Hollard.

HOLLARD SPECIALIST LIFE ASSURANCE COMPANY LIMITED 2020

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 Head of Finance, Prevashini Naicker (CA(SA)).

(Registration number: 1952/003004/06)
Audited consolidated annual financial statements for the year ended 30 June 2020

CONTENTS

SALIENT FEATURES

for the year ended 30 June 2020

	COMPANY				
	2020 R'000	2019 R'000	2018 R'000	2017 R'000	2016 R'000
Statement of profit and loss information					
Gross written premiums[1]	**737 178**	728 262	821 378	975 698	1 124 015
Net written premiums[2]	**733 175**	721 100	761 351	735 083	718 695
Investment income[3]	**79 886**	60 507	54 882	80 075	59 445
Net Insurance claims	**163 857**	102 020	2 666 954	331 526	359 260
Equity holders of the parent	**205 823**	232 924	150 373	576 831	128 000
Statement of financial position information					
Insurance liabilities	**(71 692)**	23 925	285 615	284 541	361 975
Attributable to equity holders of the parent	**903 302**	755 809	596 735	583 842	694 084
Total assets	**1 188 747**	1 239 723	1 338 302	1 410 279	2 246 496
Financial assets	**585 518**	612 921	759 015	751 473	989 442
Cash and cash equivalents	**413 209**	432 479	337 851	542 466	931 237
Actuarial Information					
Value of in-force business[4]	**545 762**	503 624	548 674	296 933	358 170
Total embedded value[4]	**1 488 395**	1 336 942	1 266 154	1 208 632	1 319 081

(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 outwards.

(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 Specialist's holding company joint venture partners.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

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 Specialist Life Assurance Company (Company).

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 Company 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 Company'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 Company'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 providing an opinion on the Company's annual financial statements.

The 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 Company. The 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 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 70 to 111 have been approved by the Board of the Company and are signed on their behalf by:

ADH Enthoven
Chairman

6 November 2020

S Ntombela
Chief Executive Officer

6 November 2020

CERTIFICATION BY COMPANY SECRETARY

for the year ended 30 June 2020

In my capacity as Company Secretary, I hereby confirm that the Company 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.

CorpStat Governance Services (Pty) Ltd
Company Secretary

6 November 2020

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 Insurance Act, 2017. The Committee has reviewed the Company's annual financial statements, and recommends them for approval to the board. The Committee further reviewed the 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

6 November 2020

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2020

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 12% (2019: 11.70%):

- Expenses were allowed for based on an expense analysis carried out during the year;
- Expenses inflation of 2.70% per annum (2019: 4.70%);
- 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 Individual Life lapse rates at durations in excess of four years were reduced in line with experience);
- 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 contingency reserve to cover possible data problems of R20 million (2019: R20 million) was held as a discretionary reserve; and
- Negative reserves were allowed for on the published reporting basis (unchanged).

	COMPANY	
	2020 R'000	2019 R'000
Value of in-force business	**545 762**	503 624
Excess of assets over liabilities	**942 633**	833 318
Total embedded value	**1 488 395**	1 336 942

The embedded value (EV) includes profits attributable to Hollard Specialist Life's cell captive partners. The EV is gross of tax and cost of capital.

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2020

To the shareholders of Hollard Specialist Life Assurance Company Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hollard Specialist Life Assurance Company Limited set out on pages 70 to 111 which comprise the statement of financial position as at 30 June 2020, and statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement 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 financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2020, and their financial performance and 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 Financial Statements* section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the 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 of information included in the document titled "Directors' responsibility statement and approval of the annual financial statement" which includes the salient features, the directors' responsibility statement and approval of the annual financial statements, the directors report, the Audit Committees report, the certification by Company Secretary and the directorate and administration as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company 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 4 December 2015, we report that Deloitte & Touche has been the auditor of Hollard Specialist Life Assurance Company Limited for 16 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Harshal Kana
Partner

6 November 2020

AUDIT COMMITTEE REPORT

for the year ended 30 June 2020

The Hollard Group Audit and Compliance Committee is pleased to present its annual report, for the financial year ended 30 June 2020, which outlines how this independent, shareholder-appointed Committee discharged both its statutory and Board-delegated duties.

1. Committee

1.1 Terms of reference

The Committee operates within the framework provided by its Board-approved charter and carries out its mandate in compliance with these Terms of Reference. To ensure it is aligned with best practice, the Audit Committee charter is reviewed annually, by the Group Audit Committee and the Group Boards, and both are satisfied that it complies with the Companies Act, No 71 of 2008, the Insurance Act (18 of 2017) and applies the principles enunciated in the King IV Report.

1.2 Composition, meetings and assessment

The Committee is composed of three independent non-executive directors, with the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Group Finance Managers and External and Internal Auditors all invited to attend the scheduled Committee meetings. In addition, the Committee holds private meetings and closed sessions with relevant parties, to deliberate any arising issues that may require confidential assessment (such as the interaction between the finance function, Internal and External Auditors).

1.3 Roles and responsibilities

The Audit Committee's key roles and responsibilities are, inter alia:

- To drive a co-ordinated approach to assurance that ensures the significant risks facing the Company are effectively mitigated
- To monitor the relationship between external assurance providers and the Company
- To oversee the Internal Audit function and provide specific input on the appointment, performance assessment and/or dismissal of the Company Head of Internal Audit
- To confirm the independence of the Internal Audit function and its capability (in terms of resources, budget and standing) to discharge its functions
- To approve the Internal Audit plan and review any overlap with the External Auditor's plan
- To ensure the Internal Audit function is subject to an independent quality review whenever the Committee deems it appropriate
- To ensure the Internal Audit function performs its duties in accordance with its approved charter
- To review financial reporting risks, internal financial controls (including IT) and fraud risk as they relate to financial reporting
- To review Internal Audit's report on the effectiveness of internal financial controls, controls and risk management processes
- To ensure Internal Audit has adequate capacity to perform a formal documented review of internal financial controls and to evaluate their design, implementation and effectiveness
- To review the annual financial statements and annual report and recommend them for approval by the Boards
- To report on any material weaknesses in financial controls and the corrective action taken to address them
- To oversee the External Audit process: nominate an External Auditor and approve the terms of engagement and remuneration; monitor independence of the function; and report on it in the annual financial statements
- To define a policy for non-audit services provided by the External Auditor and pre-approve the contracts for any such services rendered
- To ensure a process is 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
- To review the quality and effectiveness of the External Audit process
- To evaluate the adequacy of the Company's insurance cover
- To review any material business irregularities and litigation matters that may have a significant impact on the Company's financial statements
- To review the quality of the Company's earnings.
- To review the expertise, resources and experience of the finance functions.
- To set the tone, on behalf of the Boards, regarding compliance culture and compliance risk appetite.
- To assist the Boards in identifying and monitoring all material compliance risks at insurance entity and Group levels.
- To ensure management performs formal compliance risk assessments, at least annually, across the Company and that remedial action is executed.
- To assess the compliance function to ensure it provides objective and independent assessment of adherence to legislation and delivers regulatory reporting.
- To review compliance reports and in particular, any reports made to any Regulators, noting any recommendations, breaches and confirming that appropriate remediation action has been taken.
- To confirm that the compliance function is independent and has the requisite authority, resources, budget and access to the Boards, to be able to exercise its authority and perform its responsibilities.
- To consult with the Chief Risk Officer, determine the appointment, performance assessment, remuneration and/or dismissal of the Head of the Compliance Function.
- To approve the annual compliance coverage plan.
- To ensure that the Head of the Compliance Function reviews any proposed outsourcing of material business activity and regularly reviews and reports to the Committee, compliance with the Company's outsourcing policy.
- To ensure that the risks associated with the outsourcing of a material business activity are appropriately assessed, monitored, managed and regularly reviewed.

2. Statutory duties

2.1 Financial statements and accounting policies

The Committee has reviewed the Company's accounting policies and financial statements for the financial year ended 30 June 2020 and is satisfied that they:

- are appropriate for the business
- comply with International Financial Reporting Standards
- support the Board's strategy

2.2 Going concern

The Committee has undertaken an assessment of the Company's documented status, including key assumptions prepared by management, and is comfortable in recommending to the Boards that the Company is a "going concern", as reflected in the annual financial statements.

2.3 External Auditor appointment and independence

In consultation with the Company's executive management, the Committee approved continuation of Deloitte South Africa as External Auditor for the 2020 financial year and agreed to the engagement letter, terms, audit plan and budgeted external audit fees.

After evaluating the appointments of previous External Auditors, the extent of other work the Auditor undertakes for the Company, and compliance with criteria relating to independence and conflicts of interest the Committee has satisfied itself that Deloitte South Africa is independent of the Company. Guarantees provided by the auditing firm confirm that its claim to independence is supported and demonstrated by its own internal governance processes.

At the AGM of Hollard Specialist Life (formerly Regent Life Assurance Company), it was recommended that Deloitte South Africa be re-appointed as External Auditor for the ensuing financial year.

3. Statement on internal financial controls

Ultimately, the Company Boards are responsible for providing reasonable assurance that the Company has effective financial and non-financial controls in place. In the year under review, these mechanisms were assessed by Internal Audit, in the execution of their annual audit plan, and it was confirmed that there were no material breakdowns in design or operational effectiveness and that matters to be addressed were either receiving attention or had already been resolved.

Using this assessment, together with the information provided by management and discussions with the External Auditor, the Committee was able to advise the Boards that it has no reason to believe that the Company's internal financial controls do not form an effective basis for preparation of the annual financial statements.

4. Statement on internal control and risk management

Effectiveness of the Company'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 Audit and Compliance as well as the Risk and IT Committees.

Based on this information, together with discussions held with management and the Committees, the Boards confirmed that nothing has been brought to their attention relating to material internal controls or risk management shortcomings during the year under review.

5. Board-delegated duties

5.1 Governance of risk

The Risk and IT Committee is responsible for the governance of risk management in the Company.

5.2 Internal Audit

The Committee is mandated to ensure that the internal audit function within the Company is independent, properly resourced and effective and that it functions within the parameters of the internal audit charter approved by the Committee. The Committee reviews the charter annually to ensure that it is aligned with best practice.

The Committee approves the Company's Internal Audit plan and assesses performance of the Internal Audit function, ensuring seamless co-operation between the external and internal audit functions, without any negative impact on the integrity of the Company's assurance processes.

The Group Head: Internal Audit has direct access to the Committee through the Chairman and is responsible for: developing risk-based audit planning methodologies in line with King IV recommendations; following up each internal audit with a detailed report to management and recommendations on aspects that require improvement; and reporting significant findings to the Committee.

