents		306 649	453 326

Share capital

There was no change in the authorised and issued ordinary share capital of the Company during the year.

Dividends

Dividends on ordinary shares of R470 085 000 (2020: R194 732 201) were declared by the Company during the year.

Subsidiaries, associates and joint ventures

The Company's aggregate share of the profits and (losses) of subsidiaries and associates for the year amounted to (R255 064) and R11 953 860 respectively, (2020: (R2 990 712) and R18 156 184 respectively).

Going concern

The Board believes that the Group and Company will continue to be going concerns in the year ahead. For this reason, the Board has adopted the going-concern basis in preparing the annual financial statements.

Taking into consideration the Covid-19 pandemic, as well as the financial and economic uncertainty and volatility, the Board has spent significant attention on the assumptions, estimates, and disclosures included in the preparation of the financial statements. As at June 2021, the group and company raised Covid-19 related provisions as deemed necessary. These provisions were based on existing information at balance sheet date.

Also refer to the going concern note on page 78 of these financial statements for further details.

Subsequent events

The Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

DIRECTORS' REPORT (CONTINUED)

for the year ended 30 June 2021

Directors interest in contracts

During the financial year, no contracts were entered into which Directors or officers of the company had an interest and which significantly affected the business of the Company.

Directorate

In terms of the requirements of the Memorandum of Incorporation, the following Directors retired by rotation, made themselves available for re-election and were re-elected at the Annual General Meeting held on 18 November 2020:

AS Nkosi and NV Simamane.

Through written resolution passed in terms of section 60 of the Companies Act No 71 of 2008, the appointment of an independent non-executive director of the company was made effective from 30 June 2020:

MS Claassen.

Executive Directors

S Ntombela (Group CEO), DJ Viljoen (Group CFO) and B Ruele (Executive Director) were the only Executive Directors who held office during the year.

Non-Executive Directors

NG Kohler, ADH Enthoven, B Ngonyama, MR Bower, R Fihrer, S Patel, AS Nkosi, MS Claassen (appointed 30 June 2020) and NV Simamane were in office during the year as Non-Executive Directors.

Auditors

Deloitte & Touche will continue in office in accordance with section 90 of the Companies Act No 71 of 2008.

Company Secretary

Corpstat Governance Services (Pty) Ltd (resigned 01 May 2021)

A Allaradyce (appointed 01 May 2021)

Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P O Box 87428
Houghton
2041

Holding company

The immediate holding company is Hollard Fundco (RF) (Pty) Ltd (100%) and the ultimate holding company is Pickent Investments Limited. Both these companies are incorporated in the Republic of South Africa.

STATEMENT OF FINANCIAL POSITION

for the year ended 30 June 2021

	Notes	GROUP		COMPANY	
		2021 R'000	2020 R'000	2021 R'000	2020 R'000
Assets					
Property and equipment	4	65 323	129 760	65 179	129 531
Right of use assets	5	188 021	219 852	188 021	219 852
Intangible assets	6	97 895	87 744	97 895	87 744
Investment in subsidiaries	7	–	–	36 661	15 930
Investment in associates	8	69 449	68 485	70 523	78 547
Financial assets	9	26 635 288	24 138 893	26 635 288	24 138 893
Reinsurance assets		952 098	621 827	952 098	621 827
Insurance, loans and other receivables	11	699 866	692 915	697 539	691 713
Deferred taxation	12	1 986 619	859 735	1 986 619	859 715
Current income taxation		27 640	97 473	26 841	97 458
Cash and cash equivalents	13	2 171 715	3 097 180	2 143 841	3 081 187
Total assets		32 893 914	30 013 865	32 900 505	30 022 398
Equity and liabilities					
Attributable to equity holders of the parent					
		1 317 456	1 484 357	1 347 568	1 495 290
Issued share capital	14	20	20	20	20
Share premium	14	19 980	19 980	19 980	19 980
Foreign currency translation reserve		21 018	24 482	–	–
Non-Distributable reserve		19 373	19 373	–	–
Retained earnings		1 257 066	1 420 502	1 327 568	1 475 290
Total equity		1 317 456	1 484 357	1 347 568	1 495 290
Insurance liabilities	15	28 449 401	25 216 067	28 448 161	25 213 290
Borrowings	19	400 064	400 379	400 064	400 379
Reinsurance liabilities		172 287	219 800	172 287	219 800
Provisions	17	46 135	174 343	45 490	173 036
Trade and other payables	18	1 565 740	1 886 929	1 544 111	1 888 632
Deferred taxation	12	942 832	631 971	942 825	631 971
Current income taxation		–	20	–	–
Total liabilities		31 576 458	28 529 508	31 552 937	28 527 108
Equity and liabilities		32 893 914	30 013 865	32 900 505	30 022 398

STATEMENT OF PROFIT AND LOSS

for the year ended 30 June 2021

	Notes	GROUP		COMPANY	
		2021 R'000	2020 R'000	2021 R'000	2020 R'000
Revenue					
Gross written premiums		6 855 416	6 941 676	6 855 416	6 941 676
Reinsurance outwards		(1 541 920)	(1 632 125)	(1 541 920)	(1 632 125)
Net written premiums		5 313 496	5 309 551	5 313 496	5 309 551
Less: Change in unearned premium reserve		(1 601)	(3 063)	(1 601)	(3 063)
Gross amount		(1 601)	(3 063)	(1 601)	(3 063)
Net premium income	21	5 311 895	5 306 488	5 311 895	5 306 488
Investment income		219 091	292 096	229 048	303 154
Interest received	25	163 021	201 741	162 461	200 749
Dividends received	25	56 069	73 738	66 587	85 788
Rental income		–	16 617	–	16 617
Investment gains/(losses)		170 801	(122 695)	188 214	(127 751)
Realised gains/(losses) on disposal of investments	22	68 303	(921)	68 303	(921)
Unrealised gains/(losses) on revaluation of investments	23	101 419	(121 773)	118 833	(126 829)
Profit/(loss) on translation of foreign currency		1 079	(1)	1 079	(1)
Other operating income	24	235 967	282 291	211 780	268 155
Total revenue		5 937 754	5 758 180	5 940 938	5 750 046
Expenses					
Gross policyholder benefits and claims incurred		5 210 042	3 041 642	5 210 042	3 041 642
Reinsurance recoveries		(1 982 948)	(1 154 019)	(1 982 948)	(1 154 019)
Transfer to policyholder liabilities		519 702	889 657	519 702	889 657
Net insurance claims		3 746 796	2 777 280	3 746 796	2 777 280
Commissions and other acquisitions		475 430	461 211	475 427	459 949
Interest paid	25	84 180	116 754	84 180	116 754
Marketing and administration expenses		2 088 399	2 496 014	2 063 918	2 479 172
Total expenses		6 394 804	5 851 259	6 370 321	5 833 155
Result of operating activities		(457 051)	(93 079)	(429 383)	(83 110)
Share of income in associates		11 954	18 156	–	–
Profit before taxation	26	(445 097)	(74 923)	(429 383)	(83 110)
Taxation	27	751 746	528 249	751 746	528 256
Profit for the year		306 649	453 326	322 362	445 146
Profit for the year attributable to:					
Equity holders of the parent		306 649	453 326	322 362	445 146
		306 649	453 326	322 362	445 146

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Profit for the year	306 649	453 326	322 362	445 146
Other comprehensive income	(3 464)	2 239	-	-
Exchange differences on translation of foreign operations	(3 464)	2 239	-	-
Total other comprehensive income	303 185	455 564	322 362	445 146
Total other comprehensive income attributable to:				
Equity holders of the parent	303 185	455 564		
	303 185	455 564		

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2021

EQUITY ATTRIBUTABLE TO OWNERS

	Issued share capital R'000	Share premuim R'000	Foreign currency translation reserve R'000	Non- distributable reserve R'000	Retained earnings R'000	Total Ordinary Shareholders Equity R'000	Total Equity R'000
GROUP							
Balance at 1 July 2019	20	19 980	22 243	19 373	1 162 057	1 223 673	1 223 673
Profit for the year	-	-	-	-	453 326	453 326	453 326
Other comprehensive income	-	-	2 239	-	-	2 239	2 239
Total comprehensive income	-	-	2 239	-	453 326	455 564	455 564
Dividends paid	-	-	-	-	(194 881)	(194 881)	(194 881)
Balance at 30 June 2020	20	19 980	24 482	19 373	1 420 502	1 484 357	1 484 357
Profit for the year	-	-	-	-	306 649	306 649	306 649
Other comprehensive income	-	-	(3 464)	-	-	(3 464)	(3 464)
Total comprehensive income	-	-	(3 464)	-	306 649	303 185	303 185
Dividends paid	-	-	-	-	(470 085)	(470 085)	(470 085)
Balance at 30 June 2021	20	19 980	21 018	19 373	1 257 066	1 317 456	1 317 456
COMPANY							
Balance at 1 July 2019	20	19 980	-	-	1 224 876	1 244 876	1 244 876
Profit for the year	-	-	-	-	445 146	445 146	445 146
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	445 146	445 146	445 146
Dividends paid	-	-	-	-	(194 732)	(194 732)	(194 732)
Balance at 30 June 2020	20	19 980	-	-	1 475 290	1 495 290	1 495 290
Profit for the year	-	-	-	-	322 362	322 362	322 362
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	322 362	322 362	322 362
Dividends paid	-	-	-	-	(470 085)	(470 085)	(470 085)
Balance at 30 June 2021	20	19 980	-	-	1 327 568	1 347 568	1 347 568

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2021

	Notes	GROUP		COMPANY	
		2021 R'000	2020 R'000	2021 R'000	2020 R'000
Cash flows from operating activities					
Cash receipts from policyholders and other customers		5 320 447	5 323 023	5 319 322	5 296 297
Cash paid to policyholders, suppliers and employees (net of transfer to reserves)		(5 025 491)	1 535 140	(5 022 005)	1 576 525
Cash generated from operations	29	338 223	6 858 163	340 587	6 872 822
Interest paid		(84 180)	(116 754)	(84 180)	(116 754)
Dividends paid	30	(470 085)	(194 881)	(470 085)	(194 732)
Interest received		163 021	201 741	162 461	200 749
Dividends received	31	38 962	53 794	49 480	65 844
Rental received		-	16 617	-	16 617
Other income		235 967	(357 709)	211 780	(371 845)
Taxation paid	32	5 537	(262 410)	6 313	(262 410)
Net cash outflow from operating activities		227 445	6 198 561	216 356	6 210 291
Cash flows from investing activities					
Acquisition of listed and unlisted investments		(3 356 433)	(4 678 565)	(3 356 435)	(4 678 565)
Dividend received from associates		-	12 050	-	-
Acquisition of subsidiaries		-	(1 984)	-	(1 984)
Acquisition of property and equipment		(1 321)	(5 600)	(1 321)	(5 596)
Acquisition of intangible assets		(20 863)	(67 280)	(20 863)	(67 280)
Acquisition of bonds		(1 593 783)	(4 733 022)	(1 593 783)	(4 733 022)
Proceeds on disposal of listed and unlisted investments		2 699 844	2 535 192	2 699 805	2 535 156
Proceeds on disposal of listed investments		311 266	220 949	311 227	220 913
Proceeds on disposal of unlisted investments		2 388 578	2 314 244	2 388 578	2 314 244
Proceeds on disposal of other financial assets		1 186 219	1 045 667	1 186 219	1 048 405
Proceed on disposal of property and equipment		(137)	13 042	(137)	13 042
Proceed on sale intangible assets		-	2 739	-	2 739
Proceeds on disposal of right of use assets		1 189	-	1 189	-
Increase in loans to subsidiaries		-	-	(750)	(750)
Increase in loans to group companies		(54 098)	(19 576)	(54 098)	(19 576)
Increase in loans		(10 657)	261 553	(10 657)	261 553
Net cash inflow from investing activities		(1 152 595)	(5 635 784)	(1 153 386)	(5 648 619)
Cash flows from financing activities					
(Decrease)/increase in long term borrowings		(315)	77	(315)	77
Net cash (outflow)/inflow from financing activities		(315)	77	(315)	77
Cash and cash equivalents					
Net (decrease)/increase in cash and cash equivalents		(925 466)	562 855	(937 347)	561 749
Cash, deposits and similar securities at beginning of year		3 097 180	2 534 326	3 081 187	2 519 438
Cash and cash equivalents at end of year		2 171 715	3 097 180	2 143 841	3 081 187

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

1. Accounting policies

The principal accounting policies adopted in the preparation of the Company and Group (consolidated) financial statements are set out below and have been consistently applied to all years presented unless otherwise stated.

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except for investment and owner-occupied property, interest in subsidiaries and associates, the revaluation of financial assets and derivative instruments presented at fair value through profit or loss, which are carried at fair value. Policyholder liabilities under insurance contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in the Standards of Actuarial Practice (SAP) 104, issued by the Actuarial Society of South Africa.

Use of estimates and judgements

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of which form the basis of making judgements about the carrying values of assets and liabilities, that are not readily apparent from other sources. Actual results may differ from these estimates.

The Group's and Company's estimates and underlying assumptions are reviewed for reasonability on an ongoing basis. Revisions to accounting estimates are recognised in the income statement in the year in which the estimates are revised, if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements is disclosed in note 1.19 on page 32 of these financial statements.

Adoption of new and revised standards

The Group's and Company's accounting policies are consistent with those of the previous financial year. No new or revised standards and/or interpretations were adopted.

Standards, interpretations and amendments to published standards that are not yet effective as at June 2021

The following new standards and amendments to IFRS will have an impact on the Group and Company's future financial statements:

- IFRS 17: Insurance Contracts - Original issue that replaces IFRS 4 Insurance Contracts (effective from annual periods beginning on or after 1 January 2023). This standard is expected to have a material impact on the financial statements. A group-wide implementation project is currently in progress.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 – 1 January 2021

- Amendment to IFRS 16 – Covid-19-Related Rent Concessions beyond 30 June 2021 - 1 April 2021

- Amendments to IAS 16 Property – Plant and Equipment – Proceeds before Intended Use - 1 January 2022

- Amendments to IFRS 3 (May 2020) – Reference to the Conceptual Framework - 1 January 2022

- Amendments to IAS 37 (May 2020) – Onerous Contracts – Cost of Fulfilling a Contract - 1 January 2022

- Amendments to IAS 1 – Classification of liabilities as current or non-current - 1 January 2023

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current – Deferral of Effective Date - 1 January 2023

- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies - 1 January 2023

- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction - 1 January 2023

- Amendments to IAS 8 – Definition of accounting estimates - 1 January 2023

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.2 Basis of consolidation

The consolidated annual financial statements incorporate the annual financial statements of the Company, its subsidiaries, associates and joint ventures.

Investments in subsidiaries

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date on which control ceases. Gains and losses on disposal of subsidiaries are accounted for in the income statement.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date in terms of IFRS 3: Business Combinations, irrespective of the extent of any non-controlling interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The interest of non-controlling shareholders in the acquiree is initially measured at their proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Non-controlling interest in the net assets of consolidated subsidiaries is identifiable separately from the Group's equity therein. Non-controlling interest consists of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination. Losses attributable to non-controlling shareholders in excess of their interest in the subsidiary's equity are allocated against the interest of the Group, except to the extent that they have a binding obligation and are able to make additional investments to cover the losses.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in subsidiaries as at fair value through profit and loss financial instruments in accordance with IFRS 9 – Financial Instruments: Recognition and Measurement due to the fact that it continually manages and evaluates these investments on a fair value basis.

Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these annual financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Post-acquisition losses of an associate in excess of the Group's interest in that associate, which includes any long-term interest that, in substance form part of the Group's net investments in associates, are not recognised unless the Group has incurred obligations or made payments on behalf of the associate. Post-acquisition profits are recognised in the income statement.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is immediately recognised in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in associates as at fair value through profit and loss financial instruments in accordance with IFRS 9 due to the fact that it continually manages and evaluates these investments on a fair value basis.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.2 Basis of consolidation (continued)

Interests in joint arrangements

Joint ventures are entities where control is shared equally with a third party. Under the terms of these arrangements, the strategic, financial and operating policy decisions relating to joint venture activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these annual financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position's reserves at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the joint ventures, less any impairment in the value of individual investments. Post-acquisition losses of a joint venture in excess of the Group's interest in that joint venture, which includes any long-term interest that, in substance, form part of the Group's net investments in joint ventures, are not recognised unless the Group has incurred obligations or made payments on behalf of the joint venture. Post-acquisition profits are recognised in the income statement.

Interests in joint arrangements

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment on an annual basis. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is immediately recognised in the income statement.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company classifies its investments in joint ventures at fair value through profit or loss financial instruments in accordance with IFRS 9 due to the fact that it continually manages and evaluates these investments on a fair value basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and joint ventures at the acquisition date. Goodwill arising on the acquisition of subsidiaries and joint ventures is initially recognised at cost as a separate asset. Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination for the purpose of impairment testing. Each of these cash-generating units represents the Group's investment by primary reporting segment.

Cash-generating units to which the goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in a subsequent period.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

1.3 Foreign currencies

General

Foreign assets and liabilities are initially recorded at the spot rate and translated into South African Rand at the exchange rates ruling at the statement of financial position date. Foreign investment income or loss is translated into South African Rand at the average exchange rate for the year. Gains and losses arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income.

Functional and presentation currency

The individual annual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in South African Rand, which is the Company's functional currency and the Group's presentation currency. All financial information presented in Rands has been rounded to the nearest thousand (R'000) except when otherwise indicated.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. At each statement of financial position date, assets and liabilities denominated in currencies different to the functional currency are translated into the functional currency at the ruling rate at that date. Foreign exchange gains and losses are recognised in other comprehensive income. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.3 Foreign currencies (continued)

Group companies

For the purposes of presenting consolidated annual financial statements, the assets and liabilities of the Group's foreign operations are translated from their respective functional currency into the Group's presentation currency at the closing exchange rates ruling at the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates ruling at the date of the various transactions are used. All translation differences arising from the translation and consolidation of foreign operations are recognised directly in other comprehensive income as a foreign currency translation reserve. Such translation differences are recognised in other comprehensive income in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate at the statement of financial position date.

1.4 Property and equipment

Property and equipment is initially recorded at cost. Costs include all expenditure that is directly attributable to the acquisition of an asset and bringing it to a working condition for its intended use, including import duties and non-refundable purchase taxes, but excluding trade discounts and rebates. Maintenance and repairs expenditure, which neither adds to the value of property and equipment nor significantly prolongs its expected useful life, is recognised directly in the income statement.

Each category of property and equipment is depreciated on the straight-line basis at rates considered appropriate to reduce its cost to net realisable value over its estimated useful life. The rates used to depreciate each category of property and equipment are as follows:

Motor vehicles	20%
Office equipment	10%
Computer equipment	20%
Furniture and fittings	10%
IT equipment	20%
Leasehold improvements	shorter of useful life and lease term

There have been no changes to useful lives from those applied in the previous financial year.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. All other repairs and maintenance expenditure is charged to the income statement during the financial period in which it is incurred.

The assets' useful lives are reviewed at each statement of financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. These impairment losses are charged directly to the income statement during the financial period in which they are identified.

Gains and losses arising on disposal of property and equipment are determined by comparing the asset's proceeds to its carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to other comprehensive income.