MBower

Mark Bower
Chairperson of the Audit Committee

6 November 2020

DIRECTORS' REPORT

for the year ended 30 June 2020

The Directors have pleasure in presenting the Directors' report which forms part of the Company's annual financial statements for the year ended 30 June 2020.

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.

General review

In the year under review the Company achieved net profit attributable to the equity holders of the parent of R205 823 000 (2019: R232 924 000), which arose from the Company's operations as follows:

	COMPANY	
	2020 R'000	2019 R'000
Net premium income	**725 159**	711 162
Investment income and investment gains/(losses)	**66 520**	71 154
Other operating income	**12 101**	49 070
Total revenue	**803 780**	831 386
Net Insurance claims	**163 857**	102 020
Other operating expenses	**311 865**	342 048
Total expenses	**475 722**	444 068
Result of operating activities	**328 058**	387 319
Profit before taxation	**328 058**	387 319
Taxation	**(96 187)**	(113 566)
Profit for the year	**231 871**	273 753
Non-controlling interests	**(26 048)**	(40 829)
Net profit attributable to equity holders of parents	**205 823**	232 924

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 R116 509 000 (2019: R160 986 000) were declared by the Company during the year.

Subsidiaries, associates and joint ventures

Hollard Specialist Life Assurance Company held 100% of Solethu (Pty) Ltd, which was a dormant company. It was deregistered on the 14 February 2020.

Going concern

The Board believes that the 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.

Also refer to the going concern note on page 111 of these financial statements for further details.

COVID-19

Early in 2020, the COVID-19 pandemic started to impact South Africa. The start of the lockdown in March 2020 and expected direct and indirect impact of COVID-19 led to uncertainty for all South Africans and businesses alike and continues to do so. Like any other business, the Company has been impacted, with a significant amount of uncertainty regarding the full potential impact. This will probably only be unpacked in the coming months.

The Company, having taken into consideration the impact of the pandemic on the country, put into place measures to assist policyholders by offering premium discounts and premium holidays where necessary.

The pandemic has raised certain risk levels as well as potentially increasing the number of certain types of claims, some of these are listed below:

- Higher risk of bad debts relating to premiums;
- Higher number claims for credit insurance;
- Higher number of claims for funeral and life cover; and
- Higher risk of fraudulent claims.

As at 30 June 2020, the Company raised COVID-19 related provisions as deemed necessary. These provisions were based on existing information at balance sheet date.

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 Company, or the results of these operations.

Regulatory

Hollard Specialist Life Assurance Company reported their first set of results on the SAM regulatory regime for the year ended 30 June 2020.

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 13 November 2019:

- B Ngonyama
- R Fihrer
- MR Bower

Executive directors

S Ntombela (Group CEO), DJ Viljoen (Group CFO) and Besa 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, BF Mohale (resigned 31 July 2019), S Patel, AS Nkosi, SC Gilbert (resigned 31 August 2019), MS Claasen (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

Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

PO 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.

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2020

		COMPANY	
	Notes	2020 R'000	2019 R'000
Assets			
Property and equipment	5	**–**	31
Right-of-use assets	6	**116**	–
Investment properties	7	**6 041**	6 820
Intangible assets	8	**5 172**	10 500
Financial assets	9	**585 518**	612 921
Reinsurance assets		**126 305**	141 579
Insurance, loans and other receivables	11	**35 492**	35 393
Current income taxation		**16 893**	–
Cash and cash equivalents	12	**413 209**	432 479
Total assets		**1 188 746**	1 239 723
Equity and liabilities			
Attributable to equity holders of the parent		**903 302**	755 809
Issued share capital	13	**21**	21
Share premium	13	**94 666**	94 666
Retained earnings		**808 614**	661 122
Non-controlling interest		**39 332**	77 507
Total equity		**942 633**	833 317
Insurance liabilities	14	**(71 692)**	23 925
Reinsurance liabilities		**(3 074)**	(13 806)
Provisions	15	**2 522**	2 903
Trade and other payables	16	**169 056**	225 624
Deferred taxation	17	**149 302**	141 179
Current income taxation		**–**	26 580
Total liabilities		**246 113**	406 406
Equity and liabilities		**1 188 746**	1 239 723

STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2020

	Notes	COMPANY 2020 R'000	2019 R'000
Revenue			
Gross written premiums		**737 178**	728 262
Reinsurance outwards		**(4 003)**	(7 162)
Net written premiums		**733 175**	721 100
Less: Change in unearned premium reserve		**(8 015)**	(9 938)
Net premium income	18	**725 160**	711 162
Investment income		**79 885**	60 506
Interest received	19	**73 153**	50 279
Dividends received	19	**6 106**	9 645
Rental income		**626**	582
Investment gains/(losses)		**(13 365)**	10 647
Realised gains on disposal of investments	20	**1 911**	98 758
Unrealised losses on revaluation of investments	21	**(15 276)**	(84 843)
Loss on translation of foreign currency		**–**	(94)
Loss on disposal of associates		**–**	(3 174)
Other operating income	22	**12 101**	49 070
Total revenue		**803 781**	831 385
Expenses			
Gross policyholder benefits and claims Incurred	23	**261 311**	297 730
Reinsurance recoveries	23	**(24 339)**	(37 691)
Transfer from policyholder liabilities		**(73 115)**	(158 018)
Net Insurance claims		**163 857**	102 021
Commissions and other acquisition costs		**70 886**	103 970
Interest paid		**(15)**	–
Marketing and administration expenses		**240 995**	238 078
Total expenses		**475 723**	444 069
Result of operating activities		**328 058**	387 316
Profit before taxation	24	**328 058**	387 319
Taxation	25	**96 187**	113 566
Profit for the year		**231 871**	273 750
Profit for the year attributable to:			
Equity holders of the parent		**205 823**	232 924
Non-controlling interests		**26 048**	40 829
		231 871	273 753

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

	COMPANY	
	2020 R'000	2019 R'000
Profit for the year	**205 823**	232 924
Total other comprehensive income	**205 823**	232 924
Total other comprehensive income attributable to:		
Equity holders of the parent	**205 823**	232 924
Non-controlling interest	**26 048**	40 829
	231 871	273 753

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2020

	Equity attributable to owners					
	Issued share capital R'000	Share premium R'000	Retained earnings R'000	Total ordinary shareholders equity R'000	Non-controlling interest R'000	Total equity R'000
COMPANY						
Balance at 1 July 2018	21	94 666	501 898	596 586	120 745	717 330
Net profit/(loss)	–	–	232 924	232 924	40 829	273 753
Total comprehensive income	–	–	232 924	232 924	40 829	273 753
Dividends paid	–	–	(73 700)	(73 700)	(87 286)	(160 986)
Capital movement	–	–	–	–	3 219	3 219
Balance at 30 June 2019	21	94 666	661 122	755 810	77 507	833 317
Net profit/(loss)	**–**	**205 823**	**205 823**	**205 823**	**26 048**	**231 871**
Total comprehensive income	**–**	**–**	**205 823**	**205 823**	**26 048**	**231 871**
Dividends paid	**–**	**–**	**(58 330)**	**(58 330)**	**(58 179)**	**(116 509)**
Capital movement	**–**	**–**	**–**	**–**	**(6 045)**	**(6 045)**
Balance at 30 June 2020	**21**	**94 666**	**808 615**	**903 303**	**39 331**	**942 633**

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2020

		COMPANY	
	Notes	2020 R'000	2019 R'000
Cash flows from operating activities			
Cash receipts from policyholders and other customers		**733 274**	707 875
Cash paid to policyholders, suppliers and employees		**604 291**	(645 897)
Cash generated from operations	26	**128 983**	61 978
Interest paid		**(15)**	–
Dividends paid	27	**(116 509)**	(160 986)
Interest received		**73 153**	50 279
Dividends received	28	**6 106**	9 645
Rental received		**626**	582
Other income		**12 101**	49 070
Taxation paid	29	**(131 537)**	(79 133)
Net cash inflow from operating activities		**(27 092)**	(68 563)
Cash flows from investing activities			
Acquisition of listed and unlisted investments		**(66 470)**	(703 912)
Acquisition of bonds		**–**	(19 184)
Proceeds on disposal of listed and unlisted investments		**59 981**	770 975
Proceeds on disposal of listed investments		**–**	163 222
Proceeds on disposal of unlisted investments		**59 981**	607 753
Proceeds on disposal of other financial assets		**21 258**	112 012
Net cash outflow from investing activities		**14 769**	159 891
Cash flows from financing activities			
Non-controlling interest capital contribution		**(6 947)**	3 219
Net cash (outflow)/inflow from financing activities		**(6 947)**	3 219
Cash and cash equivalents			
Net increase/(decrease) in cash and cash equivalents		**(19 270)**	94 547
Cash, deposits and similar securities at beginning of year		**432 479**	337 932
Cash and cash equivalents at end of year	12	**413 209**	432 479

1. Summary of significant accounting policies

Statement of compliance

The consolidated and seperate annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations, adopted by the International Accounting Standards Board (IASB), in issue and effective for the Company at 30 June 2020 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

Accounting policies

The principal accounting policies adopted and the methods of computation used in the preparation of these consolidated and seperate annual financial statements are set out below and are consistent in all material respects with those applied during the previous year except for the adoption of new and amended statements and interpretations as disclosed in note 1.1.

1.1 Basis of preparation

IFRS comprise, IAS and interpretations originated by the IFRIC or the former SIC. The standards referred to are set by the IASB.

The consolidated and separate annual financial statements have been prepared in compliance with IFRS and interpretations for year-ends commencing on or before 1 July 2018 and in compliance with the Companies Act, No 71 of 2008.

The consolidated and separate annual financial statements have been prepared on an historical cost basis, except for:

Carried at fair value:
- Financial instruments, (which includes derivative financial instruments) which are designated at fair value through profit and loss;
- Policyholder investment contract liabilities;
- Liabilities for cash-settled share-based payment arrangements.

Carried at different measurement basis:
- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the FSV basis as set out in note 1.19 to the accounting policies.

Adoption of new and revised standards

The Company's accounting policies are consistent with those of the previous financial year except for those instances where new or revised standards and/or interpretations had to be adopted. The Company adopted IFRS 16: *Leases* and IFRIC 23: *Uncertainty Over Income Tax Treatments* as issued by the International Accounting Standards Board (IASB). The Company implemented IFRS 16 using the modified retrospective approach, under this approach, there were no changes to comparative period primary financial statements or note disclosures. There was no impact to opening retained earnings on adoption.

IFRS 16: *Leases* replaces IAS 17: *Leases* and related interpretations for annual periods beginning on or after 1 July 2019. IFRS 16: *Leases* sets out the requirements for identification, measurement and presentation of leases for a lessor and lessee

IFRS 16: *Leases* requires all leases that meet the recognitions criteria to be accounted for as right-of-use asset with a related lease liability. The impact to the Company was not material and a right-of-use asset of R317k was recognised on adoption with a corresponding lease liability. The net impact on earnings as a result of the adoption of IFRS 16 compared to IAS 17 was (R61k).