1.5 Intangible assets

Intangible assets are recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, and the cost of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation method for intangible assets is reviewed every period.

Computer software

Acquired computer software packages and licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (three to seven years).

Acquired rights over books of business

The acquisition of the books of business is recognised as intangible assets due to the fact that:

- It is probable that the expected future economic benefits attributable to the books of business will flow to the entity;
- The costs of the books of business have been measured reliably;
- These books of business are initially recognised at cost;
- These books of business are, subsequent to initial recognition, carried at cost less accumulated amortisation, fair value adjustments and any impairment losses; and
- These books of business are revalued annually using actuarial valuation models.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.6 Financial instruments

Capital management

The Group recognises equity, reserves and non-controlling interest as capital. For internal management purposes, the Group refers to the international basis of solvency for life insurance companies as represented by the Solvency Capital Requirement (SCR).

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern. At the same time, the Group aims to maximise the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes cash and cash equivalents, reserves and retained earnings.

The Actuarial Committee reviews the capital structure on an ongoing basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the Group balances its overall capital structure through the payment of dividends.

Financial assets

Investments

The Group and Company classify its investments in debt and equity securities into the following categories: financial assets held as at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and financial assets held at amortised cost. The classification and measurement is dependent on the IFRS 9 criteria. IFRS 9 applies two criteria to determine how financial assets should be classified and measured, namely:

- a. the entity's business model for managing the financial assets and
- b. the contractual cash flow characteristics of the financial asset.

i) Financial assets as at fair value through profit or loss

Under IAS 39 a financial asset is classified in this category 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 in terms of the Group's and Company's long-term investment strategy.

For the purpose of these financial instruments, short term is defined as any period less than 12 months. Investments which the Group has elected to designate as at fair value through profit or loss are investments held for long term. For the purpose of these financial statements, long term is defined as any period in excess of 12 months.

Under IFRS 9 a debt instrument is classified as a financial asset at fair value through profit or loss if so designated, as well as if the debt instrument financial assets were not classified as measured at amortised cost or fair value through other comprehensive income. Equity instruments by default are classified at fair value through profit or loss, unless the group decides to designate it as fair value through other comprehensive income.

ii) Financial assets at amortised cost

Under IFRS 9 a debt instrument is classified as a financial asset at amortised cost if it meets both of the following conditions (and is not designated as fair value through profit or loss):

- a. it is held within a business model where the objective is achieved by collecting contractual cash flows; and
- b. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Held-to-maturity investments

Under IFRS 9 non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and Company have a positive intention and ability to hold to maturity are classified as held-to-maturity investments and are included in non-current assets, except for maturities within 12 months from the statement of financial position date, which are classified as current assets. This category also includes all assets that are not designated either at fair value through profit or loss or fair value through other comprehensive income.

The held to maturity classification is no longer applicable under IFRS 9. Any assets previously classified as held to maturity, provided they satisfy the business model of "hold to collect" and Solely Payments of Principle and Interest test, would now be classified as carried at amortised cost.

iii) Financial assets at fair value through other comprehensive income

Under IAS 39 financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as financial assets at fair value through other comprehensive income and are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the statement of financial position date or unless they will be sold to raise operating capital, in which case they are included in current assets. These investments include listed and unlisted shares, units in collective investment schemes, deposits and money market securities.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.6 Financial instruments (continued)

Under IFRS 9 a debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions (and is not designated as fair value through profit or loss):

- a. it is held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets held in this type of business model are managed to realise cash flows by both collecting contractual cash flows and selling the financial instrument. Both these activities are fundamental to achieving the objective of the business model.

On initial recognition of an equity instrument that is not held for trading, the instrument may be irrevocably designated at fair value through other comprehensive income. In such an instance changes in the equity instrument's fair value are recorded in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

iv) Loans and receivables/Financial assets at amortised cost

Under IAS 39 loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market that are created by the Company or Group in exchange for providing money, goods or services directly to a debtor, other than those that are originated with the intention to sell immediately or in the short term or are designated at fair value through profit or loss. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the overall impairment review of loans and receivables.

Under IFRS 9 a debt instrument is classified as a financial asset at amortised cost if it meets both of the following conditions (and is not designated as fair value through profit or loss):

- a. it is held within a business model where the objective is achieved by collecting contractual cash flows; and
- b. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets held in a 'hold to collect contractual cash flows business model' are managed to realise cash flows by collecting contractual payments over the life of the instrument.

v) Linked products

Linked products are investment-related products where the risk and reward of the underlying investment portfolio accrues directly to the policyholder. Linked products provide for returns based on the changes in the value of the underlying instruments and market indicators and are initially recorded at cost. These products are revalued at year-end, using discounted cash flow analysis, closing market values and indices values based on the observation dates stated in the underlying investment agreements. Valuations are adjusted for the effects of changes in foreign exchange rates. Actuarial liabilities of these linked products are stated at the same value as the underlying supporting investments.

vi) Forward share purchase agreements

Forward share purchase agreements are recorded at the cost of the initial down payment and revalued at year-end using discounted cash flows, in the same manner used to calculate the actuarial liabilities which these investments support.

vii) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Recognition and measurement

Financial instrument purchases and disposals are initially measured at cost and are recognised using trade date accounting. The trade date is the date on which the Group and Company commit to purchase or sell the asset. Subsequent to initial measurement, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are carried at fair value, while financial assets at amortised cost are carried at amortised cost using the effective interest rate method, less any provision for impairment.

The expected credit loss (ECL) model applies to financial assets measured at amortised cost (for example loans and receivables and intercompany loans) and debt investments measured at amortised cost.

The ECL impairment loss allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions. A counterparty is considered to be in default when it is considered that they are unlikely to settle their obligation to the company. Due to the low number of instruments subject to the ECL model, this definition is considered appropriate as each instrument is assessed individually. Write offs are further assessed on a case basis.

Financial instruments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group and Company have also transferred substantially all risks and rewards of ownership.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.6 Financial instruments (continued)

Gains or losses

Realised and unrealised gains or losses arising from changes in the fair value of investments classified as fair value through profit or loss are included in the income statement in the period in which they arise. Unrealised gains or losses arising from changes in the fair value of non-monetary investments, classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income. When investments classified as financial assets at fair value through other comprehensive income are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains or losses on non-derivative financial instruments.

Fair value

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

The fair value of investments is based on quoted bid prices for listed instruments. Collective investments schemes are valued using the repurchase price. The use of cash flow models is applied for non-active market instruments. Fair values for unlisted investments are estimated using applicable cash flow models, net asset value or price/earnings ratios refined to reflect the specific circumstances of each investment. Where the fair value of an investment cannot be measured reliably, the investment is carried at cost less any impairment.

Offsetting

Where a legally enforceable right to offset exists for recognised financial assets and financial liabilities and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at cost, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest rate method, with the interest expense being recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the corresponding interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

In accordance with the definition of a financial liability contained in IAS 32: Financial Instruments : Presentation, the Group and Company classify the following statement of financial position items as financial liabilities:

- Long-term liabilities, which commonly take the form of loan funding;
- Borrowings;
- Reinsurance liabilities;
- Provision for liabilities arising from a contractual relationship with existing Group and Company staff; and
- Trade and other payables.

1.7 Impairment of assets excluding goodwill

The Group and Company assess at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets other than those carried at fair value through profit or loss is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the Group and Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as default or delinquency in payments;
- Adverse changes in the payment status of issuers or debtors; or
- Economic conditions that correlate with defaults on assets in the Group and Company.

All impairment losses are recognised in the income statement as soon as they are identified.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.7 Impairment of assets excluding goodwill (continued)

The Group and Company assess at each statement of financial position date whether there is objective evidence that a financial asset at fair value through other comprehensive income is impaired, including, in the case of equity investments, a significant or prolonged decline in the fair value of the security below its costs. If any such evidence exists, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value of the investment, is removed from other comprehensive income and recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The 'incurred loss model' under IAS 39 was replaced with the 'expected credit loss' (ECL) model under IFRS 9. Application of the ECL model results in credit losses being recognised earlier than under the incurred loss model. As a consequence of the new standard, the Group has revised its impairment methodology for each of these classes of assets.

Calculation of ECL

The ECL impairment loss allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions. The ECL model is dependent on the availability of relevant and accurate data to determine whether a significant increase in credit risk occurred since initial recognition, the probability of default (PD), the loss given default (LGD) and the possible exposure at default (EAD). Of equal importance is sound correlation between these parameters and forward-looking economic conditions.

The group writes off a financial instrument at amortised cost when the entity has no reasonable expectation of recovery of the outstanding balance of the instrument. Cut off periods have been defined given historic information and at the point that the instruments reach these cut off points they will be considered to be fully written off.

ECL reflects the Group's own expectations of credit losses. The ECL loss amount depends on the specific stage where the financial instrument has been allocated to within the ECL model:

Stage 1: At initial recognition a financial instrument is allocated into stage 1, except for purchased or originated credit impaired financial instruments.

Stage 2: A financial instrument is allocated to stage 2 if there has been a significant increase in credit risk since initial recognition of the financial instrument.

Stage 3: A financial instrument is allocated to stage 3 if the financial instrument is in default or is considered to be credit impaired."

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- a. Financial assets that are determined to have low credit risk at the reporting date; and
- b. Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group makes use of estimates of Probability of Default (PD) and Loss Given Default (LGD) to calculate the ECL balance for financial assets at amortised cost.

Depending on the relevant information available, PDs are based on historic default rate curves which are used as a baseline to build a PD. Investment grade and sub-investment grade cumulative default rates were used as benchmarks for loans in a low likelihood and high likelihood of default respectively.

In determining the loss given default, a sliding scale of 0% to 100% has been applied where the percentage reflects the size of the outstanding debt relative to the opening long-term debt.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. The ECL calculation of a financial instrument takes into account both the contractual and available behavioural repayment patterns over the relevant estimation period.

ECLs are measured as the present value of all cash shortfalls and is discounted using the effective rate of return required by shareholders of 18.5%

Non-financial assets that are subject to amortisation are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.8 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments of three months or less in money market instruments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at fair value by reference to expected cash flows and current market interest rates.

1.9 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. There are no non-current assets held for sale at year end.

1.10 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.

1.11 Policyholder insurance and investment contracts – Classification

The Group has considered the possible impact of the Covid-19 pandemic and the related decline in economic conditions and outlook, as well as on expected policyholder behaviour around lapses, surrenders, and withdrawals. It has reviewed recent claims experience, publicly available models that project infection and mortality rates of Covid-19 and has also observed the outcomes from premium relief options that clients have exercised in the last three months of the financial year.

The Covid-19 pandemic is an event which is unprecedented, and has highly uncertain outcomes. Management has considered the potential impact of Covid-19 on the Group and, in the absence of credible experience data, have set aside an explicit provision in addition to the base actuarial assumptions and liability to allow for this additional uncertainty.

Standards of Actuarial Practice (SAP) issued by the Actuarial Society of South Africa (ASSA)

The Company is licensed as a long-term insurer in South Africa in accordance with the Long-term Insurance Act (the Act) of 2017, as amended. The Act requires the determination of assets, liabilities and Solvency Capital Requirement (SCR) for statutory purposes in accordance with the SAPs and APNs issued by ASSA and Financial Soundness Standards For Insurers (FSI) issued by the Prudential Authority (PA).

In terms of IFRS 4: Insurance Contracts, defined insurance liabilities are allowed to be measured under existing local practice. The Group and Company have adopted the Standards of Actuarial Practice (SAP) and Advisory Practice Notes (APN) issued by the Actuarial Society of South Africa (ASSA) to determine the liability in respect of insurance contracts issued in South Africa. The following APNs and SAPs are relevant to the determination of policyholder liabilities:

- APN 103 : Report by the Statutory Actuary in the Annual Financial Statements of South African Long-Term Insurers;
- SAP 104 : Calculation of the Value of the Assets, Liabilities and Solvency Capital Requirement of Long-Term Insurers;
- APN 105 : Minimum Requirements for Deriving Aids Extra Mortality Rates;
- APN 106 : Actuaries and Long-Term Insurance in South Africa; and
- APN 110: Allowance for Embedded Investment Derivatives

Where applicable, the APNs and SAPs are referred to in the accounting policies and notes to the financial statements.

Classification of insurance and investment contracts

The Group and Company issue contracts which transfer insurance risk or financial risk or, in some cases, both. The Group and Company demarcate these contracts in the following two broad categories:

i) Insurance contracts

Insurance contracts are those contracts under which the Group and/or Company (as insurer) accept significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects them. Such contracts may also transfer financial risk. As a general guideline, the Group and Company define a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Receipts and payments under insurance contracts are accounted for in the income statement in accordance with the requirements of IFRS 4.

Claims incurred

Claims incurred consist of claims paid during the financial year, together with the movement in the provision for outstanding claims and are charged to income as incurred.

ii) Investment contracts

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

Receipts and payments under investment contracts are not classified as insurance transactions in the income statement but instead are accounted for in the statement of financial position in accordance with IFRS 9. The liability recognised in the statement of financial position represents the expected amounts payable to the holders of the investment contracts inclusive of allocated investment income.

Management of insurance and financial risk

As is stated in sections i) and ii) above, the Group and Company issue contracts that transfer insurance risk or financial risk, or in some instances both. This section summarises these risks and the way in which the Group and Company manage them.

i) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risks that the Group and Company face under insurance contracts is the risk that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group and Company have developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

Reinsurance arrangements

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transfer of its risks. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Reinsurance agreements that do not transfer significant insurance risk are accounted for as financial assets. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Policyholder behaviour risk

Insurance risk is affected by the policyholders' right to pay reduced or no future premiums, to terminate the contract completely or to withdraw benefits prior to expiry of the contract term. On the assumption that policyholders will make decisions rationally, overall insurance risk can be assumed to be aggregated by such behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those policyholders remaining in good health. This results in an increasing trend of expected mortality as the portfolio of insurance contracts reduces the voluntary terminations.

The Group and Company have factored the impact of policyholder behaviour into the assumptions used to measure these liabilities.

The Solvency Capital Requirement (SCR) as part of the risk management framework

The Group and Company are required to demonstrate solvency to the Prudential Authority. This requires the Group and Company to demonstrate that it has sufficient assets to meet its liabilities and SCR, in the event of substantial deviations from the main risk assumptions affecting the business. Regulatory returns are submitted to the PA quarterly. The SCR is one of two key solvency requirements (with the Minimum Capital Requirement (MCR) being the other) designed to ensure the security of policyholder obligations and to provide triggers for regulatory intervention. The SCR is the primary requirement within the FSIs.

The SCR is designed to ensure that a sufficient minimum level of eligible own funds is held against the key risks to which an insurer is exposed. The SCR captures risks covering existing business over the coming 12 months. It is calibrated to correspond to the Value-at-Risk of an insurer's basic own funds at a confidence level of 99.5% over a one-year period.

The Solvency Capital Requirement (SCR) as part of the risk management framework (continued)

Hollard uses the standardised formula for calculating the SCR.

The standardised formula for calculating the SCR is designed for use by insurers in South Africa. The main features of the standardised formula are that it:

- Is a forward-looking, risk-based measure that addresses the key risks faced by insurers;
- Measures risks primarily through the application of stress scenarios to an insurer's assets and liabilities;
- Is proportionate in that it allows for the use of simplified calculations under certain conditions; and
- Makes allowance for the risk-reducing impact of diversification benefits between risks, and also for risk mitigation instruments, changes to policyholder behaviour and future management actions.

The standardised formula requires the calculation of capital requirements for each key risk category, namely market risk, underwriting risk and operational risk. The capital requirements for each risk category are aggregated using a correlation matrix prescribed in the FSIs which allows for diversification benefits between some risk categories in calculating the SCR.

Mortality and morbidity business

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as Aids) or widespread changes in lifestyle such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is the continued improvement in medical science and social conditions that would increase longevity. At present, these risks do not vary significantly in relation to the location of the risk insured by the Group and Company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. However, all applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. All risk related liabilities in excess of specified monetary or impairment limits are reinsured.

The Group and Company charge for mortality and morbidity risk on the basis of past scheme experience, industry class and average income amongst other factors. They have the right to alter these charges based upon its mortality and/or morbidity experience and hence minimise their exposure to mortality and morbidity risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect. The Group and Company manage these risks by way of regular investigations into mortality and morbidity experience and through their underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Group and Company balance death risk and survival risk across their portfolio. Medical selection is also included in the Group's and Company's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Group and Company have a reinsurance programme in place to limit the extent of risk on any single life insured. The degree of risk retention by the Group and Company is assessed on a scheme and portfolio basis to ensure appropriate cover at all times.

The Head of Actuarial Function (HAF) reports annually on the actuarial soundness of the premium rates in use and the financial soundness of the Group's and Company's business taking into consideration the reasonable benefit expectations of policyholders. These rates are revised where appropriate in response to changes in mortality and/or morbidity experience.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

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

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

The Group and Company use appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides. An ongoing investigation into the Group's and Company's mortality experience is carried out and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. Where this is not the case, the best estimate of future mortality is based on standard industry tables adjusted for the Group's and Company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

The impact of any historical evidence of selective termination behaviour will be reflected in this experience. The Group and Company maintain voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and a provision is raised for losses identified by the liability adequacy tests.

Claims development table

IFRS 4 requires the disclosure of a claims development table in the financial statements. Given the fact that the majority of the Group's and Company's notified policyholder benefits are settled within a period of one year, no such table is provided in these financial statements.

ii) Financial risk:

Financial assets and liabilities are stated at fair value in the statement of financial position. Assets include listed equities, stated at fair value as determined by their market values as at 30 June 2021, and unlisted equities, stated at fair value as determined by either the contractual terms of the investment or by directors' valuation. Policyholder liabilities are valued in accordance with the long-term assumptions set out in the Company's Statement of actuarial values of assets and liabilities.

The Group and Company are exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is the risk that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are interest rate risk, equity risk, currency risk, credit risk and liquidity risk. These risks arise from open positions in interest rate and equity products, all of which are exposed to general and specific market movements. The risk that the Group and Company primarily face due to the nature of its investments and liabilities is interest rate risk.

The Group and Company manage their financial risk within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of their obligations under insurance and investment contracts. The principal technique of the Group's and Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Group's and Company's ALM is integrated with the management of the financial risks associated with the Group's and Company's other financial assets and liabilities not directly associated with insurance and investment liabilities, most notably borrowings.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Interest rate risk

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and liabilities and on the fair value of fixed maturity investments included in the Group's and Company's investment portfolios. Additionally, relative values of alternative investments and their liquidity could affect values of interest rate linked investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this investment category.

Equity risk

Equity investments are made on behalf of policyholders and the shareholder. Listed equities are reflected at market values which are susceptible to market fluctuations. The stock selection and investment analysis process of shareholder assets is supported by a well developed research function utilising professional advisors. The acquisition of policyholder assets is based on the contracts entered into and the preferences expressed by the policyholders. Within these parameters, investments are managed with the aim of maximising policyholders' returns while limiting risk to acceptable levels within the framework of statutory requirements.

Currency risk

The Group and Company have financial assets invested offshore, which are denominated in foreign currencies. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and are monitored by the Group's and Company's Investment Committee.

Credit risk

The Group and Company have exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group and Company monitor their exposure to individual counterparties to ensure that no single concentration exceeds predetermined limits. An appropriate level of provision is maintained against doubtful debts.

Key areas of credit risk exposure include:

- Cash and cash equivalents;
- Financial assets and liabilities;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid; and
- Amounts due from insurance intermediaries and administrators.

The Group and Company structure the level of credit risk they accept by placing limits on their exposure to a single counterparty or groups of counterparty, as well as to geographical and industry segments. Such risks are subject to ongoing review by the Group's and Company's Investment Committee.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's and Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group and Company remain liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis and includes a review of their financial strength prior to finalisation of any treaty contract. Furthermore, the Group and Company manage its credit exposure through the placement of its reinsurance programmes with a number of local subsidiaries of foreign parent companies to mitigate, as far as possible, the risk of default by any one reinsurer.

Individual business units maintain records of the payment history for significant counterparties with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group and Company. Management information reported to the Group and Company includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal Audit undertakes regular reviews to assess the degree of compliance with the Group's and Company's credit procedures. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency.

Liquidity risk

The Group and Company are exposed to daily calls on their available cash resources mainly from claims arising from their insurance contract obligations. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand. Furthermore, the Group's and Company's liabilities are backed by appropriate assets and it has significant liquid resources and substantial unutilised banking facilities.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.12 Revenue recognition and insurance activity expenditure

Premium income

Premiums relating to the insurance business are stated gross and net of outward reinsurance premium and are accounted for by applying the accrual basis when collectability is reasonably assured. On certain books of business, data constraints does not allow for the accrual basis to be applied. In these circumstances, premium is recognised on receipt. Premiums arising from investment contracts are excluded from the income statement in accordance with the requirements of IFRS 9.

Interest income and expenditure

Interest income and expenditure for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, are recognised within investment income and finance costs in the income statement using the effective interest rate method. When calculating the effective interest rate, the Group and Company estimate the relevant cash flows considering all contractual terms of the financial instruments under consideration.

When a receivable is impaired, the Group and Company reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original interest rate of the instrument, and continue unwinding the discount as interest income. All interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established. Dividend income is recognised as at the last day to trade in respect of quoted shares and when declared in respect of unquoted shares. Preference share dividends are recognised using the effective interest rate method.

Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of each lease for all arrangements legislated by lease agreement, or when the right to the income accrues to the Group and Company in those situations where no formal lease arrangement exists.

Policyholder benefits

Provision is made for the estimated cost of claims notified but not settled at the end of the financial year using the best information available at the statement of financial position date. Claims payable amounts include related internal and external claims handling costs. Claims incurred prior to the end of the financial year but not reported until after that date are brought to account in the valuation of actuarial liabilities. Claims are stated net of reinsurance recoveries.

Policyholder liabilities

The Group's and Company's liabilities under unmatured policies are computed annually at the statement of financial position date in accordance with the provisions of the Long-Term Insurance Act. The transfers to and from policyholder liabilities under insurance contracts reflected in the income statement are the result of changes in actuarial liabilities and net adjustments to contingency and other reserves.

Commission

Commission payments and receipts are shown gross of reinsurance commissions. Life assurance business commissions are expensed as incurred. Commission in respect of investment contracts is expensed over the life of the contract.

Revenue from contracts with customers

The company's revenue subject to IFRS 15 is attributed to service fee income from investment business which is earned over the investment contract term.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.13 Employee benefits

Pension and provident scheme arrangements

The Group and Company operate defined contribution pension and provident funds. Contributions to the funds in respect of present service are charged against income as incurred. Contributions are adjusted periodically to take account of salary increases and any other changing circumstances. The Group and Company have no further obligations once the contributions have been paid.

Profit-sharing and bonus plans

The Group and Company operate several bonus and profit-share plans for the benefit of employees. A provision is recognised when the Group and Company are contractually obliged to pay the profit-share or bonus to its employees or where a past practice has created a constructive obligation to do so.

Leave pay

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. Provision is made for the estimated liability of this leave as a result of services rendered by employees up to the statement of financial position date.

Termination benefits

Termination benefits are payable when an employee's employment is terminated before the normal retirement date or whenever an employee accepts a voluntary redundancy in exchange for these benefits. The Group and Company recognise termination benefits in the income statement when it is demonstrably committed to either terminating the employment of current employees according to a detailed, formal plan without possibility of withdrawal or where it is committed to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Other post-employment obligations

The Group and Company have no obligation for post-retirement medical benefits in respect of pensioners, former employees or current employees.

1.14 Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case the related income tax is also recognised in other comprehensive income.

Income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Taxation in respect of the South African life insurance operations is determined in accordance with the rates and basis applicable to section 29A of the Income Tax Act at the reporting date.

Current taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date.

Deferred taxation

Deferred taxation is provided at current tax rates, on the comprehensive basis, using the statement of financial position liability method in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In general, deferred tax liabilities are recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable future taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

1. Accounting policies (continued)

1.15 Provisions

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

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are not recognised for future operating losses. When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest rate method.

1.17 Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

1.18 Dividend distribution

Dividend distributions to the Group's and Company's shareholders are recognised as a liability in the Group and Company annual financial statements in the period in which the Board of Directors approves the dividend after performing solvency and liquidity tests.

1.19 Critical accounting estimates and judgements in applying accounting policies

The Group and Company make certain estimates and assumptions that affect the reported amounts of assets and liabilities in the annual financial statements. These estimates and assumptions are continually evaluated based upon past experience and a reasonable expectation of future events and are revised as appropriate.

The Covid-19 pandemic and resultant significant volatility of markets have created uncertainty in the Group's current and expected future operating environment. This uncertainty has an impact on the judgements and estimates used in preparation of the financial statements.

The key estimates and judgements that the Group and Company face in applying their accounting policies are as follows:

Liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from policyholder liabilities under insurance contracts is the Group's and Company's most important accounting estimate. There are several sources of uncertainty that are considered when calculating this liability.

Policyholder benefit payments are generally fixed or relatively easy to estimate, thereby limiting the uncertainty as to the expected liability of a particular policy. The reinsurance terms of each policy are also known in advance and the allowance for reinsurance recoveries is readily ascertainable, although the timing of benefit payments must be estimated. The estimate of this timing is based on the probability that a policy will be in force and the probability of a claim arising in the future from the valuation date until the expiry of the term of the policy, modified for past experience.

For each policy the present value of the expected benefit payment is estimated based on the age of policyholders and mortality tables, modified to reflect the recent claims experience of the Company. The assumptions used are generally best estimate assumptions with compulsory margins and, where appropriate, discretionary margins being provided to cater for uncertainty. The discount rate used to capitalise the policyholder benefit values is also based on current economic conditions but reflects the Group's and Company's asset mix with an allowance for mismatching risk.

The Group and Company's procedures for determining significant reserving assumptions are outlined in note 1.11 on page 25 of these financial statements.

Estimate of future premiums and benefit payments arising from long-term insurance contracts

The determination of liabilities under long-term insurance contracts is dependent on estimates made by the Group and Company. Estimates are made as to the expected number of deaths for each of the years in which the Group and Company are exposed to risk and are based on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's and Company's own experience. An appropriate provision for future policyholder benefit payments is made on the basis of these estimates.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Accounting policies (continued)

1.19 Critical accounting estimates and judgements in applying accounting policies (continued)

Estimates are also made as to the future investment returns arising from assets backing long-term insurance contracts. These estimates are based on current market returns and expectations about future economic and financial developments.

Future premium payments due to the Group and Company are valued on the basis of the current premium being paid. Future premiums are projected over the life of each policy on a policy-by-policy basis. The value of the premiums takes into account the possibility that the policy may terminate due to early cancellation through lapsing or surrender. The interest rate used to discount the premiums reflects current economic conditions, the asset mix of the Company, and allows for mismatching risk.

Valuation of unlisted investments

The Group and Company determine the fair value of their unlisted investments using well established valuation techniques. These techniques include discounted cash flow analysis, price earnings ratio and net asset value methodologies.

In using discounted cash flow analyses, the discount rate used is based on the build-up method which incorporates a risk-free rate, an equity risk premium and an unsystematic risk premium.

In using the price earnings valuation technique, the valuation is based on a PE multiple of the current year's normalised earnings. The potential future earnings of the Company, current interest rate cycle, current business environment and management of the Company are considered in determining the earnings factor.

The financial year-end valuations are approved by the Investment Committee.

Goodwill

Goodwill is allocated by the Group and Company to the cash-generating units (CGU) that represent the business operation from which the goodwill was originally generated. When testing for impairment, the recoverable amount is determined by value in use calculations. These calculations apply discounted cash flow techniques to the projected earnings of each CGU.

2. Financial risk management

2.1 Introduction

The Group's and Company's principal objectives are to ensure that it will be able to continue as a going concern and to provide value to its shareholder and policyholders through a long-term sustainable real return on capital as a result of managing its business risks within an appropriate risk framework.

The Board of Directors has overall responsibility for establishing, monitoring and communicating the Group's and Company's risk management framework, including defining what constitutes "appropriate" risk and control policies, and for ensuring that sufficient capital is held to support the taking of risk. In order to discharge some of its responsibility, the Board has established the Group Audit and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board on its activities.

The Group and Company continually update the vision, strategy, values and business objectives and a robust risk management process is critical to ensuring the sustainability of its business model. The Group's and Company's main activities from a risk taking perspective can be summarised into the following two categories:

- i) Providing risk cover to individuals. The Group's and Company's core competencies are to understand the life related risk needs of individuals and to design sustainable products that provide financial stability to policyholders and their dependants in times of death, disability and/or illness; and
- ii) Providing asset management services to individuals. The Group and Company uses their financial skills to provide competitive investment products to an increasingly broad range of customers through a variety of carefully selected outsourced asset managers.

Key elements of risk management in a long-term insurer and asset management provider include:

- maintaining sufficient economic capital and liquidity to withstand the majority of reasonable foreseeable risk events or occurrences;
- understanding the significant risk, economic and non-economic variables in the design of each product;
- strong corporate governance policies and procedures, including relevant and reliable management information and internal control processes;
- ensuring only suitably qualified and trained distribution staff, business partners, intermediaries, brokers and agents are utilised to provide financial advice to customers;
- ensuring significant and relevant skills and services are constantly available to the Group and Company;
- influencing the business environment by being active participants in relevant regulatory and business forums;
- keeping abreast of consumer and technology trends and investing in capital and resources where required; and
- establishing an appropriate risk framework of authority for providing management with the risk parameters that are acceptable to the Board of Directors.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

2. Financial risk management (continued)

2.1 Introduction (continued)

The Group's and Company's risk management policies were established to identify and analyse the risks it faces, to set appropriate risk limits and controls and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in both market conditions and the Group's and Company's activities. The Group and Company, through training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees, brokers and partners understand their roles and obligations.

The Group's Audit and Compliance Committee oversees how management monitors compliance with its established risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit Committee and Risk and Compliance Committee are assisted in their oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to stakeholders in management and to the Audit Committee and Risk and Compliance Committee.

2.2 Exposure to risks arising from financial instruments

The Group and Company have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This section presents information about the Group's and Company's exposure to each of the above risks, the Group's and Company's objectives, policies and processes for measuring and managing risk, and the Group's and Company's management of capital. Further quantitative disclosures are provided throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and Company's risk management framework. The Board has established the Risk and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

2.2.1 Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the Group and Company are exposed to credit risk include:

- amounts due from insurance policyholders;
- amounts due from outsourced insurance contract intermediaries, administrators and business partners;
- investments and cash equivalents;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers and third parties in respect of claims already paid.

The Group's Audit Committee and Risk and Compliance Committee oversee how management monitors compliance with the Group's and Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Audit Committee and Risk Committee are assisted in their oversight role by Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and Risk and Compliance Committee.

Insurance, loans and other receivables

The Group and Company limit the levels of credit risk that it accepts by placing limits on their exposure to a single counterparty or groups of counterparties, product, as well as to geographical and industry segments. The risk levels are subject to annual or more frequent reviews. Internal Audit also makes regular reviews to assess the degree of compliance with the Group's and Company's procedures on credit.

The Group's and Company's exposure to credit risk is influenced mainly by the individual characteristics of each intermediary and the portfolios that they administer. A significant amount of the Group's and Company's insurance business is written through and administered by intermediaries, the majority of which have been transacting with the Group and Company for most of their existence. The credit control function forms an integral part of the business relationship to the extent that the intermediaries are closely monitored on many levels, including product profitability SCR, and return on capital. Appropriate remedial action is taken wherever the need arises.

The Group and Company provide for impairment in respect of their insurance debtors, loans and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments

The Group and Company have a dedicated Investment Committee that monitors the investment mandates set by the Board. Through these mandates, the Group and Company limit exposure to credit risk through diversification and by mainly investing in liquid securities and with counterparties that have a minimum credit rating or, where such ratings are not available, by internal analysis according to strict criteria. Given these high credit ratings requirements, management does not expect any counterparty to fail to meet its obligations.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

2. Financial risk management (continued)

2.2 Exposure to risks arising from financial instruments (continued)

The Group seeks to avoid concentration of credit risk to groups of counterparties, asset management houses, business sectors, product types and geographical segments by diversifying the investment mandate to various asset management houses and enforcing a strict application of mandates according to an internal, actuarially calculated asset allocation framework. Financial assets are graded and invested according to this framework and the Investment Committee regularly reviews compliance to that effect.

The analysis of credit quality of the Group's and Company's assets is disclosed in note 3.1 (a) on page 37 of these annual financial statements.

Reinsurance

Reinsurance is used to manage insurance risk. Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount to the insurer in the event that a gross claim is paid. Under financial reinsurance agreements a discount or rebate is applied to the initial reinsurance premium(s) in order to assist the Company and Group with capital management. However, the Group and Company remain liable to their policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the Group and Company are exposed to credit risk.

The Group and Company have 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 new or renegotiated treaty. The Group's and Company's largest reinsurance counterparty is Hannover Re. This exposure is monitored on a regular basis for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Group and Company will arise.

2.2.2 Liquidity risk

Liquidity risk is the risk that the Group and Company will not be able to meet their financial obligations as they fall due. The Group's and Company's approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's and Company's reputation.

The Group and Company are exposed to daily calls on their available cash resources as a result of claims arising from their life insurance and investment contracts. The Investment Committee sets limits on the minimum proportion of maturing funds that must be available to meet such calls in order to cover claims at unexpected levels of demand. Based on actuarial modelling of historical and future expected trends, the Group and Company have estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 3.2 on pages 42 to 44. The maturity profile of the related insurance and investment assets is expected to be similar to the profile of the liabilities.

2.2.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's and Company's income or the value of their holdings of insurance assets and financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while at the same time optimising the Group's and Company's return on investment.

In particular, the Group and Company are exposed to market risk in those instances where the proceeds from their financial assets are not sufficient to fund their obligations from their insurance and/or investment contracts. This risk is termed the policyholder asset-liability mismatched risk. The Group and Company manage these positions within an asset-liability management (ALM) framework that aims to match assets to the liabilities arising from insurance contracts by nature and term. In accordance with the ALM framework, a separate financial asset profile is maintained for each distinct category of liabilities. For most categories of business, the ALM framework determines an asset class allocation. In certain classes, the specific timing of cash flows is considered to determine the selection of assets within those classes.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and Company's ALM framework. The Board has established the Investment Committee, which is responsible for developing and monitoring the Group's and Company's ALM framework. The committee reports regularly to the Board of Directors on its activities.

Financial assets and liabilities that are utilised to support the Group's and Company's capital base are fully exposed to the relevant elements of market risk. In summary, the key components of market risk are:

a) Currency risk

Currency risk is the risk arising from fair value and/or future cash flows of a financial instrument fluctuating from their expected values as a result of changes in exchange rates. This can arise from either a mismatch between currencies of assets or liabilities or supporting capital or the trading currency of the local entity being different to the Group's and Company's reporting currency.

The Group and Company are exposed to foreign currency risk for transactions that are denominated in a currency other than Rand. This exposure is limited to the Group's joint venture operations that were disposed of during the current year, transactions with foreign reinsurers, debt securities and equity investments in foreign companies. These foreign investments were made for the

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

2. Financial risk management (continued)

2.2 Exposure to risks arising from financial instruments (continued)

2.2.3 Market risk

purposes of obtaining favourable international exposure to foreign currency and are monitored by the Investment Committee. The Group and Company do not take cover on foreign currency transactions and balances as the net exposure is considered minimal.

The table in note 3.3.1 on page 45 of these annual financial statements illustrates the Group's split of assets and liabilities by major currency.

b) Interest rate risk

Interest rate risk is the risk arising from fair value and/or future cash flows of a financial instrument fluctuating from their expected values as a result of changes in market interest rates.

Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and liabilities and on the fair value of fixed maturity investments in the Group's and Company's investment portfolios. The Group's and Company's fixed maturity investments are insignificant and therefore do not give rise to significant interest rate risk. Furthermore, the majority of interest sensitive investments are short-term in nature, which minimises any impact to changes in their fair value. The Group and Company do not use derivative instruments to manage this risk other than an ongoing assessment by the Investment Committee of market expectations within the South African market to determine an optimal asset allocation in interest sensitive investments.

Insurance liabilities are not directly sensitive to the level of market interest rates, as they are not discounted and contractually non-interest-bearing. The sensitivity analysis for interest rate risk illustrates how changes in the fair values or future cash flows of financial instruments will fluctuate because of changes in the market interest rates at the reporting date.

c) Other market price (or equity) risk

Equity risk is the risk arising from the actual fair value and/or the future cash flows from equities fluctuating from their expected values as a result of changes in market prices and/or dividend amounts.

Equity price risk arises from listed, fair value through profit or loss equity securities held on behalf of the policyholders and the shareholder. The equity selection and investment analysis process is supported by a well developed research function utilising professional advisors. The acquisition of policyholder assets is based on the types of contracts entered into and the preferences expressed by the policyholders, where appropriate. Within these parameters, investments are managed with the objective of maximising policyholders' returns while limiting risks to acceptable levels within the framework of statutory requirements.

The Group and Company are assisted by external asset managers to manage their market price risk. In accordance with this strategy certain investments are designated at fair value through profit or loss financial instruments because their performance is actively monitored and they are managed on a fair value basis.

The Investment Committee actively monitors equity assets, listed and unlisted, owned by the Group and Company, which include some material shareholdings in the Group's and Company's strategic partners. Concentrations of specific equity holdings are also monitored.

Capital management

The Group and Company recognise equity, reserves excluding non-controlling interest. For internal management purposes, the Group and Company refer to its minimum capital levels as its Solvency Capital Requirement (SCR), which is the international standard for measuring the solvency of a life insurance company. In addition to the international basis, management uses the statutory solvency requirements as prescribed by the legislation in the territories in which the Group and Company have operations, to monitor and manage the Group's and Company's capital resources.

The Group's and Company's objectives when managing capital are to:

- comply with the insurance capital requirements required by the regulators of the insurance markets in which it operates. The SCR is intended to approximate a risk-based capital measure and gives guidance to the Board regarding the acceptable minimum capital requirements at all times;
- safeguard the Group's and Company's ability to continue as a going concern so that it can continue to provide returns to both its shareholder and other stakeholders;
- provide an adequate return to the shareholder by pricing insurance contracts commensurately with the attendant level of risk;
- ensure that it maintains strong capital ratios in order to support its business and maximise shareholder value; and
- effectively manage its capital structure and make appropriate adjustments to the structure in light of changes to economic conditions.