The standard allows certain practical expedients on adoption of the standards, the Company adopted the following the practical expedients:
- initial direct costs were excluded from measurement of the right-of-use asset;
- operating leases with a lease term of less than 12 months as at 1 July 2019 were treated as short term leases;
- a single discount rate was used on a portfolio of leases with similar characteristics;
- not to apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.
- use of hindsight in determining some lease terms;
- the exemption for short term leases and leases of low value items, lease payments for these will be recognised on a systematic basis over the lease term

Operating lease commitments	R'000
Operating lease liability as at 1 July 2019	5 403
Not later than one year	2 067
Later than one year and not more than five years	3 336
Later than five years	–
Reasonable certain extension and termination options	(4 586)
Relief option for short-term leases	(113)
Lease type obligations – initial application of IFRS 16	–
Changes in cashflows – discounting	(12)
Sub-leasing accounting – IFRS 16 application	464
Other	(692)
Additional lease liability at 1 July 2019	464
Liabilities from finance lease as of 30 June 2019	246
Lease liability as at 1 July 2019	710

This lease liability relates to IFRS 16 and was calculated using an weighted average incremental borrowing rate (IBR) of 10.53%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2020

1. Summary of significant accounting policies (continued)

1.1 Basis of preparation (continued)

Adoption of new and revised standards (continued)

Standards, interpretations and amendments to published standards that are not yet effective as at June 2020

The following are some amendments to IFRS that could have an impact on the Hollard Specialist Life Assurance 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.

International Financial Reporting Standards ("IFRS")		
Amendments to References to the Conceptual Framework in IFRS Standards	Amendments to references to the conceptual framework in IFRS Standards	Annual period beginning on or after 1 January 2020
Amendments to IFRS 3 (October 2018)	Definition of business	Annual period beginning on or after 1 January 2020
Amendments to IAS 1 and IAS 8 (October 2018)	Definition of material	Annual period beginning on or after 1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 (September 2019)	Interest rate benchmark reform	Annual period beginning on or after 1 January 2020
Amendments to IFRS 16	COVID-19-related rent concessions	Annual period beginning on or after 1 January 2020
Amendments to IAS 1	Classification of liabilities as current or non-current	Annual period beginning on or after 1 January 2020
Annual improvements to IFRS Standards 2018 – 2020 (May 2020)	Annual improvements to IFRS Standards 2018 – 2020 (May 2020)	Annual period beginning on or after 1 January 2020
Amendments to IFRS 3 (May 2020)	Reference to the conceptual framework	Annual period beginning on or after 1 January 2020
Amendments to IAS 37 (May 2020)	Onerous contracts-cost of fulfilling a contract	Annual period beginning on or after 1 January 2020

Reclassification of comparatives

During the current financial year, a classification exercise was performed, and certain accounts were reclassified. The impact on comparatives is tabled below:

	COMPANY		
	2019		
	Current year R'000	Prior year R'000	Variance R'000
Assets			
Financial assets	612 921	711 060	(98 139)
Reinsurance assets	141 579	132 809	8 770
Insurance, loans and other receivables	35 393	43 657	(8 264)
Cash and cash equivalent	432 479	331 186	101 293
Liabilities			
Insurance liabilities	23 925	(686)	24 611
Reinsurance liabilities	(13 806)	–	(13 806)
Provisions	2 903	25 843	(22 940)
Due to group companies	–	63 972	(63 972)
Trade and other payables	225 624	145 857	79 767

1.2 Property and equipment

Property and equipment comprises owner-occupied properties, which are held for use in the supply of services or for administrative purposes, computer equipment, office equipment, furniture and fittings and motor vehicles. These assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Hollard Specialist Life Assurance Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Depreciation on property, plant and equipment is calculated using the straight-line method after allocating their cost to their residual values over their estimated useful lives. The assets residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. The expected useful lives are as follows:

- Office equipment 20%
- Computer equipment 20%
- Motor vehicles 20%
- Furniture and fittings 10%

Depreciation commences when the assets are ready for their intended use.

There has been no change to the useful lives from those applied in the previous financial year. The residual values and useful lives are reassessed on an annual basis.

Where the carrying amount of the asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Property and equipment are derecognised on disposal or when future economic benefits are not expected to arise from the continued use of the asset. Any gain or loss arising from the derecognition of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Where the residual value is greater than or equal to the carrying value, no depreciation is provided for.

1.3 Intangible assets

Computer software

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs clearly associated with an identifiable and unique system, which will be controlled by the Hollard Specialist Life Assurance Company and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of material and supplier services used or consumed in generating the intangible asset. Expenditure that enhances and extends the benefits of computer software beyond their original specifications and lives is recognised as a capital improvement and capitalised to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, between three to five years. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Amortisation of intangibles

Amortisation of intangibles is charged to the statement of comprehensive income. The expected useful lives are as follows:

- Computer software development 3 – 5 years

Amortisation commences from the date the software is applied to day-to-day business processing. As the software is proprietary and specific to the Hollard Specialist Life Assurance Company's operations, no residual value is estimated.

1.4 Investment properties

Investment property is property held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that the cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequently the investment properties are measured at fair value, with adjustments recognised in the statement of comprehensive income.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Hollard Specialist Life Assurance Company as an owner-occupied property becomes an investment property, the Hollard Specialist Life Assurance Company accounts for such property in accordance with the policy stated under property and equipment up to the end of change in use. When the Hollard Specialist Life Assurance Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of comprehensive income.

1. Summary of significant accounting policies (continued)

1.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Hollard Specialist Life Assurance Company as lessor

Operating leases

Rental income is recognised in the statement of comprehensive income over the term of the relevant lease on the straight-line basis. Assets leased under operating leases are included under the appropriate category of assets in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets.

The Hollard Specialist Life Assurance Company as lessee

Finance leases

Assets held under finance leases are recognised as assets of the Hollard Specialist Life Assurance Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease.

The interest element of the finance cost is charged to the statement of comprehensive income over the lease period according to the effective interest rate method. The assets acquired under the finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Leased assets under finance leases are treated in the same manner as owned fixed assets.

Operating leases

Operating lease costs are recognised in the statement of comprehensive income over the lease term on the straight-line basis. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.6 Acquisition costs associated with insurance contracts

Acquisition costs for insurance contracts represent commission payments and other costs that relate to the securing of new contracts and the renewing of existing contracts.

1.7 Operating and administrative expenditure

Operating expenses include administration expenditure, marketing and development expenditure, indirect taxes and levies other than life insurance taxes as well as all other non-commission related expenditure, and are expensed as incurred.

1.8 Impairment of tangible and intangible assets

At the end of each reporting period, the Hollard Specialist Life Assurance Company assesses if there is any indication that such assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Hollard Specialist Life Assurance Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, in which case the impairment loss is taken to profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

1.9 Financial assets

Financial assets are recognised in the Hollard Specialist Life Assurance Company's consolidated statement of financial position when the Hollard Specialist Life Assurance Company becomes party to the contractual provisions of the instrument.

The Company classify its investments in debt and equity securities into the following categories: financial assets as at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets 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.

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 Company decides to designate it as fair value through other comprehensive income.

Financial assets are initially recorded at fair value plus, in the case of financial assets not fair valued through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit and loss, as the Hollard Specialist Life Assurance Company's strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities. In addition shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis. 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.

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 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 fair value through other comprehensive income.

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 of recasts of forward-looking economic conditions.

Financial assets at fair value through profit and loss have two sub categories namely financial assets held for trading and those designated at fair value through profit and loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit and loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets or liabilities are part of a Hollard Specialist Life Assurance Company of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at fair value through profit or loss, including derivative assets, are subsequently measured at fair value. Fair value adjustments and realised gain and losses are recognised in the statement of comprehensive income.

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Hollard Specialist Life Assurance Company has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are expensed when incurred. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate method. The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process. The held-to-maturity classification is no longer applicable under IFRS 9.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are expensed when incurred. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. At derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the statement of comprehensive income.

1.10 Impairment of financial assets

Financial assets, other than those fair valued through profit or loss, are assessed for indicators of impairment at the end of each reporting period.

The Hollard Specialist Life Assurance Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics which are collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at the end of each reporting period.

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. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1. Summary of significant accounting policies (continued)

1.10 Impairment of financial assets (continued)

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are reversed through the statement of comprehensive income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of comprehensive income.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value can not be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset.

The "incurred loss model" under IAS 39 was replaced with the 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 Company has revised its impairment methodology for each of these classes of assets.

The Company 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.

For held-to-maturity financial assets and loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Hollard Specialist Life Assurance Company may measure impairment on the basis of an instrument's fair value using an observable market price.

1.11 Derecognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired,
- the Hollard Specialist Life Assurance Company retains the right to receive cash flows from the asset, but assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or
- the Hollard Specialist Life Assurance Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Hollard Specialist Life Assurance Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Hollard Specialist Life Assurance Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Hollard Specialist Life Assurance Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including cash-settled option or similar provision) on the transferred asset, the extent of the Hollard Specialist Life Assurance Company's continuing involvement is the amount of the transferred asset that the Hollard Specialist Life Assurance Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Hollard Specialist Life Assurance Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.12 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

1.13 Reinsurance contracts

The Hollard Specialist Life Assurance Company cedes insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the Hollard Specialist Life Assurance Company with reinsurers under which the Hollard Specialist Life Assurance Company is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the Hollard Specialist Life Assurance Company.

Reinsurance assets represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of the expected claims and benefits arising, net of expected premiums payable under the related reinsurance contracts. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Hollard Specialist Life Assurance Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Hollard Specialist Life Assurance Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of comprehensive income.

Reinsurance arrangements do not relieve the Hollard Specialist Life Assurance Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

1.14 Cash and cash equivalents

Cash and cash equivalents comprise balances with bankers, highly liquid short-term funds on deposit and cash on hand, but do not include money market securities held for investment.

1.15 Share capital

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

1.16 Classification of contracts

Insurance contracts are those contracts where the Hollard Specialist Life Assurance Company (the insurer) has accepted 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 the policyholder. As a general guideline, the Hollard Specialist Life Assurance Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant 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, security price, commodity price, foreign exchange rate, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception, if insurance risk becomes significant.

1.17 Income recognition

Revenue

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.

Insurance contracts

Premiums and annuity considerations on insurance contracts are recognised when due in terms of the contract, other than group schemes. Premium receivable in respect of group schemes that is due after the year end date is ignored. However, where the operating ratios exceed 100%, a deficiency reserve would be established to offset any expected losses up until the next renewal date. Premium income on insurance contracts is shown gross of reinsurance. Premiums are shown before deduction of commission. Premium income received in advance is included in trade and other payables. Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities.