The Company submits quarterly and annual returns to the Prudential Authority in accordance with the terms of the Long-term Insurance Act, 2017 (the Act). Under the terms of this Act, the Company is required to, at all times, maintain a statutory surplus asset ratio. The returns submitted during the year showed that the Company exceeded its minimum requirements throughout the year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Risk management

3.1 Credit risk

a) Exposure to credit risk

The carrying amount of financial and insurance assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	CARRYING VALUE IN STATEMENT OF FINANCIAL POSITION		NET CREDIT EXPOSURE	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
GROUP				
Other Assets				
Investment in associates	69 449	68 789	-	-
Financial assets at fair value through profit or loss – Listed investments	1 757 169	1 284 592	-	-
Financial assets at fair value through profit or loss – Unlisted investments	13 994 060	11 714 095	830 417	23 485
Financial assets at fair value through profit or loss – Bonds	10 562 066	10 808 311	10 562 066	10 808 311
Financial assets at amortised cost	321 993	331 895	321 993	331 895
Loans and other receivables	138 767	377 697	138 767	377 697
Loans – interest bearing	136 777	76 973	136 777	76 973
Loans – non-interest bearing	1 155	78 648	1 155	78 648
Other loans and receivables	835	222 076	835	222 076
Cash and cash equivalents	2 171 715	3 097 180	2 171 715	3 085 362
Insurance Assets				
Insurance receivables – Premium debtors	275 825	315 217	275 825	315 217
Reinsurance assets	952 098	621 827	952 098	621 827
Total	30 243 142	28 619 299	15 252 880	15 563 794
COMPANY				
Other Assets				
Investment in subsidiaries	35 911	15 180	-	-
Loans to subsidiaries	750	750	750	750
Investment in associates	70 523	78 547	-	-
Financial assets at fair value through profit or loss – Listed investments	1 757 169	1 284 592	-	-
Financial assets at fair value through profit or loss – Unlisted investments	13 994 060	11 714 095	830 417	23 485
Financial assets at fair value through profit or loss – Bonds	10 562 066	10 808 311	10 562 066	10 808 311
Financial assets at amortised cost	321 993	331 895	321 993	331 895
Loans and other receivables	138 767	376 495	138 767	376 495
Loans – interest bearing	136 777	76 973	136 777	76 973
Loans – non-interest bearing	1 155	78 648	1 155	78 648
Other loans and receivables	835	220 874	835	220 874
Cash and cash equivalents	2 143 841	3 081 187	2 143 841	3 081 187
Insurance Assets				
Insurance receivables – Premium debtors	275 825	315 217	275 825	315 217
Reinsurance assets	952 098	621 827	952 098	621 827
Total	30 253 002	28 628 096	15 225 757	15 559 167

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.1 Credit risk (continued)

b) Credit rating

The following table provides information regarding the Group's and Company's aggregated credit exposures. The carrying amount of these financial instruments represents the Group's and Company's maximum exposure to credit risk. The Group and Company do not engage in any activities to enhance the credit quality of these instruments such as obtaining collateral and purchasing credit derivatives or similar instruments.

Concentrations of credit risk are determined on the basis of counterparty credit rating criteria, as risks faced by these groupings are similar in nature. The grouping of assets in such manner highlights the credit quality associated with financial assets and liabilities.

	AA-	A+	A	A-	BBB+	BBB-	BB+	BB	BB-	B	Not Rated	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
GROUP												
2021												
Other Assets												
Financial assets at fair value through profit or loss – Unlisted investments	-	-	-	-	-	-	173 948	120 798	-	-	535 671	830 417
Financial assets at fair value through profit or loss – Bonds	-	44 580	-	-	-	16 082	10 022 839	227 838	-	-	250 728	10 562 066
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-	321 993	321 993
Loans and other receivables	-	-	-	-	-	-	-	-	-	-	138 767	138 767
Loans – interest bearing	-	-	-	-	-	-	-	-	-	-	136 777	136 777
Loans – non-interest bearing	-	-	-	-	-	-	-	-	-	-	1 155	1 155
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	835	835
Cash and cash equivalents	-	-	-	-	-	-	184 466	1 184 884	17 361	-	785 003	2 171 715
Insurance Assets												
Insurance receivables – Premium debtors	-	-	-	-	-	-	-	-	-	-	275 825	275 825
Reinsurance assets	-	-	-	-	428 060	-	-	-	-	-	524 038	952 098
Total	-	44 580	-	-	428 060	16 082	10 381 253	1 533 520	17 361	-	2 832 025	15 252 880
2020												
Other Assets												
Financial assets at fair value through profit or loss – Unlisted investments	-	-	-	-	-	-	-	-	-	-	23 485	23 485
Financial assets at fair value through profit or loss – Bonds	-	-	49 406	-	-	-	9 925 654	541 087	938	239 540	51 688	10 808 313
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-	331 895	331 895
Loans and other receivables	-	-	-	-	-	-	-	-	-	-	376 495	376 495
Loans – interest bearing	-	-	-	-	-	-	-	-	-	-	76 973	76 973
Loans – non-interest bearing	-	-	-	-	-	-	-	-	-	-	78 648	78 648
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	220 874	220 874
Cash and cash equivalents	-	13 171	6 451	-	-	149	974 043	1 400 466	17 363	-	673 719	3 085 362
Insurance Assets												
Insurance receivables – Premium debtors	-	-	-	-	-	-	6 875	18 500	-	-	289 842	315 217
Reinsurance assets	-	-	-	3 329	-	-	4 155	-	-	-	614 343	621 827
Total	-	13 171	55 857	3 329	-	149	10 910 727	1 960 053	18 301	239 540	2 361 467	15 562 592

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.1 Credit risk (continued)

	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not Rated R'000	Total R'000
COMPANY												
2021												
Other Assets												
Loans to subsidiaries	-	-	-	-	-	-	-	-	-	-	750	750
Financial assets at fair value through profit or loss – Unlisted investments	-	-	-	-	-	-	173 948	120 798	-	-	535 671	830 417
Financial assets at fair value through profit or loss – Bonds	-	44 580	-	-	-	16 082	10 022 839	227 838	-	-	250 728	10 562 065
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-	321 993	321 993
Loans and other receivables	-	-	-	-	-	-	-	-	-	-	138 767	138 767
Loans – interest bearing	-	-	-	-	-	-	-	-	-	-	136 777	136 777
Loans – non-interest bearing	-	-	-	-	-	-	-	-	-	-	1 155	1 155
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	835	835
Cash and cash equivalents	-	-	-	-	-	-	184 466	1 169 033	17 361	-	772 981	2 143 842
Insurance Assets												
Insurance receivables – Premium debtors	-	-	-	-	-	-	-	-	-	-	275 825	275 825
Reinsurance assets	-	-	-	-	428 060	-	-	-	-	-	524 038	952 098
Total	-	44 580	-	-	428 060	16 082	10 381 253	1 517 669	17 361	-	2 820 753	15 225 758
2020												
Other Assets												
Loans to subsidiaries	-	-	-	-	-	-	-	-	-	-	750	750
Financial assets at fair value through profit or loss – Unlisted investments	-	-	-	-	-	-	-	-	-	-	23 485	23 485
Financial assets at fair value through profit or loss – Bonds	-	-	49 406	-	-	-	9 925 654	541 087	938	239 540	51 688	10 808 311
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-	331 895	331 895
Loans and other receivables	-	-	-	-	-	-	-	-	-	-	376 495	376 495
Loans – interest bearing	-	-	-	-	-	-	-	-	-	-	76 973	76 973
Loans – non-interest bearing	-	-	-	-	-	-	-	-	-	-	78 648	78 648
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	220 874	220 874
Cash and cash equivalents	-	13 171	6 451	-	-	-	970 461	1 400 022	17 363	-	673 719	3 081 187
Insurance Assets												
Insurance receivables – Premium debtors	-	-	-	-	-	-	6 875	18 500	-	-	289 842	315 217
Reinsurance assets	-	-	-	3 329	-	-	4 155	-	-	-	614 343	621 827
Total	-	13 171	55 857	3 329	-	-	10 907 145	1 959 609	18 301	239 540	2 362 216	15 559 167

Credit ratings are sourced from Bloomberg for S&P, Fitch and Moody's.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Risk management (continued)

3.1 Credit risk (continued)

c) Financial and insurance assets that are neither past due nor impaired

The analysis of financial instruments that were neither past due nor impaired and/or individually impaired at the reporting date was as follows:

	GROUP				COMPANY			
	Neither past due nor impaired R'000	Past due not impaired R'000	Individually impaired R'000	Gross carrying value R'000	Neither past due nor impaired R'000	Past due not impaired R'000	Individually impaired R'000	Gross carrying value R'000
2021								
Loans to subsidiaries	-	-	-	-	750	-	-	750
Financial assets at fair value through profit or loss – Unlisted investments	13 944 060	-	-	13 944 060	13 944 060	-	-	13 944 060
Financial assets at fair value through profit or loss – Bonds	10 562 066	-	-	10 562 066	10 562 066	-	-	10 562 066
Financial assets at amortised cost	321 993	-	-	321 993	321 993	-	-	321 993
Total	24 878 119	-	-	24 878 119	24 878 869	-	-	24 878 869
Insurance receivables – Premium debtors	193 654	1 742	80 429	275 825	193 654	1 742	80 429	275 825
Total	193 654	1 742	80 429	275 825	193 654	1 742	80 429	275 825
2020								
Loans to subsidiaries	-	-	-	-	750	-	-	750
Financial assets at fair value through profit or loss – Unlisted investments	11 714 095	-	-	11 714 095	11 714 095	-	-	11 714 095
Financial assets at fair value through profit or loss – Bonds	10 808 311	-	-	10 808 311	10 808 311	-	-	10 808 311
Financial assets at amortised cost	331 895	-	-	331 895	331 895	-	-	331 895
Total	22 854 301	-	-	22 854 301	22 854 301	-	-	22 854 301
Insurance receivables – Premium debtors	222 010	32 896	60 311	315 217	222 010	32 896	60 311	315 217
Total	222 010	32 896	60 311	315 217	222 010	32 896	60 311	315 217

d) Age analysis of other loans and receivables and premium debtors that are past due but not impaired

	GROUP					COMPANY				
	> 30 days R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000	> 30 days R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000
2021										
Insurance receivables – Premium debtors	-	(893)	236	2 399	1 742	-	(893)	236	2 399	1 742
	-	(893)	236	2 399	1 742	-	(893)	236	10 921	1 742
2020										
Insurance receivables – Premium debtors	-	6 734	6 116	20 046	32 896	-	6 734	6 116	20 046	32 896
	-	7 059	6 116	20 046	32 896	-	6 734	6 116	20 046	32 896

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for the year ended 30 June 2021

3. Risk management (continued)

3.1 Credit risk (continued)

The Group records impairment allowances for premium debtors in a separate impairment allowance account. A reconciliation of the allowance for impairment losses for premium debtors is as follows:

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Balance at the beginning of the year	(60 312)	(8 801)	(60 312)	(8 801)
– Collective impairment loss reversed	30 483	16 956	30 483	16 956
– Collective impairment loss recognised	–	(68 467)	–	(68 467)
Balance at the end of the year	(29 830)	(60 312)	(29 830)	(60 312)

e) Reconciliation of loss allowance relating to loans and receivable subsequently measured at amortised cost

	GROUP				COMPANY			
	Subjected to lifetime ECL				Subjected to lifetime ECL			
		12 month ECL	Not credit impaired	Credit impaired		12 month ECL	Not credit impaired	Credit impaired
	Total allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Total allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000
Balance at the beginning of the year	184 928	–	(3 468)	188 396	184 928	–	(3 468)	188 396
Originations, purchases and interest accruals	7 427	–	1 761	5 666	7 427	–	1 761	5 666
Repayments and other derecognitions (excl write-offs)	(184 169)	–	(1)	(184 168)	(184 169)	–	(1)	(184 168)
Model changes, interest accrued and write offs	30 476	–	–	30 476	30 476	–	–	30 476
Balance at the end of the year	38 662	–	(1 708)	40 370	38 662	–	(1 708)	40 370

During the current year the provision for ECL decreased due to a decrease in loans and receivables and a decrease in the portion of the balance allocated to Stage 2 and Stage 3 of the model. The ECL for balances allocated to these stages are based on lifetime expected credit losses thus resulting in a lower loss allowance when allocated to these stages.

Further, judgement was applied in the current period due to uncertainty arising as a result of Covid-19 due to less liquidity and greater volatility in financial markets. This has increased the criticality of estimates, assumptions and judgements in the assessment of the valuation of the ECL allowance. The critical inputs in these valuations relating to projection of future cash flows and discount rates.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Risk management (continued)

3.2 Liquidity risk

3.2.1 Maturity profile on financial and insurance assets – contractual cash flows assets

The following tables detail the Group and Company's contractual maturities of financial assets, including interest payments. This has been determined based on the contractual maturities of dated instruments, and classified as open ended where the asset has no fixed maturity date. The carrying amount represents the probable cash flows as it is net of impairments.

	Carrying value in statement of financial position R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
GROUP						
2021						
Financial assets at fair value through profit or loss	26 313 295	26 313 295	16 101 758	4 421 888	5 356 066	433 582
Financial assets at amortised cost	321 993	321 993	321 993	–	–	–
Reinsurance Assets	952 098	952 098	932 807	–	–	19 292
Insurance, loans and other receivables	699 866	699 865	491 815	49 679	152 671	5 701
Cash and cash equivalents	2 171 715	2 171 715	2 171 715	–	–	–
Total	30 458 966	30 458 966	20 020 088	4 471 567	5 508 737	458 574
2020						
Financial assets at fair value through profit or loss	23 806 998	23 806 998	11 924 719	1 251 161	9 055 204	1 575 913
Financial assets at amortised cost	331 895	331 895	–	–	–	331 895
Reinsurance Assets	621 827	621 827	621 827	–	–	–
Insurance, loans and other receivables	692 915	692 915	692 915	–	–	–
Cash and cash equivalents	3 097 180	3 097 180	3 097 031	149	–	–
Total	28 550 815	28 550 815	16 336 493	1 251 310	9 055 204	1 907 808
COMPANY						
2021						
Loans to subsidiaries	750	750	750	–	–	–
Financial assets at fair value through profit or loss	26 313 295	26 313 295	16 101 758	4 421 888	5 356 066	433 582
Financial assets at amortised cost	321 993	321 993	321 993	–	–	–
Reinsurance Assets	952 098	952 098	932 807	–	–	19 292
Insurance, loans and other receivables	697 539	697 539	489 488	49 679	152 671	5 701
Cash and cash equivalents	2 143 841	2 143 842	2 143 842	–	–	–
Total	30 429 516	30 429 516	19 990 638	4 471 567	5 508 737	458 574
2020						
Loans to subsidiaries	750	750	–	750	–	–
Financial assets at fair value through profit or loss	23 806 998	23 806 998	11 924 719	1 251 161	9 055 204	1 575 913
Financial assets at amortised cost	331 895	331 895	–	–	–	331 895
Reinsurance Assets	621 827	621 827	621 827	–	–	–
Insurance, loans and other receivables	691 713	691 712	691 713	–	–	–
Cash and cash equivalents	3 081 187	3 081 187	3 081 187	–	–	–
Total	28 534 370	28 534 370	16 319 446	1 251 911	9 055 204	1 907 808

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(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.2 Liquidity risk (continued)

3.2.2 Maturity profile on financial liabilities – contractual cash flows liabilities

The following table details the Company's probable cash outflows associated with insurance liabilities and financial liabilities, including interest payments:

	Carrying value in statement of financial position R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
GROUP						
2021						
Non-derivative financial liabilities						
Borrowings	400 064	400 064	64	–	150 000	250 000
Lease liability	468 959	468 959	66 677	70 663	222 312	109 307
Trade and other payables*	1 078 100	1 078 100	1 078 100	–	–	–
Total	1 947 123	1 947 123	1 144 841	70 663	372 312	359 306
2020						
Non-derivative financial liabilities						
Borrowings	400 379	400 379	379	–	150 000	250 000
Lease liability	509 842	509 842	57 738	62 780	205 453	183 871
Trade and other payables*	1 376 562	1 376 562	1 376 562	–	–	–
Total	2 286 783	2 286 783	1 434 679	62 780	355 453	433 871
COMPANY						
2021						
Non-derivative financial liabilities						
Borrowings	400 064	400 064	64	–	150 000	250 000
Lease liability	468 959	468 959	66 677	70 633	222 312	109 307
Trade and other payables*	1 074 392	1 074 392	1 074 392	–	–	–
Total	1 943 415	1 943 415	1 144 113	70 633	372 312	359 306
2020						
Non-derivative financial liabilities						
Borrowings	400 379	400 379	379	–	150 000	250 000
Lease liability	509 842	509 842	57 738	62 780	205 453	183 871
Trade and other payables*	1 378 265	1 378 265	1 378 265	–	–	–
Total	2 288 486	2 288 486	1 436 382	62 780	355 453	433 871

* VAT is not included in Trade and other payables; and Lease liability has been separately disclosed.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.2 Liquidity risk (continued)

3.2.3 Maturity profile on financial liabilities – probable contractual cash outflows

The following table details the Group's and Company's probable cash outflows associated with the following table details the Group's and Company's probable contractual cash outflows associated with insurance liabilities:

	Probable cash outflows R'000	Maturity within a year R'000	Maturity between 2 and 5 years R'000	Maturity more than 5 years
GROUP				
2021				
Policyholder liabilities	26 588 231	500 306	26 054 934	32 991
Claims reported and loss adjustment expenses	1 420 921	708 037	712 884	–
Claims incurred but not yet reported	278 874	153 377	125 497	–
Unearned premium provision	161 332	31 219	130 113	–
Cash back reserve	43	43	–	–
Reinsurance liabilities	172 287	155 461	212	16 614
	28 621 688	1 548 443	27 023 640	49 604
2020				
Policyholder liabilities	23 823 156	–	23 823 156	–
Claims reported and loss adjustment expenses	521 498	–	521 498	–
Claims incurred but not yet reported	259 898	–	259 898	–
Unearned premium provision	206 880	–	206 880	–
Cash back reserve	–	–	–	–
Reinsurance liabilities	219 800	219 800	–	–
	25 031 232	219 800	24 811 432	–
COMPANY				
2021				
Policyholder liabilities	26 586 991	499 066	26 054 934	32 991
Claims reported and loss adjustment expenses	1 420 921	708 037	712 884	–
Claims incurred but not yet reported	278 874	153 377	125 497	–
Unearned premium provision	161 332	31 219	130 113	–
Cash back reserve	43	43	–	–
Reinsurance liabilities	172 287	155 461	212	16 614
	28 620 448	1 547 203	27 023 640	49 604
2020				
Policyholder liabilities	23 823 156	–	23 823 156	–
Claims reported and loss adjustment expenses	521 498	–	521 498	–
Claims incurred but not yet reported	259 898	–	259 898	–
Unearned premium provision	206 880	–	206 880	–
Cash back reserve	–	–	–	–
Reinsurance liabilities	219 800	219 800	–	–
	25 031 232	219 800	24 811 432	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.3 Market risk

3.3.1 Sensitivity analysis – Currency risk

The Group's and Company's primary market exposure is to interest rate, equity price and currency risk.

The following significant exchange rates applied during the year:

	2021		2020	
	Average Rate R'000	Reporting date spot rate R'000	Average Rate R'000	Reporting date spot rate R'000
US Dollar	15,82	14,29	15,68	17,35

3.3.2 Sensitivity analysis – Foreign currency exposure

A 10% strengthening / (devaluation) in the relevant foreign currencies against ZAR at the reporting date would have increased/ (decreased) equity and profit/(loss) by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

The methodology adopted for the profit or loss and the equity impact, was the application of the net exposure to the relevant foreign currencies at the average rate and reporting date spot rate respectively.

	PROFIT/(LOSS)		EQUITY	
	10% increase R'000	10% decrease R'000	10% increase R'000	10% decrease R'000
GROUP				
2021				
US Dollar	4 304	(4 304)	4 304	(4 304)
	4 304	(4 304)	4 304	(4 304)
2020				
US Dollar	4 649	(4 649)	4 649	(4 649)
	4 649	(4 649)	4 649	(4 649)
COMPANY				
2021				
US Dollar	4 304	4 304	4 304	4 304
	4 304	4 304	4 304	4 304
2020				
US Dollar	4 649	(4 649)	4 649	(4 649)
	4 649	(4 649)	4 649	(4 649)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Risk management (continued)

3.3 Market risk (continued)

3.3.3 Sensitivity analysis – Interest rate risk

At the reporting date, the interest rate concentration profile of the Group financial instruments subject to interest rate risk was as follows:

	2021			2020		
	Carrying amount R'000	Nominal interest rate %	Effective interest rate %	Carrying amount R'000	Nominal interest rate %	Effective interest rate %
Profile – GROUP						
Fixed rate instruments						
Financial assets						
Bonds						
Due in 2 years	2 583 432	8,44	8,09	1 543 643	8,67	11,28
Due between 2 years and 5 years*	7 545 052	8,33	8,31	8 689 199	11,75	11,67
Due after 5 years	433 582	7,82	7,81	575 469	10,24	10,30
	10 562 066			10 808 311		
Variable rate instruments						
Financial assets						
Loans – interest bearing	167 253			76 973		
Cash and cash equivalents	2 171 715			3 097 180		
	2 338 968			3 174 154		
Profile – COMPANY						
Fixed rate instruments						
Financial assets						
Bonds						
Due in 2 years	2 583 432	8,44%	8,09%	1 543 643	8,67	11,28
Due between 2 years and 5 years*	7 545 052	8,33%	8,31%	8 689 199	11,75	11,67
Due after 5 years	433 582	7,82%	7,81%	575 469	10,24	10,30
	10 562 066			10 808 311		
Variable rate instruments						
Financial assets						
Loans – interest bearing	167 253			76 973		
Cash and cash equivalents	2 143 841			3 081 187		
	2 311 095			3 158 161		

* This maturity bucket includes structured notes with ABSA which mature based on an underlying index and the asset return hinges on the market performance of the underlying index. Nominal and effective rates are not calculated on these instruments and have not been factored into the average rates on the maturity buckets. The value of these instruments amounts to R2401m and has been included in the relevant maturity bucket for completeness.

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(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.3 Market risk (continued)

3.3.3 Sensitivity analysis – Interest rate risk (continued)

At the reporting date, the interest rate concentration profile of the company's financial instruments subject to interest rate risk was as follow:

Sensitivity analysis – Variable rate exposure

	PROFIT/(LOSS)		EQUITY	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
GROUP				
2021				
Loans – interest bearing	3 345	(3 345)	3 345	(3 345)
Cash and cash equivalents	42 877	(42 877)	42 877	(42 877)
	46 222	(46 222)	46 222	(46 222)
2020				
Loans – interest bearing	2 905	(2 905)	2 905	(2 905)
Cash and cash equivalents	203 099	(203 099)	203 099	(203 099)
	206 004	(206 004)	206 004	(206 004)
COMPANY				
2021				
Loans – interest bearing	3 345	(3 345)	3 345	(3 345)
Cash and cash equivalents	42 877	(42 877)	42 877	(42 877)
	46 222	(46 222)	46 222	(46 222)
2020				
Loans – interest bearing	2 905	(2 905)	2 905	(2 905)
Cash and cash equivalents	203 099	(203 099)	203 099	(203 099)
	206 004	(206 004)	206 004	(206 004)

Sensitivity analysis for fixed rate instruments of the Group and Company

The Group and Company's fixed rate instruments are not exposed to interest rate risk. Therefore no sensitivity analysis is necessary.

Sensitivity analysis for variable rate instruments of the Group and Company

A change of 200 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit/(loss) by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2020.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.3 Market risk (continued)

3.3.3 Sensitivity analysis – Interest rate risk (continued)

Sensitivity analysis -Exposure to equity price risk

The Group and Company's exposure to equity price risk at the reporting date was as follows:

	2021			2020		
	Carryng amount R'000	Listed/Not listed R'000	Relevant stock exchange	Carryng amount R'000	Listed/Not listed R'000	Relevant stock exchange
GROUP						
Ordinary shares	1 757 169	Listed	JSE	1 284 592	Listed	JSE
Ordinary shares	100 933	Not listed	N/A	369 120	Not listed	N/A
Preference shares	286 880	Not listed	N/A	355 379	Not listed	N/A
	2 144 982			2 009 091		
COMPANY						
Ordinary shares	1 757 169	Listed	JSE	1 284 592	Listed	JSE
Ordinary shares	100 933	Not listed	N/A	369 120	Not listed	N/A
Preference shares	286 880	Not listed	N/A	355 379	Not listed	N/A
	2 144 982			2 009 091		

Sensitivity analysis

All other variables constant, for listed equity investments, a 200 basis point increase/(decrease) in the relevant stock exchange index over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis for 2020.

For unlisted equity investments, a 200 basis point increase/(decrease) in the relevant industry average over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis for 2020.

Sensitivity analysis – Index exposure

	PROFIT/(LOSS)		EQUITY	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
GROUP				
2021				
Ordinary shares – Listed – JSE	35 143	(35 143)	35 143	(35 143)
Ordinary shares – Not listed	2 019	(2 019)	2 019	(2 019)
Preference shares – Not listed	5 738	(5 738)	5 738	(5 738)
	42 900	(42 900)	42 900	(42 900)
2020				
Ordinary shares – Listed – JSE	25 692	(25 692)	25 692	(25 692)
Ordinary shares – Not listed	6 311	(6 311)	6 311	(6 311)
Preference shares – Not listed	6 937	(6 937)	6 937	(6 937)
	38 940	(38 940)	38 940	(38 940)
COMPANY				
2021				
Ordinary shares – Listed – JSE	35 143	(35 143)	35 143	(35 143)
Ordinary shares – Not listed	2 019	(2 019)	2 019	(2 019)
Preference shares – Not listed	5 738	(5 738)	5 738	(5 738)
	42 900	(42 900)	42 900	(42 900)
2020				
Ordinary shares – Listed – JSE	25 692	(25 692)	25 692	(25 692)
Ordinary shares – Not listed	6 311	(6 311)	6 311	(6 311)
Preference shares – Not listed	6 937	(6 937)	6 937	(6 937)
	38 940	(38 940)	38 940	(38 940)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Risk management (continued)

3.4 Comprehensive income

a) Financial income and expenditure

The Group and Company generated the following income/incurred the following expenditure in respect of financial instruments during the reporting period, all of which were recognised in profit or loss:

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Interest income on unimpaired loans and receivables	34 439	33 777	34 439	33 777
Interest income on financial assets at fair value through profit or loss	107 453	90 829	106 893	89 837
Interest income on financial assets at amortised cost	55 568	110 912	55 568	110 912
Net gain on financial assets as at fair value through profit and loss*	226 870	(48 957)	254 801	(41 963)
Interest received	424 330	186 561	451 701	192 563
Interest expense on financial liabilities measured at amortised cost	(84 180)	(116 754)	(84 180)	(116 754)
Net fee costs from third parties in respect of holding financial assets	-	(14 516)	-	(14 516)
Financial expense	(84 180)	(131 270)	(84 180)	(131 270)
Net financial income	340 150	55 291	367 520	61 293
The above financial income and expense items include the following in respect of financial assets/liabilities not at fair value through profit and loss:				
Total interest income	141 892	124 606	141 332	123 614
Total interest expense	(84 180)	(116 754)	(84 180)	(116 754)
Net Interest income	57 712	7 852	57 152	6 860

* Net gains include realised and unrealised gains and losses as well as dividends.

Impairment losses

The amount of the impairment loss for each class of financial asset during the reporting period was as follows:

Impairment of other loans and receivables

- Impairment reversed/(recognised)

(31 189)	(23 035)	(31 189)	(23 035)
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Impairment of premium debtors

- Impairment reversed/(recognised)

30 483	(160 311)	30 483	(160 311)
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Impairment losses	(706)	(83 346)	(706)	(83 346)
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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
4. Property and equipment				
Cost				
Leasehold improvements	79 994	169 423	79 994	169 423
Motor vehicles	-	269	-	269
Office equipment	26 032	53 052	25 656	52 677
Office equipment	8 067	7 898	8 067	7 898
Computer hardware	9 359	17 217	9 158	17 016
Furniture and fittings	8 607	27 938	8 431	27 762
Property and equipment – Cost	106 026	222 745	105 650	222 369
Accumulated depreciation				
Leasehold improvements	(29 294)	(69 483)	(29 294)	(69 483)
Motor vehicles	-	(251)	-	(251)
Office equipment	(11 409)	(23 251)	(11 177)	(23 104)
Office equipment	(3 020)	(2 217)	(3 020)	(2 217)
Computer hardware	(5 645)	(10 148)	(5 490)	(10 050)
Furniture and fittings	(2 745)	(10 886)	(2 667)	(10 837)
Property and equipment – Accumulated depreciation and impairment	(40 703)	(92 986)	(40 471)	(92 838)
Net carrying amount				
Leasehold improvements	50 700	99 940	50 700	99 940
Motor vehicles	-	18	-	18
Office equipment	14 623	29 802	14 478	29 574
Office equipment	5 047	5 681	5 047	5 681
Computer hardware	3 714	7 069	3 668	6 967
Furniture and fittings	5 862	17 052	5 763	16 926
Property and equipment – Carrying value	65 323	129 760	65 179	129 531
Reconciliation of movement on net carrying amount:				
Balance at the beginning of the year	129 760	163 327	129 531	163 013
Additions	1 321	5 599	1 321	5 596
Leasehold improvements	-	4 883	-	4 883
Office equipment	245	228	245	228
Computer hardware	940	3	940	-
Furniture and fittings	136	485	136	485
Depreciation for the year	(21 245)	(26 125)	(21 159)	(26 036)
Leasehold improvements	(14 637)	(20 950)	(14 637)	(20 950)
Motor vehicles	(18)	(54)	(18)	(54)
Office equipment	(803)	(785)	(803)	(785)
Computer hardware	(2 487)	(562)	(2 431)	(502)
Furniture and fittings	(3 299)	(3 774)	(3 271)	(3 745)
Disposals	137	(13 042)	137	(13 042)
Leasehold improvements	210	(3 512)	210	(3 512)
Office equipment	(76)	-	(76)	-
Computer hardware	2	(8 372)	2	(8 372)
Furniture and fittings	1	(1 158)	1	(1 158)
Write off	(44 652)	-	(44 652)	-
Leasehold improvements	(34 813)	-	(34 813)	-
Computer hardware	(1 811)	-	(1 811)	-
Furniture and fittings	(8 028)	-	(8 028)	-
Balance at the end of the year	65 323	129 760	65 179	129 531

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
5. Right of use				
Cost				
Property	256 192	251 337	256 192	251 337
Motor vehicles	11 561	5 524	11 561	5 524
Office equipment	94	94	94	94
Right of use asset – Cost	267 847	256 955	267 847	256 955
Accumulated depreciation				
Property	(76 049)	(35 901)	(76 049)	(35 901)
Motor vehicles	(3 682)	(1 139)	(3 682)	(1 139)
Office equipment	(94)	(63)	(94)	(63)
Right of use asset – Accumulated depreciation and impairment	(79 826)	(37 103)	(79 826)	(37 103)
Net carrying amount				
Property	180 142	215 436	180 142	215 436
Motor vehicles	7 879	4 385	7 879	4 385
Office equipment	–	31	–	31
Right of use assets – Carrying value	188 021	219 852	188 021	219 852
Reconciliation of movement on net carrying amount:				
Balance at the beginning of the year	219 852	–	219 852	–
Recognised on 1 July 2019 on adoption of IFRS 16	–	256 955	–	256 955
Property	–	251 337	–	251 337
Motor vehicles	–	5 524	–	5 524
Office equipment	–	94	–	94
Additions	12 551	–	12 551	–
Property	4 855	–	4 855	–
Motor vehicles	7 696	–	7 696	–
Depreciation for the year	(43 193)	(37 103)	(43 193)	(37 103)
Property	(40 148)	(35 901)	(40 148)	(35 901)
Motor vehicles	(3 014)	(1 139)	(3 014)	(1 139)
Office equipment	(31)	(63)	(31)	(63)
Disposals	(1 189)	–	(1 189)	–
Motor vehicles	(1 189)	–	(1 189)	–
Balance at the end of the year	188 021	219 852	188 021	219 852

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
6. Intangible assets				
Cost				
Computer software	128 214	113 749	128 214	113 749
Acquired rights over books of business	9 020	9 020	9 020	9 020
Intangible assets – Cost	137 234	122 769	137 234	122 769
Accumulated amortisation and impairment				
Computer software	(31 210)	(28 399)	(31 210)	(28 399)
Acquired rights over books of business	(8 128)	(6 625)	(8 128)	(6 625)
Intangible assets – Accumulated amortisation and impairment	(39 338)	(35 024)	(39 338)	(35 024)
Net carrying amount				
Computer software	97 004	85 350	97 004	85 350
Acquired rights over books of business	891	2 395	891	2 395
Intangible assets	97 895	87 745	97 895	87 745
Reconciliation of movement on net carrying amount:				
Balance at the beginning of the year	87 745	32 422	87 745	32 422
Additions	20 863	67 281	20 863	67 281
Computer software	20 863	67 281	20 863	67 281
Amortisation for the year	(10 713)	(9 219)	(10 713)	(9 219)
Computer software	(9 209)	(7 716)	(9 209)	(7 716)
Acquired rights over books of business	(1 504)	(1 503)	(1 504)	(1 503)
Disposals	-	(2 739)	-	(2 739)
Computer software	-	(2 739)	-	(2 739)
Balance at the end of the year	97 895	87 745	97 895	87 745

The Group and Company hold acquired rights over books of business and intellectual property. These are carried at cost less accumulated amortisation and impairment where applicable.

	COMPANY	
	2021 R'000	2020 R'000
7. Investment in subsidiaries		
Interest in subsidiaries comprises:		
Shares at fair value through profit or loss	35 911	15 180
Loans to subsidiaries	750	750
Investments in subsidiaries	36 661	15 930

Refer to note 40 on page 77 for the breakdown of the subsidiaries.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
8. Investment in associates				
Interest in associates comprises:				
Shares at fair value through profit or loss	52 470	60 494	70 523	78 547
Group share of post acquisition profits, losses and reserves	16 980	7 991	-	-
Carrying value of associates	69 449	68 485	70 523	78 547
Loans to associates	-	2 260	-	2 260
Impairment on loans	-	(2 260)	-	(2 260)
Investment in associates	69 449	68 485	70 523	78 547

Financial position of associates

	GROUP	
	2021 R'000	2020 R'000
Analysis of associate at 30 June 2021		
Financial position of associates		
Total assets attributable	604 164	513 047
Total liabilities attributable	254 995	167 192
Financial performance of associates		
Revenue	105 335	118 926
Net profit before taxation	64 841	80 834
Taxation	(19 362)	(16 483)
Net profit after taxation	45 479	64 351
Group share of post acquisition profits	25 044	14 196
Carrying amount of interest in associates	69 449	68 485
Fair valuation of associates (at Company level)	70 523	78 547

Refer to note 40 on page 77 for the breakdown of the associates.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
9. Financial assets				
Financial assets at fair value through profit or loss	26 313 295	23 806 998	26 313 295	23 806 998
Financial assets at amortised cost	321 993	331 895	321 993	331 895
	26 635 288	24 138 893	26 635 288	24 138 893
Financial assets at fair value through profit or loss				
Listed Investments	1 757 169	1 284 592	1 757 169	1 284 592
Unlisted Investments	13 994 060	11 714 095	13 994 060	11 714 095
Bonds	10 562 066	10 808 311	10 562 066	10 808 311
	26 313 295	23 806 998	26 313 295	23 806 998
An analysis of the Group and Company's financial assets by market sector and maturity spread is provided below				
Listed Investments				
at market value	1 757 169	1 284 592	1 757 169	1 284 592
Analysis of spread of listed investments by market sector	%	%	%	%
Automobiles and parts	0,03	0,20	0,03	0,20
Banks	2,60	4,53	2,60	4,53
Basic resources	1,90	3,38	1,90	3,38
Construction and materials	0,44	0,14	0,44	0,14
Consumer services	3,54	0,44	3,54	0,44
Financial services	27,17	12,14	27,17	12,14
Food and beverage	0,67	3,32	0,67	3,32
Healthcare	1,74	1,91	1,74	1,91
Industrial goods and services	2,27	3,80	2,27	3,80
Industrial transportation	0,04	0,25	0,04	0,25
Insurance	27,57	31,77	27,57	31,77
Investment instruments	0,84	19,97	0,84	19,97
Logistics	0,08	-	0,08	-
Media	0,90	6,21	0,90	6,21
Mining	3,25	1,99	3,25	1,99
Oil and gas	0,71	0,81	0,71	0,81
Personal and household goods	2,85	1,18	2,85	1,18
Real estate	3,60	2,88	3,60	2,88
Retail	1,27	2,95	1,27	2,95
Technology	7,38	1,10	7,38	1,10
Travel and leisure	0,03	0,05	0,03	0,05
Telecommunications	0,79	0,98	0,79	0,98
	100,00	100,00	100,00	100,00
Unlisted Investments				
at fair value	13 994 060	11 714 095	13 994 060	11 714 095
	%	%	%	%
Exchange traded funds	-	0,24	-	0,24
Private equity investments	0,61	0,20	0,61	0,20
Hedge funds	-	0,57	-	0,57
Unit trusts	99,41	98,97	99,41	98,97
Ordinary shares	0,25	0,02	0,25	0,02
	100,00	100,00	100,00	100,00
Total listed and unlisted investments at fair value	15 751 229	12 998 687	15 751 229	12 998 687
Bonds				
Bonds and other assets at amortised cost by industry	10 562 066	10 808 311	10 562 066	10 808 311
	%	%	%	%
Financial services	2,37	0,40	2,37	0,40
Banks	97,43	95,27	97,43	95,27
Government	0,05	3,93	0,05	3,93
Insurance	0,15	0,38	0,15	0,38
State-owned entities	-	0,02	-	0,02
	100,00	100,00	100,00	100,00