Reinsurance contracts

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

Investment contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities.

Investment income

Investment return comprises interest, dividends and realised and unrealised gains or losses. Dividend income from investments is recognised when the Hollard Specialist Life Assurance Company's rights to receive payment have been established.

Interest income is recognised using the effective interest method by reference to the principal debt outstanding and the interest rate. Other investment returns are accounted for on an accrual basis.

Policy fee income

The Hollard Specialist Life Assurance Company recognises policy fees on investment management contracts on an accrual basis when the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Hollard Specialist Life Assurance Company actively manages the considerations received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract.

1. Summary of significant accounting policies (continued)

1.18 Benefits and claims recognition

Gross benefits and claims consist of benefits and claims accrued to policyholders, which include changes in the gross valuation of insurance and investment contract liabilities. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

Insurance contracts

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are charged to income when notified of a claim based on the estimated liability for compensation owed to policyholders. They also include allowance for claims that arise from death and disability events that have occurred up to the statement of financial position date even if they have not been reported to the Hollard Specialist Life Assurance Company. Unpaid disability claims are estimated using the input of assessors for individual cases reported to the Hollard Specialist Life Assurance Company and statistical analysis for the claims incurred but not reported. Outstanding claims are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Investment contracts

Claims incurred are recorded as deductions from investment contract liabilities.

Reinsurance contracts

Contracts entered into with reinsurers, under which the Hollard Specialist Life Assurance Company is compensated for losses on one or more contracts, and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

Premiums payable on assumed reinsurance are recognised when due. Reinsurance recoveries are accounted for in the same period as the related claim.

The benefits to which the Hollard Specialist Life Assurance Company is entitled under their reinsurance contracts held are recognised as reinsurance assets, consisting of long-term balances due from reinsurers that are dependent on the expected claims and benefits. Reinsurance liabilities are primarily premiums payable and are recognised as an expense when due. Reinsurance assets are assessed for impairment on an annual basis, reducing the carrying amount of the reinsurance asset to its recoverable amount through the statement of comprehensive income.

1.19 Policyholder insurance and investment contracts

The Company 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 Company 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 1998, 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 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 Capital Adequacy 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 Company issue contracts which transfer insurance risk or financial risk or, in some cases, both. The Company demarcate these contracts in the following two broad categories:

i) Insurance contracts

Insurance contracts are those contracts under which the Company 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 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.

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 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 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 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 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.

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 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 Company are required to demonstrate solvency to the Prudential Authority. This requires the 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.

Hollard uses the standardised formula for calculating the SCR.

1. Summary of significant accounting policies (continued)

1.19 Policyholder insurance and investment contracts (continued)

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

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 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 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 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 Company balance death risk and survival risk across their portfolio. Medical selection is also included in the Company's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The 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 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 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.

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

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

The Company 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 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 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 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 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 2020, 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 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 Company primarily face due to the nature of its investments and liabilities is interest rate risk.

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

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 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 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 Company's Investment Committee.

Credit risk

The Company have exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The 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 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 Company's Investment Committee.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the 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 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.

1. Summary of significant accounting policies (continued)

1.19 Policyholder insurance and investment contracts (continued)

Claims development table (continued)

ii) Financial risk (continued)

Credit risk (continued)

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 Company. Management information reported to the 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 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 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 Company's liabilities are backed by appropriate assets and it has significant liquid resources and substantial unutilised banking facilities.

1.20 Financial liabilities

Financial liabilities comprise policyholders' liabilities under investment contracts.

Financial liabilities are initially measured at fair value, net of transaction costs that are directly attributable to the raising of the funds. The measurement of policyholder liabilities under investment contracts is described in note 1.19 to the accounting policies.

Policyholder contracts that do not transfer significant insurance risk are classified in the financial statements as financial liabilities held at fair value through profit or loss, with changes in fair value being accounted for in the statement of comprehensive income. The premiums and benefit payments relating to these investment contracts have been excluded from the statement of comprehensive income and accounted for directly as a liability. Fees earned from these contracts are disclosed separately through profit and loss. These liabilities have been designated as financial liabilities held at fair value through income by management at inception.

Financial liabilities are initially recognised at fair value. Thereafter, financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities at fair value through profit and loss, which are measured at fair value.

Fair value is measured by taking into consideration the time value of money, credit risk, commodity and equity prices, volatility and servicing costs.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

1.21 Provisions

Provisions are recognised when the Hollard Specialist Life Assurance Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Hollard Specialist Life Assurance Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain and the amount can be measured reliably. The expense relating to any provision is presented in the statement of comprehensive income. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rates that reflect current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Leave pay provision

Leave pay provision is calculated based on the outstanding number of leave days due to employees, applied to the total cost of their employment.

Employee bonus provision

Within the Hollard Specialist Life Assurance Company there are various formulas to calculate bonuses payable to employees. Provisions are raised based on the estimates of the total amount due.

1.22 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.

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 tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Hollard Specialist Life Assurance Company intends to settle its current tax assets and liabilities on a net basis.

Dividends tax

Dividends tax is levied on non-exempt shareholders. The Company is responsible for the collection of the dividends tax and payment of the amounts collected to the South African Revenue Service (SARS). As this tax is levied on the shareholders and not the company, it does not form part of the tax expense recognised in profit or loss or in other comprehensive income. Dividends are reflected gross of tax.

1.23 Employee retirement benefits

The policy of the Hollard Specialist Life Assurance Company is to provide retirement benefits for its employees. The contributions paid by the Hollard Specialist Life Assurance Company to fund obligations for the payment of retirement benefits are charged to the statement of comprehensive income in the year to which they relate. The Hollard Specialist Life Assurance Company's employees are members of a defined contribution plan, which is governed by the Pension Funds Act 24 of 1956.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Hollard Specialist Life Assurance Company pays contributions to privately administered pension insurance plans on a mandatory basis. The Hollard Specialist Life Assurance Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

1.24 Exceptional items

Exceptional items include income and expense items which are not considered to be of a trading nature and include items such as impairments of goodwill, and profit on sale of property.

1.25 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and where there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1. Summary of significant accounting policies (continued)

1.26 Dividend distribution

Dividend distribution to the Hollard Specialist Life Assurance Company's shareholders is recognised as a liability in the Hollard Specialist Life Assurance Company's financial statements in the period in which the dividends are approved by the Hollard Specialist Life Assurance Company's board of directors.

1.27 Events after statement of financial position date

The financial statements are adjusted to reflect events that occurred between the end of the reporting period and the date when the financial statements are authorised for issue, only if those events provide evidence of conditions that existed at the end of the reporting period. Events that are indicative of conditions that arose after the reporting period are disclosed, with no adjustment to the financial statements.

1.28 Transactions with related parties

Transactions with related parties are subject to terms and conditions that are no less favourable than those arranged with third parties.

1.29 Key assumptions in applying accounting policies

Key assumptions are those used to derive estimates, which require management judgement.

The Hollard Specialist Life Assurance Company's management decides on assumptions that can materially affect the reported amounts of assets and liabilities within the next financial year. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant assets and liabilities, which typically require such assumptions, are the following:

- Policyholders' liabilities under insurance contracts are derived from estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received (net of expected service costs). The key assumptions have been detailed in note 14 of the notes.
- The Hollard Specialist Life Assurance Company holds a number of financial assets that are designated at fair value through profit/loss. These are valued at quoted market prices as far as possible. However, if such prices are unavailable, fair value is based either on internal valuations or management's best estimates of realisable amounts.
- Impairment tests are conducted on all assets included in the statement of financial position. In determining the value in use, various estimates are used by management including deriving future cash flows and applicable discount rates. These estimates are most applicable to the impairment tests on reinsurance assets, intangible assets (including goodwill), deferred acquisition costs and receivables. Further details are contained in note 1.10 and 1.12 of the accounting policies.

2. Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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 the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the year in which the estimate is 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. In terms of IAS 8, (Accounting policies, changes in accounting estimates and errors), changes in accounting estimates do not necessitate a prior period adjustment.

2.1 Critical accounting estimates and judgements in applying accounting policies

The Hollard Specialist Life Assurance Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

2.2 The ultimate liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from claims under insurance contracts is the Hollard Specialist Life Assurance Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Hollard Specialist Life Assurance Company will ultimately pay for such claims.

Claim amounts are generally fixed or relatively easy to estimate. There is therefore limited uncertainty as to the expected claim amount on a particular policy. The reinsurance terms are also known in advance and the allowance for reinsurance recoveries is readily determinable. However it is necessary to estimate the timing of the claim payments. This is based on the probability that a policy will be in force and the probability of a claim arising in the future. For each policy the present value of the expected claims is estimated based on age and calendar-year based standard tables modified to reflect the recent claims experience of the Hollard Specialist Life Assurance Company and incorporating an allowance for trends.

The assumptions used are generally best estimate assumptions with compulsory margins and in certain instances discretionary margins have been included for additional prudence. The discount rate used to capitalise the claim values is also based on current economic conditions but reflects the Hollard Specialist Life Assurance Company's asset mix with an allowance for mismatching risk.

2.3 Estimate of future benefit payments and premiums arising from long-term insurance contracts and related deferred acquisition costs.

The determination of the liabilities under long-term insurance contracts are dependent on estimates made by the Hollard Specialist Life Assurance Company. Estimates are made as to the expected number of deaths for each of the years in which the Hollard Specialist Life Assurance Company is exposed to risk. The Hollard Specialist Life Assurance Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Hollard Specialist Life Assurance Company's own experience.

Where future premiums are payable they have also been valued based on the current premium being paid. Future premiums are projected over the lifetime of each policy on a policy-by- policy basis. The value of the premiums takes into account the possibility that the policy may terminate 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 Hollard Specialist Life Assurance Company and allows for mismatching risk.

Margins in premium rates to recoup up-front commission costs which have been capitalised as negative reserves have been recognised in full.

2.4 Fair value of investment contracts

The Hollard Specialist Life Assurance Company issues investment contracts that are designated at fair value through profit or loss.

The liability held under these contracts is based on the account balance which represents the accumulated value of the allocated premiums less charges at the interest rate credited to the policies based on the investment performance of the underlying assets. The liability is set equal to a minimum of the surrender value payable on each policy. In most cases the liability held exceeds the minimum surrender value.

3. Financial risk management

3.1 Introduction

The 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 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 Company Audit and Compliance Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board on its activities.

The 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 Company's main activities from a risk taking perspective can be summarised into the following two categories:

i) Providing risk cover to individuals. The 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 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 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.

The 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 Company's activities. The 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.

3. Financial risk management (continued)

3.1 Introduction (continued)

The Company'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 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.