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	Maturity spread R'000	Maturity spread %	Nominal interest rate %	Effective interest rate %
9. Financial assets (continued)				
<i>Group</i>				
Bonds				
An analysis of debt securities by maturity spread for 2021				
0 – 1 year	679 901	6,44	8,44	8,09
1 – 2 years	1 903 532	18,02	8,44	8,09
2 – 5 years	7 545 052	71,44	8,33	8,31
More than 5 years	433 582	4,11	7,82	7,81
	10 562 066	100,00		
An analysis of debt securities by maturity spread for 2020				
0 – 1 year	293 205	2,71	8,73	11,18
1 – 2 years	1 250 438	11,57	8,61	11,38
2 – 5 years	8 689 199	80,39	11,75	11,67
More than 5 years	575 469	5,32	10,24	10,30
	10 808 311	100,00		
<i>Company</i>				
Bonds				
An analysis of debt securities by maturity spread for 2021				
0 – 1 year	679 901	6,44	8,44	8,09
1 – 2 years	1 903 532	18,02	8,44	8,09
2 – 5 years	7 545 052	71,44	8,33	8,31
More than 5 years	433 582	4,11	7,82	7,81
	10 562 066	100,00		
An analysis of debt securities by maturity spread for 2020				
0 – 1 year	293 205	2,71	8,73	11,18
1 – 2 years	1 250 438	11,57	8,61	11,38
2 – 5 years	8 689 199	80,39	11,75	11,67
More than 5 years	575 469	5,32	10,24	10,30
	10 808 311	100,00		

All bonds reported above are South African in origin.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

10. (a) Categories and classes of financial and insurance assets and liabilities

	Fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost investments R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
GROUP								
2021								
Assets								
Investment in associates	69 449	-	-	69 449	-	-	69 449	69 449
Financial assets	26 313 295	-	321 993	26 635 288	-	-	26 635 288	26 635 288
Preference shares and debt instruments	24 556 126	-	321 993	24 878 119	-	-	24 878 119	24 878 119
Equities	1 757 169	-	-	1 757 169	-	-	1 757 169	1 757 169
Reinsurance assets	-	-	-	-	952 098	-	952 098	952 098
Insurance, loans and other receivables	-	140 582	-	140 582	278 152	281 132	699 866	699 866
Cash and cash equivalents	-	-	-	-	-	2 171 715	2 171 715	2 171 715
Total	26 382 744	140 582	321 993	26 845 319	1 230 250	2 452 847	30 528 416	30 528 416
Liabilities								
Borrowings	-	400 064	-	400 064	-	-	400 064	400 064
Insurance liabilities	25 852 351	-	-	25 852 351	2 597 050	-	28 449 401	28 449 401
Reinsurance liabilities	-	-	-	-	172 287	-	172 287	172 287
Employee benefits	-	-	-	-	-	46 135	46 135	46 135
Trade and other payables	-	-	-	-	-	1 565 740	1 566 740	1 566 740
Total	25 852 351	400 064	-	26 252 415	2 769 336	1 611 875	30 633 626	30 633 626
2020								
Assets								
Investment in associates	68 485	-	-	68 485	-	-	68 485	68 485
Financial assets	23 806 998	-	331 895	24 138 893	-	-	24 138 893	24 138 893
Preference shares and debt instruments	22 522 406	-	331 895	22 854 301	-	-	22 854 301	22 854 301
Equities	1 284 592	-	-	1 284 592	-	-	1 284 592	1 284 592
Reinsurance assets	-	-	-	-	621 827	-	621 827	621 827
Insurance, loans and other receivables	-	56 992	-	56 992	311 047	324 877	692 915	692 915
Cash and cash equivalents	-	-	-	-	-	3 097 180	3 097 180	3 097 180
Total	23 875 787	56 992	331 895	24 264 370	932 874	3 422 057	28 619 300	28 619 300
Liabilities								
Borrowings	-	400 379	-	400 379	-	-	400 379	400 379
Insurance liabilities	23 660 062	-	-	23 660 062	1 556 005	-	25 216 067	25 216 067
Reinsurance liabilities	-	-	-	-	219 800	-	219 800	219 800
Employee benefits	-	-	-	-	-	173 620	173 620	173 620
Trade and other payables	-	-	-	-	-	1 886 930	1 886 930	1 886 930
Total	23 660 062	400 379	-	24 060 441	1 775 805	2 060 550	27 896 796	27 896 796

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

10. (a) Categories and classes of financial and insurance assets and liabilities (continued)

	Fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost investments	Total financial instruments	Insurance contract assets and liabilities	Other assets and liabilities	Total per statement of financial position	Fair value of financial instruments
COMPANY								
2021								
Assets								
Investment in subsidiaries	35 911	-	-	35 911	-	-	35 911	35 911
Loans to subsidiaries	-	750	-	750	-	-	750	750
Investment in associates	70 523	-	-	70 523	-	-	70 523	70 523
Financial assets	26 313 295	-	321 993	26 635 288	-	-	26 635 288	26 635 288
Preference shares and debt instruments	24 556 126	-	321 993	24 878 119	-	-	24 878 119	24 878 119
Equities	1 757 169	-	-	1 757 169	-	-	1 757 169	1 757 169
Reinsurance assets	-	-	-	-	952 098	-	952 098	952 098
Insurance, loans and other receivables	-	140 582	-	140 582	275 825	281 132	697 539	697 539
Cash and cash equivalents	-	-	-	-	-	2 143 841	2 143 841	2 143 841
Total	26 419 728	141 332	321 993	26 883 053	1 227 923	2 424 973	30 535 950	30 535 950
Liabilities								
Borrowings	-	400 064	-	400 064	-	-	400 064	400 064
Insurance liabilities	25 852 351	-	-	25 852 351	2 595 810	-	28 448 161	28 448 161
Reinsurance liabilities	-	-	-	-	172 287	-	172 287	172 287
Employee benefits	-	-	-	-	-	45 490	45 490	45 490
Trade and other payables	-	-	-	-	-	1 544 111	1 544 111	1 544 111
Total	25 852 351	400 064	-	26 252 415	2 768 097	1 589 601	30 610 112	30 610 112
2020								
Assets								
Investment in subsidiaries	15 180	-	-	15 180	-	-	15 180	15 180
Loans to subsidiaries	-	750	-	750	-	-	750	750
Investment in associates	78 547	-	-	78 547	-	-	78 547	78 547
Financial assets	23 806 998	-	331 895	24 138 893	-	-	24 138 893	24 138 893
Preference shares and debt instruments	22 522 406	-	331 895	22 854 301	-	-	22 854 301	22 854 301
Equities	1 284 592	-	-	1 284 592	-	-	1 284 592	1 284 592
Reinsurance assets	-	-	-	-	621 827	-	621 827	621 827
Insurance, loans and other receivables	-	56 992	-	56 992	311 047	323 674	691 713	691 713
Cash and cash equivalents	-	-	-	-	-	3 081 187	3 081 187	3 081 187
Total	23 900 725	57 742	331 895	24 290 362	932 874	3 404 861	28 628 097	28 628 097
Liabilities								
Borrowings	-	400 379	-	400 379	-	-	400 379	400 379
Insurance liabilities	23 660 062	-	-	23 660 062	1 553 227	-	25 213 289	25 213 289
Reinsurance liabilities	-	-	-	-	219 800	-	219 800	219 800
Employee benefits	-	-	-	-	-	173 036	173 036	173 036
Trade and other payables	-	-	-	-	-	1 888 632	1 888 632	1 888 632
Total	23 660 062	400 379	-	24 060 441	1 773 027	2 061 668	27 895 136	27 895 136

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

10. (b) Determination of fair value and fair values hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value
GROUP				
2021				
Financial assets carried at fair value through profit or loss				
Interest in associates	-	-	69 449	69 449
Listed Investments	1 286 832	-	470 337	1 757 169
Listed Ordinary Shares#	1 283 369	-	470 337	1 753 706
Listed Debentures	3 463	-	-	3 463
Unlisted Investments	44 512	13 929 637	19 911	13 994 060
Unlisted Ordinary shares	-	-	2 623	2 623
Unlisted Preference shares*	-	-	17 289	17 289
Hedge Fund Investments	-	67 753	-	67 753
Units Trusts	-	13 571 756	-	13 571 756
Pooled funds	-	32 750	-	32 750
GIA	-	(27 482)	-	(27 482)
Annuities	44 512	284 859	-	329 372
Bonds	2 935 008	7 627 058	-	10 562 066
	4 266 352	21 556 695	559 697	26 382 743
2020				
Financial assets carried at fair value through profit or loss				
Interest in associates	-	-	68 485	68 485
Listed Investments	908 323	-	376 269	1 284 592
Listed Ordinary Shares#	904 543	-	376 269	1 280 812
Listed Debentures	3 781	-	-	3 781
Unlisted Investments	95 772	11 592 445	25 877	11 714 095
Unlisted Ordinary shares	-	-	2 393	2 393
Unlisted Preference shares*	-	-	23 485	23 485
Hedge Fund Investments	-	67 348	-	67 348
Units Trusts	-	11 226 297	-	11 226 297
Pooled funds	18 128	-	-	18 128
GIA	9 718	-	-	9 718
Annuities	67 926	298 801	-	366 727
Bonds	3 136 370	7 671 941	-	10 808 311
	4 140 465	19 264 386	470 936	23 875 787

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

10. (b) Determination of fair value and fair values hierarchy (continued)

	Level 1	Level 2	Level 3	Total fair value
COMPANY				
2021				
Financial assets carried at fair value through profit or loss				
Interest in subsidiaries	-	-	35 911	35 911
Interest in associates	-	-	70 523	70 523
Listed Investments	1 286 832	-	470 337	1 757 169
Listed Ordinary Shares#	1 283 369	-	470 337	1 753 706
Listed Debentures	3 463	-	-	3 463
Unlisted Investments	44 512	13 929 637	19 911	13 994 060
Unlisted Ordinary shares	-	-	2 623	2 623
Unlisted Preference shares*	-	-	17 289	17 289
Hedge Fund Investments	-	67 753	-	67 753
Units Trusts	-	13 571 756	-	13 571 756
Pooled funds	-	32 750	-	32 750
GIA	-	(27 482)	-	(27 482)
Annuities	44 512	284 859	-	329 372
Bonds	2 935 008	7 627 058	-	10 562 066
	4 271 620	21 556 695	596 682	26 419 728
2020				
Financial assets carried at fair value through profit or loss				
Interest in subsidiaries	-	-	15 180	15 180
Interest in associates	-	-	78 547	78 547
Listed Investments	908 323	-	376 269	1 284 592
Listed Ordinary Shares#	904 543	-	376 269	1 280 812
Listed Debentures	3 781	-	-	3 781
Unlisted Investments	95 772	11 592 445	25 877	11 714 095
Unlisted Ordinary shares	-	-	2 393	2 393
Unlisted Preference shares*	-	-	23 485	23 485
Hedge Fund Investments	-	67 348	-	67 348
Units Trusts	-	11 226 297	-	11 226 297
Pooled funds	18 128	-	-	18 128
GIA	9 718	-	-	9 718
Annuities	67 926	298 801	-	366 727
Bonds	3 136 370	7 671 941	-	10 808 311
Total	4 140 465	19 264 386	495 874	23 900 726

* These investments do not meet the definition of related parties.

Clientele is thinly traded on the JSE and as a result we believe the listed price is not a true reflection of the value of the investment. We have thus used our judgement and applied the appraisal method to determine a more reasonable value, as shown above.

Included in Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in Level 2 category are financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices for observable current market transactions of assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

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for the year ended 30 June 2021

10. (b) Determination of fair value and fair values hierarchy (continued)

Included in the Level 3 category are financial assets measured using non-market observable inputs. Non-market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. The main asset classes in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group and Company. Therefore, unobservable inputs reflect the Group's and Company's own assumptions about the inputs that market participants would use in pricing the asset and liability. These inputs are developed based on the best information available, which might include the Group's and Company's own data.

The assumption used to value level 3 investments are based largely on unobservable inputs. Further, judgement was applied in the current period due to uncertainty arising as a result of Covid-19 due to less liquidity and greater volatility in financial markets. This has increased the criticality of estimates, assumptions and judgements in the assessment of the valuation of level 3 investments. The critical inputs in these valuations relating to projection of future cash flows and discount rates.

The Group and Company determine the fair value of its unlisted investments using well established valuation techniques. These techniques include discounted cash flow analysis, price earnings ratio and net asset value methodologies. Where the underlying investments of an investment holding company are property or listed investments, the company is valued on the net asset value basis which reflects the fair value of the underlying investments.

Companies are valued on a price earnings ratio method or on a discounted cash flow basis. A build-up method was used to construct the discount rate, incorporating all the appropriate risk components as well as a bond yield of 8.88% (R2030). The following appropriate risk components are incorporated in the discount rates and earnings factors used:

- Risk class exposure of the entity;
- Established history;
- Dependency on management; and
- Impact of owner managed business.

In applying the price earnings valuation technique, the current profit of the company is multiplied by an earnings factor. The potential future earnings of the company, current interest rate cycle, current business environment and management of the company are considered in determining the earnings factor.

In using discounted cash flow analyses the best estimate of future cash flows of a particular company are used. The current interest rate cycle, risk-free rate and any other relevant economic or business factors are considered in determining the discount rate.

Reconciliation of movements in Level 3 financial instruments measured at fair value

	Balance at the beginning of the year R'000	Total gains/(losses) in profit or loss R'000	Purchases R'000	Balance at the end of the year R'000	Total gains/(losses) in profit or loss R'000
GROUP					
2021					
Financial Assets at fair value through profit or loss					
Interest in associates	68 789	660	-	69 449	660
Listed Investments	376 269	94 067	-	470 337	94 067
Listed Ordinary Shares	376 269	94 067	-	470 337	94 067
Unlisted Investments	25 877	(6 196)	230	19 911	(6 196)
Unlisted Ordinary shares	2 393	-	230	2 623	-
Unlisted Preference shares	23 485	(6 196)	-	17 289	(6 196)
	470 935	88 531	230	559 697	88 531
2020					
Financial Assets at fair value through profit or loss					
Interest in associates	66 821	1 968	-	68 789	1 968
Listed Investments	503 532	(127 263)	-	376 269	(127 263)
Listed Ordinary Shares	503 532	(127 263)	-	376 269	(127 263)
Unlisted Investments	33 588	(11 901)	4 191	25 877	(11 901)
Unlisted Ordinary shares	3 702	(5 500)	4 191	2 393	(5 500)
Unlisted Preference shares	29 886	(6 401)	-	23 485	(6 401)
	603 941	(137 196)	4 191	470 936	(137 196)

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for the year ended 30 June 2021

10. (b) Determination of fair value and fair values hierarchy (continued)

	Balance at the beginning of the year R'000	Total gains/(losses) in profit or loss statement R'000	Purchases R'000	Balance at the end of the year R'000	Total gains/(losses) in profit or loss statement R'000
COMPANY					
2021					
Financial Assets at fair value through profit or loss					
Interest in subsidiaries	15 180	17 414	3 317	35 911	17 414
Interest in associates	78 547	(8 024)	–	70 523	(8 024)
Listed Investments	376 269	94 067	–	470 337	94 067
Listed Ordinary Shares	376 269	94 067	–	470 337	94 067
Unlisted Investments	25 877	(6 196)	230	19 911	(6 196)
Unlisted Ordinary shares	2 393	–	230	2 623	–
Unlisted Preference shares	23 485	(6 196)	–	17 289	(6 196)
	495 874	97 261	3 547	596 682	97 261
2020					
Financial Assets at fair value through profit or loss					
Interest in subsidiaries	18 260	(5 064)	1 984	15 180	(5 064)
Interest in associates	73 600	4 947	–	78 547	4 947
Listed Investments	503 532	(127 263)	–	376 269	(127 263)
Listed Ordinary Shares	503 532	(127 263)	–	376 269	(127 263)
Unlisted Investments	33 588	(11 901)	4 191	25 877	(11 901)
Unlisted Ordinary shares	3 702	(5 500)	4 191	2 393	(5 500)
Unlisted Preference shares	29 886	(6 401)	–	23 485	(6 401)
Total	628 980	(139 281)	6 175	495 874	(139 281)
Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions					
	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000		
GROUP					
2021					
Financial Assets at fair value through profit or loss					
Interest in associates	69 449	1 389	(1 389)		
Listed Investments	470 337	9 407	(9 407)		
Listed Ordinary Shares	470 337	9 407	(9 407)		
Unlisted Investments	19 911	398	(398)		
Unlisted Ordinary shares	2 623	52	(52)		
Unlisted Preference shares	17 289	346	(346)		
	559 697	11 194	(11 194)		
2020					
Financial Assets at fair value through profit or loss					
Interest in associates	68 485	1 370	(1 370)		
Listed Investments	376 269	7 525	(7 525)		
Listed Ordinary Shares	376 269	7 525	(7 525)		
Unlisted Investments	25 877	518	(518)		
Unlisted Ordinary shares	2 393	48	(48)		
Unlisted Preference shares	23 485	470	(470)		
	470 937	9 413	(9 413)		

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for the year ended 30 June 2021

	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000
COMPANY			
2021			
Financial Assets at fair value through profit or loss			
Interest in subsidiaries	35 911	718	(718)
Interest in associates	70 523	1 410	(1 410)
Listed Investments	470 337	9 407	(9 407)
Listed Ordinary Shares	470 337	9 407	(9 407)
Unlisted Investments	19 912	398	(398)
Unlisted Ordinary shares	2 623	52	(52)
Unlisted Preference shares	17 289	346	(346)
	596 683	11 934	(11 934)
2020			
Financial Assets at fair value through profit or loss			
Interest in subsidiaries	15 180	304	(304)
Interest in associates	78 547	1 571	(1 571)
Listed Investments	376 269	7 525	(7 525)
Listed Ordinary Shares	376 269	7 525	(7 525)
Unlisted Investments	25 878	518	(518)
Unlisted Ordinary shares	2 393	48	(48)
Unlisted Preference shares	23 485	470	(470)
Total	495 875	9 918	(9 918)