3.2 Exposure to risks arising from financial instruments

The 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 Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the 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 Company's risk management framework. The Board has established the Risk and Compliance Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

3.2.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the 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 Company's Audit Committee and Risk and Compliance Committee oversee how management monitors compliance with the Company's risk management policies and procedures and review the adequacy of the risk management framework in relation to the risks faced by the 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 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 Company's procedures on credit.

The 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 Company's insurance business is written through and administered by intermediaries, the majority of which have been transacting with the 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 CAR, and return on capital. Appropriate remedial action is taken wherever the need arises.

The 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 Company have a dedicated Investment Committee that monitors the investment mandates set by the Board. Through these mandates, the 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.

The Company 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 Company's assets is disclosed in note 4.1(a) on page 92 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 with capital management. However, the Company remain liable to their policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the Company are exposed to credit risk.

The 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 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 Company will arise.

3.2.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet their financial obligations as they fall due. The 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 Company's reputation.

The 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 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 4.2 on page 95. The maturity profile of the related insurance and investment assets is expected to be similar to the profile of the liabilities.

3.2.3 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 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 Company's return on investment.

In particular, the 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 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 Company's ALM framework. The Board has established the Investment Committee, which is responsible for developing and monitoring the 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 Company's capital base are fully exposed to the relevant elements of market risk. In summary, the key components of market risk are:

a) 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 Company's investment portfolios. The 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 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.

b) 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.

3. Financial risk management (continued)

3.2 Exposure to risks arising from financial instruments (continued)

3.2.3 Market risk (continued)

b) Other market price (or equity) risk (continued)

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 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 Company, which include some material shareholdings in the Company's strategic partners. Concentrations of specific equity holdings are also monitored.

Capital management

The Company recognise equity, reserves excluding non-controlling interest. For internal management purposes, the Company refer to its minimum capital levels as its Capital Adequacy Requirement (CAR), 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 Company have operations, to monitor and manage the Company's capital resources.

The 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 CAR 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 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.

In each country in which the Company operate, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries to fund their insurance liabilities. The minimum required capital must be maintained at all times. The Company are subject to minimum capital adequacy requirements in all of the territories in which they issue life insurance contracts and they always have, and will continue to, comply with these regulations. The Company submits quarterly and annual returns to the Financial Services Board in accordance with the terms of the Long-term Insurance Act, 1998 (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.

4. Risk management

4.1 Credit risk

a) Exposure to credit risk

The carrying amount of financial and insurance assets represents 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	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
COMPANY				
Other assets				
Financial assets at fair value through profit or loss – listed investments	**14 646**	19 394	**14 646**	19 394
Financial assets at fair value through profit or loss – unlisted investments	**513 221**	518 756	**513 221**	518 756
Financial assets at fair value through profit or loss – bonds	**1 273**	22 926	**1 273**	22 926
Financial assets at amortised cost	**56 378**	51 845	**56 378**	51 845
Loans and other receivables	**18 427**	21 912	**18 427**	21 912
Cash and cash equivalents	**413 209**	432 479	**413 209**	432 479
Insurance assets				
Insurance receivables – premium debtors	**17 066**	13 481	**17 066**	13 481
Reinsurance assets	**126 305**	141 579	**126 306**	141 579
Total	**1 160 525**	1 222 372	**1 160 525**	1 222 372

b) Credit rating

The following table provides information regarding the Company's aggregated credit exposures. The carrying amount of these financial instruments represents the Company's maximum exposure to credit risk. The 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.

	BB+	BB	BB-	B+	B	B-	Not rated	Total
COMPANY								
2020								
Other assets								
Financial assets at fair value through profit or loss – listed investments	**–**	**14 646**	**–**	**–**	**–**	**–**	**–**	**14 646**
Financial assets at fair value through profit or loss – unlisted investments	**–**	**20 953**	**–**	**–**	**–**	**–**	**492 268**	**513 221**
Financial assets at fair value through profit or loss – bonds	**–**	**–**	**–**	**–**	**1 273**	**–**	**–**	**1 273**
Financial assets at amortised cost	**–**	**–**	**–**	**–**	**–**	**–**	**56 378**	**56 378**
Loans and other receivables	**–**	**–**	**–**	**–**	**–**	**–**	**18 427**	**18 427**
Cash and cash equivalents	**274 920**	**127 369**	**–**	**–**	**–**	**–**	**10 920**	**413 029**
Insurance assets								
Insurance receivables – premium debtors	**–**	**–**	**–**	**–**	**–**	**–**	**17 066**	**17 066**
Reinsurance assets	**–**	**–**	**–**	**–**	**–**	**–**	**126 306**	**126 306**
Total	**274 920**	**162 968**	**–**	**–**	**1 273**	**–**	**721 365**	**1 160 526**
2019								
Other assets								
Financial assets at fair value through profit or loss – listed investments	–	19 394	–	–	–	–	–	19 394
Financial assets at fair value through profit or loss – unlisted investments	–	33 173	–	–	–	–	485 584	518 757
Financial assets at fair value through profit or loss – bonds	–	–	–	–	2 816	–	20 109	22 925
Financial assets at amortised cost	–	–	–	–	–	–	51 845	51 845
Loans and other receivables	–	–	–	–	–	–	21 912	21 912
Cash and cash equivalents	269 995	84 870	–	–	–	–	77 614	432 479
Insurance assets								
Insurance receivables – premium debtors	–	–	–	–	–	–	13 481	13 481
Reinsurance assets	–	–	–	–	–	–	141 579	141 579
Total	269 995	137 437	–	–	2 816	–	812 124	1 222 372

4. Risk management (continued)

4.1 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:

	COMPANY			
	Neither past due nor impaired R'000	Past due not impaired R'000	Individually impaired R'000	Gross carrying value R'000
2020				
Financial assets at fair value through profit or loss – listed investments	**14 646**	**–**	**–**	**14 646**
Financial assets at fair value through profit or loss – unlisted investments	**513 221**	**–**	**–**	**513 221**
Financial assets at fair value through profit or loss – bonds	**1 273**	**–**	**–**	**1 273**
Financial assets at amortised cost	**56 378**	**–**	**–**	**56 378**
Loans and other receivables	**18 427**	**–**	**–**	**18 427**
Cash and cash equivalents	**413 209**	**–**	**–**	**413 209**
Total	**1 017 154**	**–**	**–**	**1 017 154**
Insurance receivables – premium debtors	**49 243**	**–**	**(32 177)**	**17 066**
Reinsurance assets	**126 305**	**–**	**–**	**126 305**
Total	**175 548**	**–**	**(32 177)**	**143 371**
2019				
Financial assets at fair value through profit or loss – listed investments	19 394	–	–	19 394
Financial assets at fair value through profit or loss – unlisted investments	518 756	–	–	518 756
Financial assets at fair value through profit or loss – bonds	22 926	–	–	22 926
Financial assets at amortised cost	51 845	–	–	51 845
Loans and other receivables	21 913	–	–	21 913
Cash and cash equivalents	432 479	–	–	432 479
Total	1 067 313	–	–	1 067 313
Insurance receivables – premium debtors	13 481	–	–	13 481
Reinsurance assets	141 579	–	–	141 579
Total	155 060	–	–	155 060

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

	COMPANY			
			Subjected to lifetime ECL	
		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
Balance at the beginning of the year	191	–	191	–
Originations, purchases and interest accruals	2	–	2	–
Repayments and other derecognitions (excluding write-offs)	–	–	–	–
Model changes, interest accrued and write offs	–	–	–	–
Balance at the end of the year	193	–	193	–

During the current year the provision for ECL increased due to an increase in loans and receivables and an increase 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 higher 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 relate to projection of future cash flows and discount rates.

4.2 Liquidity risk

a) Maturity profile on financial and insurance assets – contractual cash flows assets

The following tables detail the 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
COMPANY						
2020						
Financial assets at fair value through profit or loss	**529 140**	**529 141**	**527 333**	**–**	**1 273**	**534**
Financial assets at amortised cost	**56 378**	**56 378**	**56 378**	**–**	**–**	**–**
Reinsurance assets	**126 305**	**126 305**	**126 305**	**–**	**–**	**–**
Insurance, loans and other receivables	**35 492**	**35 492**	**26 481**	**4 238**	**4 773**	**–**
Cash and cash equivalents	**413 209**	**413 209**	**413 209**	**–**	**–**	**–**
Total	**1 160 524**	**1 160 524**	**1 149 706**	**4 238**	**6 046**	**534**
2019						
Financial assets at fair value through profit or loss	561 076	561 076	559 897	–	1 179	–
Financial assets at amortised cost	51 845	51 845	–	51 845	–	–
Reinsurance assets	141 579	141 579	141 579	–	–	–
Insurance, loans and other receivables	35 393	35 393	35 393	–	–	–
Cash and cash equivalents	432 479	432 479	432 479	–	–	–
Total	1 222 372	1 222 372	1 169 348	51 845	1 179	–

b) 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
COMPANY			
2020			
Non-derivative financial liabilities			
Trade and other payables and employee benefits	**171 578**	**171 578**	**171 578**
Trade and other payables	**169 056**	**169 056**	**169 056**
Employee benefits	**2 522**	**2 522**	**2 522**
Total	**171 578**	**171 578**	**171 578**
2019			
Non-derivative financial liabilities			
Trade and other payables and employee benefits	164 555	164 555	164 555
Trade and other payables	161 652	161 652	161 652
Employee benefits	2 903	2 903	2 903
Total	164 555	164 555	164 555

4. Risk management (continued)

4.2 Liquidity risk (continued)

c) Maturity profile on financial liabilities – probable contractual cash outflows

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

	Probable cash outflows	Maturity within a year	Maturity between 2 and 5 years	Maturity more than 5 years
COMPANY				
2020				
Policyholder liabilities	**(118 138)**	**(94 979)**	**–**	**(23 159)**
Claims reported and loss adjustment expenses	**13 999**	**5 853**	**8 146**	**–**
Claims incurred but not yet reported	**22 343**	**22 027**	**316**	**–**
Unearned premium provision	**10 104**	**10 104**	**–**	**–**
Reinsurance liabilities	**(3 074)**	**(3 074)**	**–**	**–**
Total	**(74 766)**	**(60 069)**	**8 462**	**(23 159)**
2019				
Policyholder liabilities	624	624	–	–
Claims reported and loss adjustment expenses	23 301	23 301	–	–
Reinsurance liabilities	(13 806)	(13 806)	–	–
Total	10 119	10 119	–	–

4.3 Market risk

a) Sensitivity analysis – interest rate risk

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

	2020			2019		
	Carrying amount R'000	Nominal interest rate %	Effective interest rate %	Carrying amount R'000	Nominal interest rate %	Effective interest rate %
COMPANY – profile						
Fixed rate instruments						
Financial assets						
Bonds						
Due in 2 years	**–**	**–**	**–**	21 747	6.9	6.94
Due between 2 years and 5 years	**1 273**	**3.20**	**5.75**	1 179	9.61	9.61
	1 273			22 926		
Variable rate instruments						
Financial assets						
Cash and cash equivalents	**413 209**			432 479		
	413 209			432 479		

b) Sensitivity analysis – variable rate exposure

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 2019.

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
COMPANY				
2020				
Cash and cash equivalents	**8 264**	**(8 264)**	**8 264**	**(8 264)**
Net cash flow sensitivity	**8 264**	**(8 264)**	**8 264**	**(8 264)**
2019				
Cash and cash equivalents	8 650	(8 650)	8 650	(8 650)
Net cash flow sensitivity	8 650	(8 650)	8 650	(8 650)

c) Sensitivity analysis – exposure to equity price risk

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

	2020 Carrying amount R'000	2020 Listed/ not listed	2020 Relevant stock exchange	2019 Carrying amount R'000	2019 Listed/ not listed	2019 Relevant stock exchange
COMPANY						
Preference shares	**14 646**	**Listed**	**JSE**	19 394	Not listed	JSE
Preference shares	**56 378**	**Not listed**	**N/A**	51 845	Not listed	N/A
	71 024			71 239		

d) Sensitivity analysis – index exposure

All other variables constant, for listed equity investments, a 500 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 2019.

	Profit/(loss)		Equity	
	5% increase R'000	5% decrease R'000	5% increase R'000	5% decrease R'000
COMPANY				
2020				
Preference shares – listed – JSE	**732**	**(732)**	**732**	**(732)**
Preference shares – not listed	**2 819**	**(2 819)**	**2 819**	**(2 819)**
	3 551	**(3 551)**	**3 551**	**(3 551)**
2019				
Preference shares – listed – JSE	970	(970)	970	(970)
Preference shares – not listed	2 592	(2 592)	2 592	(2 592)
	3 562	(3 562)	3 562	(3 562)

4.4 Comprehensive income

a) Financial income and expenditure

The 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:

	COMPANY	
	2020 R'000	2019 R'000
Financial assets at fair value through profit or loss	**44 489**	27 099
Financial assets at amortised cost	**28 665**	23 180
Net gain on financial assets as at fair value through profit and loss*	**(7 260)**	20 293
Financial income	**65 894**	70 572
Interest expense on financial liabilities measured at amortised cost	**15**	–
Net financial income	**65 909**	70 572
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	**44 489**	27 099
Total interest expense	**15**	–
Net Interest income	**44 504**	27 099
b) Impairment losses		
The amount of the impairment loss for each class of financial asset during the reporting period was as follows:		
Impairment of premium debtors	**(32 177)**	(23 634)
– Impairment reversed/(recognised)	**(32 177)**	(23 634)
Impairment losses	**(32 177)**	(23 634)

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

	COMPANY 2020 R'000	COMPANY 2019 R'000
5. Property and equipment		
Cost		
Motor vehicles	**–**	152
Office equipment	**326**	326
Office equipment	**38**	38
Furniture and fittings	**288**	288
Property and equipment – cost	**326**	478
Accumulated depreciation		
Motor vehicles	**–**	(152)
Office equipment	**(326)**	(295)
Office equipment	**(38)**	(38)
Furniture and fittings	**(288)**	(257)
Property and equipment – accumulated depreciation and impairment	**(326)**	(447)
Net carrying amount		
Motor vehicles	**–**	–
Office equipment	**–**	31
Office equipment	**–**	–
Furniture and fittings	**–**	31
Property and equipment – carrying value	**–**	31
Reconciliation of movement on net carrying amount:		
Balance at the beginning of the year	**31**	84
Depreciation for the year	**(31)**	(53)
Motor vehicles	**–**	–
Office equipment	**–**	(5)
Furniture and fittings	**(31)**	(48)
Balance at the end of the year	**–**	31
6. Right-of-use		
Cost		
Property	**70**	–
Motor vehicles	**247**	–
Right-of-use asset – cost	**317**	–
Accumulated depreciation		
Property	**(10)**	–
Motor vehicles	**(191)**	–
Right-of-use asset – accumulated depreciation and impairment	**(201)**	–
Net carrying amount		
Property	**60**	–
Motor vehicles	**56**	–
Right-of-use assets – carrying value	**116**	–

	COMPANY	
	2020 R'000	2019 R'000
Reconciliation of movement on net carrying amount:		
Balance at the beginning of the year	**–**	–
Recognised on 1 July 2019 on adoption of IFRS 16	**317**	–
Property	**70**	–
Motor vehicles	**247**	–
Depreciation for the year	**(201)**	–
Property	**(10)**	–
Motor vehicles	**(191)**	–
Balance at the end of the year	**116**	–

7. Investment property

	COMPANY	
	2020 R'000	2019 R'000
Investment property – land and buildings – cost	**1 600**	1 600
Investment property – land and buildings – revaluation	**4 441**	5 220
Fair value on investment properties	**6 041**	6 820
Reconciliation of movement on fair value amount:		
Balance at the beginning of the year	**6 820**	6 820
Impairment for the year	**(779)**	–
Balance at the end of the year	**6 041**	6 820

Property comprises an investment property situated on Erf 35326 and 35327 in Bellville, Cape Town. The cost of the property is R5.6 million (2019: R5.6 million) and market value of R6.0 million (2019: 6.8 million). All valuations were performed by independent valuators.

8. Intangible assets

	COMPANY	
	2020 R'000	2019 R'000
Cost		
Computer software	**27 195**	27 195
Intangible assets – cost	**27 195**	27 195
Accumulated amortisation and impairment		
Computer software	**(22 023)**	(16 695)
Intangible assets – accumulated amortisation and impairment	**(22 023)**	(16 695)
Net carrying amount		
Computer software	**5 172**	10 500
Intangible assets	**5 172**	10 500
Reconciliation of movement on net carrying amount:		
Balance at the beginning of the year	**10 500**	15 939
Amortisation for the year	**(5 327)**	(5 439)
Computer software	**(5 327)**	(5 439)
Balance at the end of the year	**5 173**	10 500

	COMPANY	
	2020 R'000	2019 R'000
9. Financial assets		
Financial assets at fair value through profit or loss	**529 140**	561 076
Financial assets at amortised cost	**56 378**	51 845
	585 518	612 921
Financial assets at fair value through profit or loss		
Listed investments	**14 646**	19 394
Unlisted investments	**513 221**	518 756
Bonds	**1 273**	22 926
	529 140	561 076
An analysis of the Company's financial assets by market sector and maturity spread is provided below:		
Listed Investments		
at market value	**14 646**	19 394
Analysis of spread of listed investments by market sector	**%**	%
Banks	**100.00**	100.00
	100.00	100.00
Unlisted Investments		
at fair value	**513 221**	518 756
	%	%
Unit trusts	**100.00**	100.00
	100.00	100.00
Total listed and unlisted investments at fair value	**527 867**	538 150
Bonds		
Bonds and other assets at amortised cost by industry	**1 273**	22 926
	%	%
Banks	**100.00**	100.00
	100.00	100.00

	Maturity spread R'000	Maturity spread %	Nominal interest rate %	Effective interest rate %
COMPANY				
Bonds				
An analysis of debt securities by maturity spread for 2020				
0 – 1 year	**–**	**–**	**–**	**–**
1 – 2 years	**–**	**–**	**–**	**–**
2 – 5 years	**1 273**	**100.00**	**3.00**	**6.00**
	1 273	**100.00**		
An analysis of debt securities by maturity spread for 2019				
0 – 1 year	21 747	94.86	7.33	7.21
1 – 2 years	–	–	–	–
2 – 5 years	1 179	5.14	9.61	9.61
	22 926	100.00		

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

	Fair value through profit or loss R'000	Loans and receiv-ables R'000	At amortised cost invest-ments R'000	Total financial instru-ments 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 instru-ments R'000
COMPANY								
2020								
Assets								
Financial assets	**529 140**	**–**	**56 378**	**585 518**	**–**	**–**	**585 518**	**585 518**
Preference shares and debt instruments	**529 140**	**–**	**56 378**	**585 518**	**–**	**–**	**585 518**	**585 518**
Reinsurance assets	**–**	**–**	**–**	**–**	**126 306**	**–**	**126 306**	**126 306**
Insurance, loans and other receivables	**–**	**35 430**	**–**	**35 430**	**–**	**61**	**35 491**	**35 491**
Cash and cash equivalents	**–**	**–**	**–**	**–**	**–**	**413 209**	**413 209**	**413 209**
Total	**529 140**	**35 430**	**56 378**	**620 949**	**126 306**	**413 270**	**1 160 524**	**1 160 524**
Liabilities								
Insurance liabilities	**–**	**–**	**–**	**–**	**71 692**	**–**	**71 692**	**71 692**
Reinsurance liabilities	**–**	**–**	**–**	**–**	**(3 074)**	**–**	**(3 074)**	**(3 074)**
Employee benefits	**–**	**–**	**–**	**–**	**–**	**2 523**	**2 523**	**2 523**
Trade and other payables	**–**	**–**	**–**	**–**	**–**	**169 055**	**169 055**	**169 055**
Total	**–**	**–**	**–**	**–**	**68 618**	**171 578**	**240 196**	**240 196**
2019								
Assets								
Financial assets	561 076	–	51 845	612 921	–	–	612 921	612 921
Preference shares and debt instruments	561 076	–	51 845	612 921	–	–	612 921	612 921
Reinsurance assets	–	–	–	–	141 579	–	141 579	141 579
Insurance, loans and other receivables	–	35 393	–	35 393	–	–	35 393	35 393
Cash and cash equivalents	–	–	–	–	–	432 479	432 479	432 479
Total	561 076	35 393	51 845	648 314	141 579	432 479	1 222 374	1 222 374
Liabilities								
Insurance liabilities	–	–	–	–	23 925	–	23 925	23 925
Reinsurance liabilities	–	–	–	–	(13 806)	–	(13 806)	(13 806)
Employee benefits	–	–	–	–	–	2 904	2 904	2 904
Trade and other payables	–	–	–	–	–	225 623	225 623	225 623
Total	–	–	–	–	10 119	228 527	238 646	238 646

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 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
COMPANY				
2020				
Financial assets carried at fair value through profit or loss				
Listed investments	**14 646**	**–**	**–**	**14 646**
Listed preference shares	**14 646**	**–**	**–**	**14 646**
Unlisted investments	**–**	**513 221**	**–**	**513 221**
Units trusts	**–**	**513 221**	**–**	**513 221**
Bonds	**–**	**1 273**	**–**	**1 273**
	14 646	**514 494**	**–**	**529 140**

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total fair value R'000
2019				
Financial assets carried at fair value through profit or loss				
Listed investments	19 394	–	–	19 394
Listed preference shares	19 394	–	–	19 394
Unlisted investments	–	518 756	–	518 756
Units trusts	–	518 756	–	518 756
Bonds	–	22 926	–	22 926
Total	19 394	541 682	–	561 076

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 Company's own models whereby the majority of assumptions are market observable.