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(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
11. Insurance, loans and other receivables				
Insurance receivables – Premium debtors	275 825	315 217	275 825	315 217
Other receivables	283 459	320 706	281 132	319 504
Total insurance and other receivables	559 283	635 923	556 957	634 721
Loans				
Interest bearing loans	136 777	76 974	136 777	76 974
Interest bearing loans to staff	1 921	3 439	1 921	3 439
Interest bearing loans to other	191 682	102 849	191 682	102 849
Interest bearing impairment provisions	(56 826)	(29 314)	(56 826)	(29 314)
Interest free loans	1 990	(22 835)	1 990	(22 835)
Interest free loans to other	835	–	835	–
Interest free loans to ESD	1 155	78 648	1 155	78 648
Interest free impairment provisions	–	(101 483)	–	(101 483)
Total loans	138 767	54 139	138 767	54 139
Receivable from group companies	10 001	10 326	10 001	10 326
Impairment provision	(8 186)	(7 473)	(8 186)	(7 473)
Loans receivable from group companies	1 815	2 853	1 815	2 853
Insurance, loans and other receivables	699 866	692 915	697 539	691 713
<i>The interest rates charged on the secured and unsecured loans comprise:</i>				
Prime	2 314	64 847	2 314	64 847
Prime less 1.36%	–	2 709	–	2 709
Prime less 5.15%	–	6 485	–	6 485
Prime plus 2%	–	10 015	–	10 015
Prime plus 5%	5 662	7 273	5 662	7 273
Prime plus 4%	20 553	–	20 553	–
South African Reserve Service (SARS) rate	1 921	3 439	1 921	3 439
Hollard Investments Money Market Fund rate	3 473	3 218	3 473	3 218
3month JIBAR + 820bps p.a.	89 179	–	89 179	–
Johannesburg Inter-Bank Rate (JIBAR) + 7%	5 536	5 338	5 536	5 338
Interest-free loans	10 129	(49 185)	10 129	(49 185)
Loans Receivable	138 767	54 139	138 767	54 139
<i>The repayments terms of secured and unsecured loans comprise:</i>				
90 days after notice	–	3 439	–	3 439
Repaid quarterly	–	43 539	–	43 539
Specific date	123 102	44 483	123 102	44 483
No fixed terms of repayment	15 665	(37 322)	15 665	(37 322)
Loans Receivable	138 767	54 139	138 767	54 139
<i>The interest rates charged on loans from group companies comprise:</i>				
Prime less 3.8%	10 001	10 001	10 001	10 001
Interest-free loans	(8 186)	(7 148)	(8 186)	(7 148)
Loans Receivable from group companies	1 815	2 853	1 815	2 853
<i>The repayments terms of loans from group companies comprise:</i>				
Specific date	10 001	2 853	10 001	2 853
No fixed terms of repayment	(8 186)	–	(8 186)	–
Loans Receivable from group companies	1 815	2 853	1 815	2 853

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for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
12. Deferred taxation				
Deferred income tax assets				
Deferred income tax to be recovered within 12 months	395	–	395	–
Deferred income tax to be recovered after 12 months	1 986 224	859 735	1 986 224	859 715
Deferred income tax assets	1 986 619	859 735	1 986 619	859 715
Balance at the beginning of the year	859 734	19	859 715	–
Movement during the year attributed to:				
Prior year adjustments	(36 683)	–	(36 663)	–
Provisions	107	–	107	–
Deferred Tax Asset (Assessed Tax Losses in Tax Funds) ¹	904 088	700 398	904 088	700 398
Return Transfers from the Corporate Fund to Tax Funds	259 371	159 317	259 371	159 317
Balance at the end of the year	1 986 618	700 418	1 580 413	859 715
Balance comprises:				
Provisions	395	–	395	–
Deferred Tax Asset (Assessed Tax Losses in Tax Funds) ¹	1 580 413	700 399	1 580 413	700 399
Return Transfers from the Corporate Fund to Tax Funds	405 811	159 317	405 811	159 317
Deferred income tax assets	1 986 619	859 735	1 986 619	859 716
Deferred income tax liabilities				
Deferred income tax to be recovered within 12 months	–	–	–	–
Deferred income tax to be recovered after 12 months	942 832	631 971	942 825	631 971
Deferred income tax liabilities	942 832	631 971	942 825	631 971
Balance at the beginning of the year	631 971	444 821	631 971	444 821
Movement during the year attributed to:				
Prior year adjustments	(68 278)	16 617	(68 285)	16 617
Provisions	–	260	–	260
Unrealised gain or losses on Assets at fair value through profit/loss	20 302	(29 671)	20 302	(29 671)
Release of "Phase In" Tax for Zerorised Negative Liabilities ²	(66 523)	–	(66 523)	–
Deferred Tax Assets Disregarded for Transfer Tax	253 145	(66 523)	253 145	(66 523)
Change in negative reserves in tax funds	172 214	196 112	172 214	196 112
Balance at the end of the year	942 832	631 970	942 825	631 971
Balance comprises:				
Provisions	–	(498)	–	(498)
Unrealised gain or losses on assets at fair value through profit/loss	103 236	82 927	103 229	82 927
Policyholder reserves no longer reported for IFRS	199 568	266 091	199 568	266 091
Deferred tax liabilities arising from disregarded assets in tax funds	442 516	196 112	442 516	196 112
Change in negative reserves in tax funds	197 512	87 339	197 512	87 339
Deferred income tax – balance	942 832	631 971	942 825	631 971

In respect of the 2021 financial year, the determination of the value of liabilities has been amended according to the provisions of section 29A of the Income Tax Act (No. 58 of 1962), which provides that liabilities are determined net of re-insurance assets and negative liabilities.

¹ A deferred tax asset (DTA) of R1.58bn has been recognised in terms of IAS 12: Income Taxes in respect of investment policies recognised in terms of IFRS 9: Financial Instruments and insurance policies recognised in terms of IFRS 4: Insurance Contracts, allocated to the Individual Policyholder Fund (IPF) and Company Policyholder Fund (CPF) respectively, giving rise to future taxable profits. An additional DTA is held in respect of transfers from the Corporate Fund (CF), where liabilities exceed the market value of assets for tax funds. A deferred tax liability (DTL) of R442m has been recognised in terms of IAS 12: Income Taxes, arising from the disregarded asset as contemplated in terms of section 29A(16) of the Income Tax Act that is not included as an asset for purposes of determining transfer tax.

The forecasted Investment Income and forecasted Unrealised Capital Gains have been estimated based on the Financial Assets backing the Policyholder Liabilities in the IPF and CPF respectively. The Investment Income has been estimated based on the risk-free yield curves, together with known returns as per the Investment Mandates, forecasted, for Investment Contracts. Expense cashflows (maintenance and acquisition) have been modelled. The expenses cashflows is limited to the ratio of non-taxable investment income over total investment income. A change in components of Investment Income may alter the extent of the expense allocations to the IPF and CPF. The realisation of the DTA includes the uptake on new Investment Contracts, which are forecasted to produce excess Income that is anticipated to utilise the assessed tax loss in the IPF and CPF. In addition, prospective legislative amendments, including the potential restriction placed on the utilisation of assessed tax losses going forward and a change to the corporate tax rate have been considered in the assumptions when determining the appropriate measurement in terms of IAS12: Income Taxes, allowing for a prudent recognition and measurement of the DTA. Furthermore, in financial periods exceeding five years, it is anticipated that the Financial Assets backing Non-Investment Business in the IPF are anticipated to generate Investment Income based on the risk-free- yield- curves and are anticipated to also utilise any assessed tax loss in the IPF.

² A deferred tax liability (DTL) is held in respect of negative reserves that are untaxed as at the reporting period in terms of section 29A(1), and a further DTL is held in respect of the phasing in tax due to the zeroisation of negative reserves prior to 1 July 2017 in terms of section 29A(15) of the Income Tax Act.

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for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
13. Cash and cash equivalents				
Cash on call	1 479 090	1 816 934	1 479 090	1 816 934
Cash at bank	296 292	218 047	268 419	202 054
Cash on deposit	396 332	1 062 106	396 332	1 062 106
Cash on hand	-	93	-	93
Cash and cash equivalents	2 171 715	3 097 180	2 143 841	3 081 187

14. Share capital and premium

	GROUP		COMPANY	
Authorised				
100 000 000 Ordinary Shares	1 000	1 000	1 000	1 000
	1 000	1 000	1 000	1 000
Issued and fully paid				
2 000 000 Ordinary Shares	20	20	20	20
Share Premium	19 980	19 980	19 980	19 980
Issued shared capital	20 000	20 000	20 000	20 000

The directors are authorised until the forthcoming annual general meeting to issue the unissued shares for any purpose and upon such terms and conditions as they deem fit.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000

15. Insurance Liabilities

Policyholder Liabilities under Investment Contracts

Balance at the beginning of the year	23 660 062	17 029 164	23 660 062	17 029 164
Contribution received	3 371 351	6 224 692	3 371 351	6 224 692
Maturities	(360 721)	(348 348)	(360 721)	(348 348)
Withdrawals and surrenders	(2 239 819)	(1 093 154)	(2 239 819)	(1 093 154)
Fair value movements	763 142	648 368	763 142	648 368
Other movement for the year	658 337	1 199 340	658 337	1 199 340
Balance at the end of the year	25 852 351	23 660 062	25 852 351	23 660 062

Policyholder Liabilities under Insurance Contracts

Balance at the beginning of the year	165 872	(56 210)	163 094	(56 210)
Movement for the year	570 009	222 082	571 547	219 304
Balance at the end of the year	735 880	165 872	734 641	163 094
	26 588 231	23 825 934	26 586 991	23 823 156

The movement in the policyholder liabilities balance for the purpose of the statement of cash flows is reported as follows:

Increase/(decrease) in policyholders liabilities under investment contracts	2 192 289	6 630 898	2 192 289	6 630 898
Increase/(decrease) in policyholders liabilities under insurance contracts	570 009	222 082	571 547	219 304
Increase/(decrease) in policyholders liabilities under investment and insurance contracts	2 762 298	6 852 980	2 763 836	6 850 202
Gross insurance liabilities	25 789 990	22 868 712	24 788 750	22 865 934
Total reinsurer's share of insurance liabilities	798 241	957 222	798 241	957 222
Net insurance liabilities	26 588 231	23 825 934	26 586 991	23 823 156
Outstanding Claims	1 699 796	1 183 253	1 699 796	1 183 253
Unearned premium provision	161 332	206 880	161 332	206 880
Cash back reserve	43	-	43	-
Total Insurance liabilities	28 449 401	25 216 067	28 448 161	25 213 290

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(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	Insurance Contracts R'000	Linked and RA R'000	Insurance Contracts R'000	Linked and RA R'000
15. Insurance Liabilities (continued)				
Sensitivity analysis – Policyholder Liabilities				
2021				
Base value	735 880	25 852 351	734 641	25 852 351
Renewal expenses decrease by 10%	615 669	25 852 351	615 669	25 852 351
Withdrawal rates decrease by 10%	614 807	25 852 351	614 807	25 852 351
Mortality rates decrease by 5%	456 243	25 852 351	456 243	25 852 351
Investment returns decrease by 1%	759 471	25 852 351	759 471	25 852 351
Equity risk premium increases by 1%	739 898	25 852 351	739 898	25 852 351
Shock asset values by 10%	433 142	23 267 116	433 142	23 267 116
2020				
Base value	163 094	23 660 062	163 094	23 660 062
Renewal expenses decrease by 10%	81 268	23 660 062	81 268	23 660 062
Withdrawal rates decrease by 10%	37 956	23 660 062	37 956	23 660 062
Mortality rates decrease by 5%	(87 676)	23 660 062	(87 676)	23 660 062
Investment returns decrease by 1%	113 614	23 660 062	113 614	23 660 062
Equity risk premium increases by 1%	166 608	23 660 062	166 608	23 660 062
Shock asset values by 10%	157 058	21 796 053	157 058	21 796 053

– Sensitivities were derived in line with the sensitivities compiled for the EV report.

– Liability sensitivities on linked business are offset by commensurate asset movements resulting in a nil balance sheet impact.

– The Prudential Authority Risk free curve is used as the discount rate.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
16. Employee benefits				
Balance at the beginning of the year	173 036	154 642	173 036	154 367
Movement	(126 902)	18 977	(127 547)	18 669
Additional provisions raised during the year	29 827	200 322	29 182	199 908
Utilised during the year	(156 729)	(181 345)	(156 729)	(181 239)
Balance at the end of the year	46 135	173 620	45 490	173 036

Leave pay

In terms of the Group's and Company's policy, employees are entitled to accumulate a maximum of 25 days' leave and the leave pay provision is calculated on that basis. Any leave accumulated over this number is forfeited by the employees concerned. Whilst all employees are encouraged to take their full annual leave, they are entitled to encash a maximum of five days' leave (taxed) in a leave cycle. When employees who have leave due to them cease their employment with the Group, all accumulated and accrued leave is paid to them at the current total cost to company rate as part of their final salary payment, limited to a maximum of 25 days.

The Group's and Company's provision for leave pay amounted to R35 657 746 and R35 012 746 respectively at the statement of financial position date (2020: R37 562 968 and R36 979 726 respectively).

Incentive scheme

In terms of the Group's and Company's policy, selected employees, at the discretion of the directors receive an incentive bonus. This bonus relates to employee, corporate and business unit performance and is subject to approval by the Remuneration Committee.

The Group's and Company's provision for staff incentives amounted to R10 477 071 and R10 477 071 respectively at the statement of financial position date (2020: R136 056 688 and R136 056 688 respectively).

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(CONTINUED)

for the year ended 30 June 2021

	Leave Pay R'000	Bonus R'000	Other R'000	Provisions R'000
17. Provisions				
GROUP				
2021				
Balance at the beginning of the year	37 563	136 056	723	174 342
Additional provisions raised during the year	12 203	17 041	-	29 827
Utilised during the year	(14 108)	(142 621)	(723)	(157 452)
Balance at the end of the year	35 658	10 476	-	46 135
2020				
Balance at the beginning of the year	29 061	125 581	-	154 642
Additional provisions raised during the year	17 297	183 025	723	201 045
Utilised during the year	(8 795)	(172 550)	-	(181 345)
Balance at the end of the year	37 563	136 056	723	174 342
COMPANY				
2021				
Balance at the beginning of the year	36 980	136 056	-	173 036
Additional provisions raised during the year	12 141	17 041	-	29 182
Utilised during the year	(14 108)	(142 621)	-	(156 729)
Balance at the end of the year	35 013	10 477	-	45 490
2020				
Balance at the beginning of the year	28 786	125 581	-	154 367
Additional provisions raised during the year	16 883	183 025	-	199 908
Utilised during the year	(8 689)	(172 550)	-	(181 239)
Balance at the end of the year	36 980	136 056	-	173 036

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
18. Trade and other payables				
Trade payables	44 292	74 285	34 530	67 210
VAT payable	760	526	760	526
Sundry creditors	1 065 741	1 262 518	1 053 875	1 271 296
Lease liability	468 959	509 842	468 959	509 842
Due to group company	(14 013)	39 759	(14 013)	39 759
Trade and other payables	1 565 740	1 886 930	1 544 111	1 888 633

Other liabilities

Included in sundry creditors are life assurance premiums amounting to R64 406 157 (2020: R47 449 633) in respect of policies that inceptioned after the statement of financial position date.

All balances are current.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
19. Borrowings				
Long term borrowings				
Long term funding	400 000	400 000	400 000	400 000
Long term interest	64	379	64	379
Total	400 064	400 379	400 064	400 379

The loan bears interest at three month JIBAR + 192bps and is serviced quarterly. The loan is repayable in tranches from 26 June 2023.

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	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
20. Due to and from group companies				
Due from subsidiaries	-	325	-	325
Due to fellow subsidiaries	-	(70 897)	-	(70 897)
Due to group companies	-	(70 572)	-	(70 572)
Due from fellow subsidiaries	14 013	31 138	14 013	31 138
Net due to and from group companies	14 013	(39 434)	14 013	(39 434)
21. Net premium income				
Recurring premiums	6 694 178	6 793 748	6 694 178	6 793 748
Reinsurance premiums inwards	161 238	147 927	161 238	147 927
Gross written premiums	6 855 416	6 941 676	6 855 416	6 941 676
Reinsurance outwards	(1 541 920)	(1 632 125)	(1 541 920)	(1 632 125)
Change in unearned premium reserve	(1 601)	(3 063)	(1 601)	(3 063)
Net premium income	5 311 895	5 306 488	5 311 895	5 306 488

Net premium income represents income from insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and are accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 15 on page 65 for details of the movement in policyholder liabilities under investment contracts.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
22. Realised profits/(losses) on disposal of investments and other financial assets				
Unlisted investments	25 418	(9 302)	25 418	(9 302)
Listed investments	42 884	8 381	42 884	8 381
Net unrealised profits/(losses) on fair value through profit or loss assets	68 303	(921)	68 303	(921)
23. Unrealised profits/(losses) on revaluation of investments and other financial assets				
Unlisted investments	15 827	37 172	33 241	32 115
Listed investments	85 593	(158 945)	85 593	(158 944)
Net unrealised profits/(losses) on fair value through profit or loss assets	101 419	(121 773)	118 833	(126 829)
24. Other income				
Administration fees received	15 522	10 127	5 515	3 879
Management fees received	33 223	22 360	19 028	14 516
Sundry fees received	24 511	257	24 511	257
Sundry income received	162 711	249 546	162 726	249 503
Other operating income	235 967	282 291	211 780	268 155

Included in **sundry fees received** is R24m, and in **sundry income received** (2020: R96m), relating to the experience refund within the FINRE agreement entered into with Munich Re.

In addition, included in **sundry income received** is an IUA rebate R10m (2020:R24m), the drop is due to the allocation per license split. Further to this, Investment business income in terms of IFRS9 is included in **sundry income received**.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	2021 R'000	2020 R'000	2021 R'000	2020 R'000
25. Dividends and interest				
Interest received				
Interest received – Financial assets at amortised cost	55 568	110 912	55 568	110 912
Interest received on call deposits	40 648	97 838	40 648	97 838
Sundry interest received	14 920	13 073	14 920	13 073
Interest received – Financial assets at fair value through profit or loss	107 453	90 829	106 893	89 837
Interest received on investments	85 468	39 900	85 260	39 529
Interest received from bank	22 038	23 125	22 038	23 125
Sundry interest received	(405)	22 401	(405)	22 401
Interest received on call deposits	–	3 598	–	3 598
Other interest received	353	1 805	–	1 184
Total Interest received	163 021	201 741	162 461	200 749
Dividends received				
Dividends received – Listed	32 921	44 504	32 921	44 504
– Listed Ordinary Shares	32 921	44 504	32 921	44 504
Dividends received – Unlisted	23 540	29 234	33 665	41 284
– Unlisted Ordinary Shares	541	–	10 666	12 050
– Unlisted Preference shares	20 342	25 755	20 342	25 755
– Unlisted Unit trust	2 658	3 478	2 658	3 478
Total Dividends received	56 069	73 738	66 587	85 788
Total interest received and dividend income	219 090	275 479	229 048	286 537
Interest paid				
Interest paid – General	72 368	90 184	72 368	90 159
Interest paid – SARS	16	–	16	–
Interest paid from Treaty reserves	11 796	26 595	11 796	26 595
Total Interest paid	84 180	116 754	84 180	116 754

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	2021			2020		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
26. Profit before taxation						
Profit before taxation is determined after charging:						
Directors and Prescribed Officers emoluments						
Executive directors						
<i>Director A</i>						
Basic salary	1 516	4 548	6 064	1 512	4 536	6 048
Bonus and performance related payments	2 989	8 967	11 956	2 385	7 155	9 540
Estimated monetary value of other benefits	38	114	152	30	90	120
Pension/provident fund contributions	172	516	688	171	513	684
	4 715	14 145	18 860	4 098	12 294	16 392
<i>Director B</i>						
Basic salary	909	2 727	3 636	904	2 712	3 616
Bonus and performance related payments	1 856	5 568	7 424	1 358	4 074	5 432
Estimated monetary value of other benefits	42	126	168	38	114	152
Pension/provident fund contributions	106	318	424	105	315	420
	2 913	8 739	11 652	2 405	7 215	9 620
<i>Director C</i>						
Basic salary	3 459	-	3 459	3 419	-	3 419
Bonus and performance related payments	4 417	-	4 417	2 338	-	2 338
Estimated monetary value of other benefits	162	-	162	156	-	156
Pension/provident fund contributions	400	-	400	395	-	395
	8 438	-	8 438	6 308	-	6 308
Non-executive directors						
Director A	-	-	-	38	116	154
Director B	-	-	-	37	113	150
Director C	277	831	1 108	325	975	1 300
Director D	242	727	969	271	815	1 086
Director E	120	359	479	147	441	588
Director F	175	523	698	201	604	805
Director G	247	743	990	277	831	1 108
Director H	110	330	440	137	410	547
Director I	110	330	440	168	503	671
	1 281	3 843	5 124	1 601	4 808	6 409

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
26. Profit before taxation (continued)				
Expenses for the acquisition of insurance contracts				
Commission	475 430	461 211	475 427	459 949
Impairment losses on financial assets				
Impairment loss on loans to associates, subsidiaries and other	-	48 074	-	48 074
Other expenditure				
Amortisation of intangible assets	10 664	7 716	10 664	7 716
Write-off of premium debtors	9 363	10 690	9 363	10 690
Administration fees paid	424 763	392 508	424 763	392 508
Professional fees	191 556	198 339	191 519	198 299
Operating lease rentals – building	(46 653)	(45 460)	(46 653)	(45 460)
Operating lease rentals – computer	15 223	15 584	15 223	15 584
Research and development	205	93	205	93

27. Taxation

South African normal taxation

Current year	1 261	163 072	1 261	163 072
Prior year	47 011	(21 260)	47 011	(21 260)

Deferred tax expense

Current year	(784 214)	(689 183)	(784 214)	(689 183)
Prior year	(31 836)	16 617	(31 836)	16 617

Taxation – Dividend tax (Life)	14 038	1 685	14 038	1 685
Taxation – Withholding tax	1 995	812	1 995	812
Taxation	(751 745)	(528 257)	(751 745)	(528 257)

The income tax expense/(income) includes both policyholder and shareholder taxation.