Included in the Level 3 category are financial assets measured using non-market observable inputs which 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 are 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 assets at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the 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 Company's own data.

11. Insurance, loans and other receivables

	COMPANY	
	2020 R'000	2019 R'000
Insurance receivables – premium debtors	**17 066**	13 481
Other receivables	**18 427**	21 912
Total insurance and other receivables	**35 492**	35 393

All receivables are classified as current as all economic benefits are expected to occur within one year. These receivables include all prepayments, insurance and other receivables and dividends receivable.

12. Cash and cash equivalents

	COMPANY	
	2020 R'000	2019 R'000
Cash on call	**217 700**	254 118
Cash at bank	**96 554**	77 068
Cash on deposit	**98 955**	101 295
Cash on hand	**–**	(1)
Cash and cash equivalents	**413 209**	432 479

Call and Cash deposits maturing within three months or less.

	COMPANY	
	2020 R'000	2019 R'000

13. Share capital and premium

	2020 R'000	2019 R'000
Authorised		
3 000 000 ordinary shares	**30**	30
1 000 preference shares – Class A	**–**	–
	30	30
Issued and fully paid		
2 125 000 ordinary shares	**21**	21
8 preference shares – Class A	**–**	–
	21	21
Share premium	**94 666**	94 666
Issued shared capital	**94 688**	94 688

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 but subject to the provisions of the Companies Act of 2008 and the Company's memorandum of incorporation.

14. Insurance liabilities

	COMPANY 2020 R'000	COMPANY 2019 R'000
Policyholder liabilities under investment contracts		
Balance at the beginning of the year	**141 018**	232 996
Movement for the year	**(459 269)**	(91 978)
Balance at the end of the year	**(318 251)**	141 018
Policyholder liabilities under insurance contracts		
Balance at the beginning of the year	**(140 394)**	32 257
Movement for the year	**340 507**	(172 651)
Balance at the end of the year	**200 113**	(140 394)
Policyholders liabilities under investment and insurance contracts	**(118 138)**	624
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	**(459 270)**	(91 978)
Increase/(decrease) in policyholders liabilities under insurance contracts	**340 508**	(172 651)
Increase/(decrease) in policyholders liabilities under investment and insurance contracts	**(118 762)**	(264 629)
Insurance liabilities		
Policyholder liabilities under investment contracts	**(318 251)**	141 018
Policyholder liabilities under insurance contracts	**200 113**	(140 394)
Outstanding claims	**36 342**	23 301
Unearned premium provision	**10 104**	–
Total insurance liabilities	**(71 691)**	23 925

15. Provisions

	Leave pay R'000	Bonus R'000	Other R'000	Provisions R'000
COMPANY				
2020				
Balance at the beginning of the year	**2 904**	**–**	**–**	**2 903**
Additional provisions raised/released during the year	**688**	**–**	**–**	**688**
Utilised during the year	**(1 069)**	**–**	**–**	**(1 069)**
Balance at the end of the year	**2 523**	**–**	**–**	**2 522**

	Leave pay R'000	Bonus R'000	Other R'000	Provisions R'000
15. Provisions (continued)				
COMPANY				
2019				
Balance at the beginning of the year	3 904	28 661	154	32 719
Additional provisions raised/released during the year	(412)	3 137	–	2 725
Utilised during the year	(588)	(31 798)	(154)	(32 540)
Balance at the end of the year	2 904	–	–	2 904

Provisions

Leave pay

In terms of the Hollard Specialist Life Assurance Company's policy, employees are entitled to 20 or 25 days leave, dependent on grade, per annum. Employees must take 15 days per annum, roll-over must be taken within 12 months.

Bonus

In terms of the Hollard Specialist Life Assurance Company's policy, selected employees at the discretion of the remuneration committee receive an incentive bonus. The incentive bonus is based on employee, company performance and other relevant criteria and it is approved by the remuneration committee.

Other

Other provisions include amongst others, provisions for internal audit, actuarial and investment management fees and provision for reserves.

	COMPANY	
	2020 R'000	2019 R'000
16. Trade and other payables		
Trade payables	**4 075**	7 527
VAT payable	**–**	2
Sundry creditors	**137 899**	154 123
Due to group company	**27 081**	63 972
Trade and other payables	**169 056**	225 624
All trade and other payables are current liabilities. The carrying amounts approximate the fair value given the demand feature of the financial instruments.		
17. Deferred taxation		
Deferred income tax liabilities		
Deferred income tax to be recovered within 12 months	**149 302**	141 179
Deferred income tax to be recovered after 12 months	**–**	–
Deferred income tax liabilities	**149 302**	141 179
Balance at the beginning of the year	**141 179**	159 407
Movement during the year attributed to:		
Prior year adjustments	**(81)**	(11 258)
Capital allowances	**–**	2 380
Provisions	**1 897**	(9 350)
Unrealised gain or losses on assets at fair value through profit/loss	**(811)**	–
Other	**7 117**	–
Balance at the end of the year	**149 302**	141 179
Balance comprises:		
Capital allowances	**–**	(923)
Provisions	**(1 777)**	(3 443)
Unrealised gain or losses on assets at fair value through profit/loss	**(952)**	–
Other	**152 031**	145 545
Deferred income tax – balance	**149 302**	141 179

No deferred tax asset has been raised for losses in the policyholder funds, as these losses are not likely to be utilised in the foreseeable future.

18.	COMPANY 2020 R'000	COMPANY 2019 R'000
Single premiums	**689 680**	690 563
Recurring premiums	**8 194**	7 307
Reinsurance premiums inwards	**39 304**	30 392
Gross written premiums	**737 178**	728 262
Reinsurance outwards	**(4 003)**	(7 162)
Group reinsurance outwards – facultative	**–**	(1)
Group reinsurance outwards – non-proportional	**(2 550)**	(2 272)
Group reinsurance outwards – proportional	**(1 453)**	(4 889)
Change in unearned premium reserve	**(8 015)**	(9 938)
Net premium income	**725 159**	711 162

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 14 on page 103 for details of the movement in policyholder liabilities under investment contracts.

19. Dividends and interest

	COMPANY 2020 R'000	COMPANY 2019 R'000
Interest received – financial assets at amortised cost	**28 665**	23 180
Interest received on call deposits	**28 125**	23 180
Sundry interest received	**540**	–
Interest received – financial assets at fair value through profit or loss	**44 489**	27 099
Interest received on investments	**40 129**	24 451
Interest received from bank	**2 285**	2 648
Sundry interest received	**618**	–
Interest received on call deposits	**1 457**	–
Total interest received	**73 153**	50 279
Dividends received		
Dividends received – listed	**1 706**	4 118
– Listed ordinary shares	**–**	2 420
– Listed preference shares	**1 706**	1 698
Dividends received – unlisted	**4 400**	5 527
– Unlisted preference shares	**4 400**	4 214
– Unlisted unit trust	**–**	1 313
Total dividends received	**6 106**	9 645
Total interest received and dividend income	**79 259**	59 924
Interest paid		
Interest paid – general	**(15)**	–
Total interest paid	**(15)**	–

20. Realised profits/(losses) on disposal of investments and other financial assets

	COMPANY 2020 R'000	COMPANY 2019 R'000
Unlisted investments	**1 911**	47 518
Listed investments	**–**	51 240
Net realised (losses)/profits on fair value through profit or loss	**1 911**	98 758

	COMPANY 2020 R'000	COMPANY 2019 R'000
21. Unrealised profits/(losses) on revaluation of investments and other financial assets		
Unlisted investments	**(10 529)**	(39 086)
Listed investments	**(4 747)**	(45 757)
Net unrealised profits/(losses) on fair value through profit or loss assets	**(15 276)**	(84 843)
22. Other income		
Administration fees received	**941**	915
Management fees received	**11 123**	48 116
Sundry income received	**38**	39
Other operating income	**12 101**	49 070
23. Policyholder benefits		
Individual and group	**20 467**	6 198
– Death and disability	**11 612**	6 198
– Maturity	**10**	–
– Other	**8 846**	–
Claims and loss adjustments expense	**240 843**	291 532
Gross policyholder benefits and claims Incurred	**261 311**	297 730
Less: Reinsurance recoveries	**(24 339)**	(37 691)
– Death and disability	**(24 339)**	(37 691)
Net policyholder benefits	**236 972**	260 039
Net claims incurred		
Claims and loss adjustments expense	**240 843**	291 533
Claims paid	**252 929**	288 022
Claims recoveries	**–**	(147)
Salvage	**–**	(147)
Claims procurement costs	**4 065**	6 448
Claims outstanding	**(16 150)**	(2 643)
Policyholder benefits	**20 467**	6 198
Reinsurance recoveries	**(24 339)**	(37 692)
Reinsurance recoveries – outstanding claims	**137**	238
Reinsurance recoveries	**(24 476)**	(37 930)
Net policyholder benefits	**236 972**	26 039

	2020 Company R'000	2020 Rest of Group R'000	2020 Total R'000	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000
24. Profit before taxation						
Profit before taxation is determined after charging:						
Directors and prescribed officers emoluments						
Executive directors						
Director A						
Basic salary	**1 512**	**4 536**	**6 048**	1 463	4 389	5 852
Bonus and performance related payments	**2 385**	**7 155**	**9 540**	1 853	5 559	7 412
Estimated monetary value of other benefits	**30**	**90**	**120**	20	60	80
Pension/provident fund contributions	**171**	**513**	**684**	164	492	656
	4 098	**12 294**	**16 392**	3 500	10 500	14 000

	2020 Company R'000	2020 Rest of Group R'000	2020 Total R'000	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000
Director B						
Basic salary	**904**	**2 712**	**3 616**	646	1 938	2 584
Bonus and performance related payments	**1 358**	**4 074**	**5 432**	168	504	672
Estimated monetary value of other benefits	**38**	**114**	**152**	27	81	108
Pension/provident fund contributions	**105**	**315**	**420**	75	225	300
	2 405	**7 215**	**9 620**	916	2 748	3 664
Director C						
Basic salary	**–**	**–**	**–**	263	789	1 052
Bonus and performance related payments	**–**	**–**	**–**	1 321	3 963	5 284
Estimated monetary value of other benefits	**–**	**–**	**–**	11	33	44
Pension/provident fund contributions	**–**	**–**	**–**	30	90	120
	–	**–**	**–**	1 625	4 875	6 500
Director D						
Basic salary	**1 799**	**1 799**	**3 598**	1 142	1 142	2 284
Bonus and performance related payments	**1 807**	**1 807**	**3 614**	145	145	290
Estimated monetary value of other benefits	**78**	**78**	**156**	49	49	98
Pension/provident fund contributions	**206**	**206**	**412**	131	131	262
	3 890	**3 890**	**7 780**	1 467	1 467	2 934
Non-executive directors						
Director A	**38**	**116**	**154**	178	534	712
Director B	**37**	**113**	**150**	157	472	629
Director C	**325**	**975**	**1 300**	221	665	886
Director D	**271**	**815**	**1 086**	226	680	906
Director E	**147**	**441**	**588**	153	460	613
Director F	**201**	**604**	**805**	194	582	776
Director G	**277**	**831**	**1 108**	304	912	1 216
Director H	**137**	**410**	**547**	130	391	521
Director I	**168**	**503**	**671**	–	–	–
	1 601	**4 808**	**6 409**	1 563	4 696	6 259
Prescribed officers						
Prescribed officer A						
Basic salary	**–**	**–**	**–**	322	966	1 288
Bonus and performance related payments	**–**	**–**	**–**	791	2 373	3 164
Estimated monetary value of other benefits	**–**	**–**	**–**	8	24	32
Pension/provident fund contributions	**–**	**–**	**–**	36	108	144
	–	**–**	**–**	1 157	3 471	4 628
Prescribed officer B						
Basic salary	**–**	**–**	**–**	727	2 181	2 908
Bonus and performance related payments	**–**	**–**	**–**	1 272	3 816	5 088
Estimated monetary value of other benefits	**–**	**–**	**–**	31	93	124
Pension/provident fund contributions	**–**	**–**	**–**	83	249	332
	–	**–**	**–**	2 113	6 339	8 452
Prescribed officer C						
Basic salary	**722**	**2 166**	**2 888**	645	1 935	2 580
Bonus and performance related payments	**899**	**2 697**	**3 596**	822	2 466	3 288
Estimated monetary value of other benefits	**13**	**39**	**52**	12	36	48
Pension/provident fund contributions	**81**	**243**	**324**	72	216	288
	1 715	**5 145**	**6 860**	1 551	4 653	6 204

24. Profit before taxation (continued)

	2020 Company R'000	2020 Rest of Group R'000	2020 Total R'000	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000
Prescribed officer D						
Basic salary	**577**	**1 731**	**2 308**	553	1 659	2 212
Bonus and performance related payments	**642**	**1 926**	**2 568**	587	1 761	2 348
Estimated monetary value of other benefits	**76**	**228**	**304**	70	210	280
Pension/provident fund contributions	**72**	**216**	**288**	68	204	272
	1 367	**4 101**	**5 468**	1 278	3 834	5 112
Prescribed officer E						
Basic salary	**874**	**2 622**	**3 496**	757	2 271	3 028
Bonus and performance related payments	**837**	**2 511**	**3 348**	928	2 784	3 712
Estimated monetary value of other benefits	**6**	**18**	**24**	6	18	24
Pension/provident fund contributions	**95**	**285**	**380**	85	255	340
	1 812	**5 436**	**7 248**	1 776	5 328	7 104
Directors and prescribed officers emoluments	**16 888**	**42 889**	**59 777**	16 946	47 911	64 857

	COMPANY 2020 R'000	COMPANY 2019 R'000
Auditors remuneration		
Audit fees	**4 092**	3 150
	4 092	3 150
Depreciation		
Office equipment	**31**	53
Furniture and fittings	**31**	48
Office equipment	**–**	5
Right-of-use	**201**	–
Property	**10**	–
Motor Vehicles	**191**	–
	232	53
Expenses for the acquisition of insurance contracts		
Commission	**70 886**	103 970
Other expenditure		
Amortisation of intangible assets	**5 327**	5 439
Write-off of premium debtors	**17 760**	954
Administration fees paid	**70 646**	91 313
Professional fees	**3 633**	4 443
Operating lease rentals – building	**3 631**	2 303
Operating lease rentals – computer	**240**	19

25. Taxation

	COMPANY 2020 R'000	COMPANY 2019 R'000
South African normal taxation		
Current year	**88 065**	131 647
Deferred tax expense		
Current year	**8 123**	(18 228)
Taxation – withholding tax	**–**	146
Taxation	**96 188**	113 566

All taxation is payable in respect of continuing operations.

	COMPANY	
	2020 %	2019 %
Tax rate reconciliation:		
Tax calculated at standard rate of South African tax on earnings	**28**	28
Adjusted for:		
– Exempt income on dividends not taxable	**(0.52)**	–
– Capital gains tax	**(0.26)**	0.51
– Realised gains not taxable	**0.01**	–
– Unrealised gains not taxable	**(0.41)**	–
– Other non-taxable income/non-deductable expenses	**2.28**	0.75
– Other	**(0.44)**	–
– Prior year (over)/underprovision	**0.66**	0.06
Tax rate reconciliation	**29.32**	29.32

26. Reconciliation of profit before taxation to cash generated from operations

	2020	2019
Profit before tax	**328 058**	387 319
Adjustments for:		
Depreciation	**231**	53
Intangible asset amortisation	**5 327**	5 439
Transfer to policyholder liabilities under insurance contracts	**340 508**	(91 978)
Transfer to policyholder liabilities under investment contracts	**(459 270)**	(172 651)
Investment income	**(79 260)**	(59 925)
Rental income	**(626)**	(582)
Other income	**(12 101)**	(49 070)
Profit on disposal of investments	**(1 911)**	(98 758)
Loss on foreign currency translation difference	**–**	94
Loss on disposal of subsidiary	**–**	3 174
Unrealised gain on revaluation of listed investments	**4 747**	45 757
Unrealised gain on revaluation of unlisted investments	**10 529**	39 086
Decrease in employee benefits	**(381)**	(29 661)
Interest expense	**15**	–
Asset transfers	**(317)**	–
Operating cash flows before working capital changes	**135 549**	(21 703)
Working capital changes	**(6 566)**	83 681
(Increase)/decrease in insurance receivables, loans and other receivables	**(99)**	13 237
(Increase)/decrease in reinsurance assets	**15 274**	(870)
(Decrease)/increase in reinsurance liabilities	**10 731**	(16 357)
Increase in net outstanding claims and IBNR	**13 041**	2 939
Increase in unearned premiums	**10 104**	–
Increase/(decrease) in trade and other accounts payable and employee benefits	**(55 617)**	84 732
Cash generated from operations	**128 983**	61 978

27. Dividends paid

	2020	2019
Amount due at beginning of year	**–**	–
Amount declared in statement of changes in equity	**(58 330)**	(73 700)
Amount declared to non-controlling interest	**(58 179)**	(87 286)
Amount due at end of year	**–**	–
Cash amounts paid	**(116 509)**	(160 986)

28. Dividends received

	2020	2019
Amount due at beginning of year	**–**	–
Amount received per income statement	**6 106**	9 645
Amount due at end of year	**–**	–
Cash amounts received	**6 106**	9 645

	COMPANY	
	2020 %	2019 %
29. Taxation paid		
Amount due at beginning of year	**(167 759)**	(133 327)
Amount charged to income statement	**(96 187)**	(113 566)
Amount due at end of year	**132 409**	167 759
Cash amounts paid	**(131 537)**	(79 133)
Amounts due at end of year comprised as follows:		
Deferred taxation liability	**149 302**	141 179
Current income taxation asset	**(16 893)**	–
Current income taxation liability	**–**	26 580
	132 409	167 759

30. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund. The Company's contributions to the fund charged against income for the year were R57 931 (2019: R33 945).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund. The Company's contributions to the fund charged against income for the year amounted to R1 383 485 (2019: R1 236 806).

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

31. Lease – low-value items

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

	COMPANY	
	2020 R'000	2019 R'000
Computers	**240**	19
Printers	**2**	1

32. Related party transactions

Transactions between Group companies

Hollard Specialist 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 Company, fellow subsidiaries, associated companies, joint ventures and the holding company. The Company enters into commercial transactions with a number of these companies on an ongoing basis. All material transactions are concluded at arm's length.

	COMPANY	
	2020 R'000	2019 R'000
Year-end balances with related parties		
Payable to/(from) related parties		
Hollard Life Assurance Company Limited	**28 077**	62 268
Hollard Specialist Insurance Limited	**(977)**	1 294
The Hollard Insurance Company Limited	**(18)**	410
	27 082	63 972

33. Capital expenditure

The 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 Company do not expect to incur significant non-insurance related expenditure during the financial year ended 30 June 2020 and hence have not provided for a capital expenditure budget for this period (2019: Rnil). Any unanticipated capital or operating expenditure will be funded from internal sources.

34. Contingent liabilities

The 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.

35. Subsequent events

No material facts or circumstances have arisen between the reporting date and the date of this report which affect the financial position of the Hollard Specialist Life Assurance Company as reflected in these annual financial statements.

36. Going concern

The directors have assessed the Company's ability to continue as a going concern. As at the 30 June 2020, the Company had a strong net asset value and 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 Company 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 Company.

Further to this, the Company 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 Company's target range.

- The formation of a dedicated task force to implement a coordinated response across the business to ensure the health, safety and wellbeing of all stakeholders;
- The implementation of business continuity plans to minimise the spread of the virus
- On-going close monitoring of the Company's liquidity position;
- The deferment of dividend declarations;
- Addressing regulatory challenges posed by the pandemic with regards to tax and solvency requirements with the appropriate authorities and regulators; and
- Engaged with debt funding providers regarding financial and liquidity covenants.

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

DIRECTORATE AND ADMINISTRATION

Directorate

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	Besa Ruele
Non-executive director	NG Kohler
Lead independent non-executive director	B Ngonyama
Independent non-executive director	MR Bower
Independent non-executive director	NV Simamane
Independent non-executive director	R Fihrer
Independent non-executive director	MS Claassen (appointed 30 June 2020)
Independent non-executive director	S Patel
Independent non-executive director	AS Nkosi
Independent non-executive director	SC Gilbert (resigned 31 August 2019)
Independent non-executive director	BF Mohale (resigned 31 July 2019)

Administration

Company Secretary

CorpStat Governance Services (Pty) Ltd

Public officer

U Murphy

Compliance officer

W Luus

Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

PO Box 87428
Houghton
2041

Website

www.hollard.co.za

Nature of business

The Company transacts long-term assurance business.

Auditors

Deloitte & Touche
5 Magwa Crescent
Waterfall City
Waterfall
Docex 10 Johannesburg

Registration number

1994/001332/06

NOTES