All taxation is payable in respect of continuing operations

Tax rate reconciliation:

	%	%	%	%
Tax calculated at standard rate of South African tax on earnings	28	28	28	28
Adjusted for:				
- Exempt income on dividends not taxable	3,12	21,17	3,12	21,17
- Capital gains tax	(4,72)	8,00	(4,72)	8,00
- Realised gains not taxable	(0,01)	-	(0,01)	-
- Unrealised gains not taxable	5,21	40,95	5,21	40,95
- Withholding taxation and STC	(3,73)	(19,28)	(3,73)	(19,28)
- Other non-taxable income/non-deductible expenses	(1,00)	0,60	(1,00)	0,60
- Deferred Tax Asset (Assessed Tax Losses in Tax Funds)	211,00	-	211,00	-
- Unutilised Tax losses – Individual Policyholder Fund	-	786,56	-	786,56
- Deferred tax liabilities arising from disregarded assets in tax funds	(59,00)	(235,97)	(59,00)	(235,97)
- Prior year (over)/underprovision	(3,79)	5,59	(3,79)	5,59
Tax rate reconciliation	175,08	635,61	175,08	635,61

Tax amendments impacting Long Term Insurers through the introduction of a Risk Policy Fund for all new risk business written after 1 July 2016 resulted in the gradual reduction of assessed tax losses in the Individual Policyholder Fund (IPF) and Company Policyholder Fund (CPF). For financial years commencing on or after this date, there has been a significant decline in the assessed tax losses recognised in each year, resulting in a profit for the 2020 and 2021 financial year. It is anticipated that a taxable profit will arise in the IPF and CPF in future years, ultimately reducing the assessed tax loss carried forward to zero. Management therefore has reliability projected that existing and new investment business will result in the realisation of future taxable profits which will be available against which the unused tax losses can be utilised in terms of IAS12.34: Income Taxes. Therefore, in terms of IAS 12: Income Taxes, a value of R1.1bn was raised in the current period as a net deferred tax (gross DTA of R1.58bn and a gross DTL of R442m) in recognition of the future taxable profits that are forecasted to be recognised in the IPF and CPF. Determining this value, Hollard Life Assurance Company Limited determined the cash flows based on returns underlying its investment and non-investment products. Deferred tax arises on the temporary differences between the IFRS basis and the tax basis.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
28. Policyholder benefits				
Individual and group	(5 209 208)	(3 041 642)	(5 209 208)	(3 041 642)
– Death and disability	(5 127 294)	(2 937 886)	(5 127 294)	(2 937 886)
– Maturity	(849)	(18 043)	(849)	(18 043)
– Surrenders	(16 570)	(20 678)	(16 570)	(20 678)
– Annuities	(1 442)	(1 734)	(1 442)	(1 734)
– Other	(63 052)	(63 301)	(63 052)	(63 301)
Claims and loss adjustments expense	(834)	–	(834)	–
Gross policyholder benefits and claims incurred	(5 210 042)	(3 041 642)	(5 210 042)	(3 041 642)
Less: Reinsurance recoveries	1 982 948	1 154 019	1 982 948	1 154 019
– Death and disability	1 982 948	1 154 019	1 982 948	1 154 019
Net policyholder benefits	(3 227 094)	(1 887 623)	(3 227 094)	(1 887 623)

Policyholder benefits represent payments under insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 15 on page 65 of these financial statements for the movement in policyholder liabilities under investment contracts.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
29. Reconciliation of profit before taxation to cash generated from operation				
Profit before taxation	(445 097)	(74 923)	(429 383)	(83 110)
Adjustments for:				
Depreciation	64 437	63 227	64 353	63 139
Write off of Property and Equipment	44 652	–	44 652	–
Intangible assets amortisation	10 664	9 219	10 664	9 219
Transfer to policyholder liabilities under investment contracts	2 192 289	6 630 898	2 192 289	6 630 898
Transfer to policyholder liabilities under insurance contracts	571 547	219 304	571 547	219 304
Investment Income	(125 450)	(72 816)	(135 968)	(84 866)
Realised profit/(loss) on assets underlying investment contracts	(154 779)	(66 352)	(154 779)	(66 352)
Rental income	–	(16 617)	–	(16 617)
Other income	(235 967)	357 709	(211 780)	371 845
Unrealised gains/(losses) on disposal of investments – Unlisted	(15 827)	(32 232)	(33 241)	(32 115)
Unrealised gains/(losses) on revaluation of investments – Listed	(85 592)	158 945	(85 592)	158 945
Unrealised income on investment contracts	(521 939)	(525 330)	(521 939)	(525 330)
Impairment allowances on premium debtors and loans receivable	(49 509)	(76 174)	(49 509)	(76 174)
Increase/(decrease) in employee benefits	(128 208)	19 700	(127 547)	18 669
Net (increase)/decrease in accrued Interest and dividends	17 107	19 944	17 107	19 944
Interest received	(163 021)	(201 741)	(162 461)	(200 749)
Interest paid	84 180	116 754	84 180	116 754
Share of income/(loss) in associates	(11 954)	(18 156)	–	–
Asset transfers	(575 673)	(243 427)	(575 673)	(243 427)
Operating Cash Flows before Working Capital Changes	470 369	6 267 932	496 968	6 279 977
Working Capital Changes	(132 146)	(590 231)	(156 381)	592 845
(Increase)/decrease in Insurance Receivables, Loans and Other Receivables	107 313	(16 340)	108 425	(16 558)
(Increase)/decrease in Reinsurance Assets	(330 272)	(10 770)	(330 272)	(10 770)
(Decrease)/increase in Reinsurance Liabilities	(47 513)	(23 940)	47 513	(23 940)
Increase/(decrease) in Net Outstanding Claims and IBNR	516 542	109 015	516 542	109 015
Increase/(decrease) in Unearned Premiums	(45 549)	(63 026)	(45 549)	(63 026)
Increase/(decrease) in Trade and Other Accounts Payable and Employee Benefits	(332 667)	595 292	(358 014)	598 124
Cash generated from Operations	338 223	6 858 163	340 587	6 872 822

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
30. Dividends paid				
Amount due at beginning of year	-	-	-	-
Amount declared in statement of changes in equity	(470 085)	(194 881)	(470 085)	(194 732)
Amount due at end of year	-	-	-	-
Cash amounts Paid	(470 085)	(194 881)	(470 085)	(194 732)

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
31. Dividends received				
Amount due at beginning of year	35 294	15 350	35 294	15 350
Amount received per income statement	56 069	73 738	66 587	85 788
Amount due at end of year	(52 401)	(35 294)	(52 401)	(35 294)
Cash amounts Received	38 962	53 794	49 480	65 844

32. Taxation paid				
Amount due at beginning of year	325 217	(465 441)	325 202	(465 464)
Amount charged to income statement	751 746	528 249	751 746	528 256
Amount due at end of year	(1 071 427)	(325 217)	(1 070 635)	(325 202)
Cash amounts Paid	5 536	(262 410)	6 313	(262 410)
Amounts due at end of year comprised as follows:				
Deferred taxation asset	(1 986 619)	(859 735)	(1 986 619)	(859 715)
Deferred taxation liability	942 832	631 971	942 825	631 971
Current income taxation asset	(27 640)	(98 712)	(26 841)	(98 697)
Current income taxation liability	-	20	-	-
	(1 071 427)	(326 456)	(1 070 635)	(326 441)

33. Business combinations

30.1 Summary of Business Combinations – 2021

The Group had a voluntary liquidation and deregistration of two of its subsidiaries during the year respectively. Details are noted below:

30.1.1 Voluntary Liquidation of 100% shareholding in Hollard Life Properties (Pty) Ltd:

The Hollard Life Properties (Pty) Ltd entered into a voluntary liquidation process in terms of section 352(2) of the Companies Act 61 of 1973, on 10 December 2020 and this was finalised on 15 March 2021.

30.1.2 Deregistration of 100% shareholding in Hollard Wealth Management Services (Pty) Ltd:

The Hollard Wealth Management Services (Pty) Ltd was deregistered on 17 June 2021.

30.2 Summary of Business Combinations – 2020

There were no acquisitions or disposals of investments in subsidiaries in the 2020 financial year.

34. Investments in associates

There were no acquisitions or disposals of investments in associates in the 2021 or 2020 financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

35. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund, with 214 (2020: 238) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year were R15 384 714 (2020: R14 629 812).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund, with 787 (2020: 1095) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R48 208 252 (2020: 45 225 702).

Both of these funds are controlled by a Board of Trustees and are governed by the Pension Funds Act of 1956.

36. Lease – low-value items

During the current financial year, the group incurred lease payments for the following low value leased assets:

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Computers	15 223	15 584	15 223	15 584
Printers	429	359	429	359

37. Related party transactions

Transactions between Group companies

Hollard Life Assurance Company Limited's immediate holding company is Hollard Fundco (RF) (Pty) Ltd (100%) and the ultimate holding company is Pickent Investments Limited. Both of these companies are incorporated in the Republic of South Africa.

Related party relationships exist between the Group, fellow subsidiaries, associated companies, joint ventures and the holding company. The Group enters into commercial transactions with a number of these companies on an ongoing basis. All material transactions are concluded at arm's length and are eliminated on consolidation.

Details of subsidiary, associate and joint venture companies are provided in note 40 on page 77 of the financial statements.

	COMPANY	
	2021 R'000	2020 R'000
Loans to related parties		
Loans to subsidiaries	750	750
Loans to Hollard Holdings (Pty) Ltd	10 001	10 001
Loan to The Hollard Insurance Company Limited	7 251	–
Loan to Hollard Specialist Life Limited	5 064	28 439
Loans to Hollard Specialist Insurance Limited	1 661	2 698
Loans from related parties		
Loan from Fundco (RF) (Pty) Ltd	400 064	400 379
Loan from The Hollard Insurance Company Limited	–	70 896
Loans to directors and prescribed officers		
Details of individual loans to directors and prescribed officers:		
M Shezi	1 921	3 439
NG Kohler	–	2 709
B Wyborn	–	–

No new advance was made during the year (2020: Rnil).

The following repayments were made during the year:

M Shezi R1 697 785 (2020: Rnil)

NG Kohler R2 780 130 (2020: R1 000 000)

B Wyborn Rnil (2020: R7 540 911)

The loans are given on commercial terms and conditions. The related interest income in 2021 was R251 451 (2020: R468 856).

The loan from Fundco (RF) (Pty) Ltd is interest bearing with a repayment terms of 10 years from the date of advance.

Interest on loans to M Shezi is charged at the SARS rate and as at 30 June 2021, the rate was 7.5%.

Interest on loans to NG Kohler is charged at prime less 1.36% and at 30 June 2021, the prime rate was 7%.

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(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
Endowment policies		
Endowment policies have been taken up by directors and key management. All policies are issued in the names of the individuals concerned on standard commercial terms. The value of policies in-force at the reporting date is as follows:		
Directors and their family members	11 710	3 572
Key management compensation		
Salaries, bonuses and other short-term employee benefits	66 524	58 305
Key management refers to Executive Committee members excluding Directors.		
The remuneration of key management is determined by the Remuneration Committee having regard to both the performance of the individuals concerned and their related market compensation benchmarks.		
Management fees		
Paid by The Hollard Insurance Company Limited	195 596	217 656
Paid by Hollard Specialist Insurance Limited	6 563	6 287
Paid by Hollard Specialist Life Limited	30 273	6 648
Administration fees		
Administration fees are paid to a number of companies in which the Group holds an interest. All fees are paid on standard commercial terms.		
Rent received		
Paid by The Hollard Insurance Company Limited	28 830	29 627
Investment Policy with		
The Hollard Insurance Company Limited	1 220 764	1 171 284

Refer to notes 7, 8 and 11 of these annual financial statements for details of loans with Group companies and other related parties.

38. Capital expenditure

The Group's and Company's principal expenditure commitment is to its policyholders, the nature and quantum of which is governed by the terms of the specific insurance contracts that are issued to them. The Group and Company expect to incur non-insurance related capital expenditure during the financial year ended 30 June 2021, R109 552 721, (2020: R362 878 000). Any unanticipated capital or operating expenditure will be funded from internal sources.

	GROUP		COMPANY	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
The following capital expenditure budget has been approved by the Board for the financial year ending 30 June 2022				
Furniture, office equipment and computer hardware and software	109 553	362 878	109 553	362 878
	109 553	362 878	109 553	362 878

39. Contingent Liabilities

The Group and Company, in the ordinary course of business, enter into transactions which expose it to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise and which can be quantified with reasonable accuracy. Possible obligations and known liabilities where no reliable estimate can be made, or where it is considered improbable that an outflow will result, are not provided for but instead are noted as a contingent liability, in accordance with International Accounting Standard IAS 37, Provisions, contingent liabilities and contingent assets.

There are a number of legal or potential claims against the Group, the outcome of which at present cannot be foreseen or quantified. Therefore, no liability has been recognised for these potential claims in the financial statements in accordance with the requirements of IAS 37.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

40. Subsidiaries, associates and joint ventures

	Nature of business	Place of business	Issued share capital R	Proportion held 2021 %	Proportion held 2020 %	2021 Shares R'000	2021 Indebtedness	2020 Shares R'000	2020 Indebtedness
Directly held subsidiaries									
Hollard Life Properties (Pty) Ltd	A	RSA	2	-	100	-	-	-	-
Hollard Wealth Management Services (Pty) Ltd	C	RSA	1	-	100	-	-	445	-
Finningley (Pty) Ltd	E	RSA	100	100	100	-	-	-	-
Hollard Investment Managers Altrisk Pty (Ltd)	D	RSA	2	100	100	35 911	-	14 540	-
Richton Employee Benefit Consultants (Pty) Ltd	E	RSA	1 075	100	100	-	-	-	-
NMG Pooling Administrators (Pty) Ltd	E	RSA	100	100	100	-	-	(193)	-
							750	387	750
						35 911	750	15 180	750
Directly Held associates									
Amserve Consultants Private Limited	F	India	100 652	49,99	49,99	-	-	-	-
Amsure Insurance Agency Public Limited	E	India	301 956	49,99	49,99	-	-	-	-
Ooba Proprietary Limited	E	RSA	160	25,00	25,00	70 523	-	78 547	-
IFANet Independent Distribution Services (Pty) Ltd	C	RSA	100	25,62	25,62	-	-	-	2 260
						70 523	-	78 547	2 260

Nature of business

A – Property holding, B – Funeral administrator, C – Investment consulting, D – Investment holding, E – Life assurance, F – Business process outsourcing, training and education.

With the exception of Amserve Consultants Private Limited and Amsure Insurance Agency Limited, which are incorporated and operational in India, all companies recorded above are incorporated and operational in South Africa. The functional currency of both these companies is the Indian Rupee.

41. Subsequent events

The Board is not aware of any event since the end of the financial year, not otherwise dealt with in these annual financial statements, that would affect the operations of the Group and Company, or the results of these operations.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

42. Going concern

The Directors have assessed the Group's ability to continue as a going concern and continues to closely monitor the liquidity position. The Covid-19 pandemic and the resultant uncertain economic environment and financial market volatility caused by it, has created uncertainty in the operating environment of the Group and the requirement to closely monitor the position going forward.

The Board and its committees received regular reports on the operational, financial, solvency and liquidity related impacts on the Group.

Further to this, the Group has evaluated numerous downside scenarios and stress tests, considering the impact of relief measures provided, higher mortality and lapse risk; adverse outcomes of legal cases relating to business interruption claims, adverse catastrophe experience; market volatility and the enduring impact of Covid-19 on the business. Under these scenarios, we have identified mitigating recovery actions that can be taken to restore the capital and liquidity to the group's target range.

As a result, the Board believes that the Group is well placed to meet its future capital and liquidity requirements and therefore believes that it is appropriate to adopt the going concern basis.

The Covid-19 pandemic continues to impact the Group's operating environment beyond the reporting date.

Mortality and retrenchment claims

The Group continues to experience high mortality claims post June 2021, with the third wave peak in July and August reflecting the highest mortalities experienced to date since the inception of the pandemic. At 30 June 2021, the Group has raised additional Covid-19 provisions for future negative mortality, retrenchment, disability of approximately R618 million. The mortality provision will be released against any future excessive claims experience in FY22. While significant uncertainty still remains over the vaccination rollout, fourth wave impacts and the impacts of any long term impacts of Covid-19, the group will continue to monitor developments of the pandemic and its impact on the assumptions and estimates going forward.

DIRECTORATE AND ADMINISTRATION

for the year ended 30 June 2021

Directorate and administration

To the date of this report the directors of the Company are as follows:

Non-Executive Chairman	ADH Enthoven
Group Chief Executive Officer	S Ntombela
Group Chief Financial Officer	DJ Viljoen
Executive Director	B Ruele
Lead Independent Non-Executive Director	B Ngonyama
Non-Executive Director	NG Kohler
Independent Non-Executive Director	MR Bower
Independent Non-Executive Director	NV Simamane
Independent Non-Executive Director	R Fihrer
Independent Non-Executive Director	S Patel
Independent Non-Executive Director	AS Nkosi
Independent Non-Executive Director	MS Claassen (appointed 30 June 2020)

Company Secretary

Corpstat Governance Services (Pty) Ltd (resigned 01 May 2021)

A Allaradyce (appointed 01 May 2021)

Public Officer

U Murphy

Compliance officer

M Patel

Registered office and business address

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2041

Website

www.hollard.co.za

Nature of business

The Company transacts long-term assurance business.

Auditors

5 Magwa Crescent
Waterfall City
Waterfall
DoceX 10
Johannesburg

Registration number

1993/001405/06

www.hollard.co.za