

Hollard.

THE HOLLARD INSURANCE COMPANY LIMITED 2019



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: Short Term Reporting, Deon Naidoo, (CA(SA)), under the 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 2019*

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GROUP SALIENT FEATURES

for the year ended 30 June 2019

	2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000
Statement of profit and loss information					
Gross premium income ⁽¹⁾	11 325 711	11 179 153	12 356 647	12 513 741	11 376 501
Net written premium income ⁽²⁾	8 816 275	8 517 004	9 557 362	9 592 782	8 857 186
Investment income ⁽³⁾	446 306	701 928	693 567	1 259 554	1 051 336
Net insurance claims	4 472 359	4 605 904	5 241 672	5 428 655	4 877 829
Profit attributable to equity holders of the parent	575 326	266 947	764 598	1 487 325	746 719
Statement of financial position information					
Insurance liabilities	4 839 221	4 841 376	5 172 590	5 115 347	5 402 403
Equity attributable to equity holders of the parent	3 020 574	2 911 689	2 880 729	3 150 169	3 694 967
Total assets	11 344 941	11 540 928	12 564 368	12 459 682	11 998 170
Financial assets (i.e. listed investments and unlisted investments)	3 006 929	2 970 051	2 784 533	2 675 367	3 425 392
Cash and cash equivalents	2 575 793	2 219 916	2 079 388	2 179 384	2 962 959
Trading ratios					
	%	%	%	%	%
Written premium: Net to gross	77.8	76.2	77.3	76.7	77.9
Combined operating ratio ⁽⁴⁾	96.4	101.0	99.4	100.6	100.9
Solvency ratio ⁽⁵⁾	34.3	36.0	39.2	46.0	57.6
Actuarial information					
Capital adequacy requirement (CAR) ⁽⁶⁾ (R'000)	2 552 495	2 214 333	2 304 177	2 229 304	2 086 775
Capital adequacy requirement (CAR) cover ⁽⁶⁾	1.33	1.33	1.26	1.21	1.51

(1) "Gross premium income" represents the total income arising from insurance contracts only.

(2) "Net written premium income" is gross premium income less reinsurance premium outwards.

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

(4) "Combined operating ratio" is calculated and presented at a company level and is defined as the ratio between the sum of net insurance claims, commission and other acquisition costs, marketing and administrative expenses and net premium income.

(5) "Solvency ratio" is the ratio between shareholders' funds and net written premium income. Solvency is calculated and presented at a company level.

(6) "Capital adequacy requirement" for the current year is based on SAM while the prior years were based on interim measures.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

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 The Hollard Insurance Company Limited ("Hollard" or the "Company") and its subsidiaries (the "Group").

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

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

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

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

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

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

These annual financial statements, set out on pages 6 to 69, have been approved by the Board of the Group and Company and are signed on its behalf by:



ADH Enthoven
Chairman

24 October 2019



S Ntombela
Chief Executive Officer

24 October 2019

CERTIFICATION BY COMPANY SECRETARY

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 (appointed 1 August 2019)
Company Secretary

24 October 2019

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. The Committee has reviewed the Group's and Company's annual financial statements, and recommends them for approval to the board. The Committee further reviewed the Group's and Company's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee met three times during the year, and the chairman of the Committee reported on the work of the Committee to the Board.

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



MR Bower
Chairman: Audit Committee

24 October 2019

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2019

TO THE SHAREHOLDER OF THE HOLLARD INSURANCE COMPANY LIMITED

Report on the audit of the consolidated and separate financial statements

We have audited the consolidated and separate financial statements of The Hollard Insurance Company Limited and its subsidiaries ("the Group") set out on pages 10 to 69, which comprise the consolidated and separate statements of financial position as at 30 June 2019, statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 30 June 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Group 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 consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

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

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

Report on other legal and regulatory requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of The Hollard Insurance Company Limited for 11 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: D Munu
Partner

31 October 2019

AUDIT COMMITTEE REPORT

for the year ended 30 June 2019

The Hollard Group Audit and Compliance Committee is pleased to present its annual report, for the financial year ended 30 June 2019, 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 (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 Group are effectively mitigated
- To monitor the relationship between external assurance providers and the Group
- To oversee the Internal Audit function and provide specific input on the appointment, performance assessment and/or dismissal of the Group 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 Group's insurance cover
- To review any material business irregularities and litigation matters that may have a significant impact on the Group's financial statements
- To review the quality of the Group'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 Group 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 in consultation 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 Group'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 Group's Accounting Policies and Financial Statements for the financial year ended 30 June 2019 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 Group's documented status, including key assumptions prepared by management, and is comfortable in recommending to the Boards that the Group is a 'going concern', as reflected in the Annual Financial Statements.

2.3. External Auditor appointment and independence

In consultation with the Group's executive management, the Committee approved continuation of Deloitte South Africa as External Auditor for the 2019 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 Group, and compliance with criteria relating to independence and conflicts of interest the Committee has satisfied itself that Deloitte South Africa is independent of the Group. Guarantees provided by the auditing firm confirm that its claim to independence is supported and demonstrated by its own internal governance processes.

At the AGMs of The Hollard Insurance Company, Hollard Life Assurance Company, Hollard Specialist Insurance (formerly Regent Insurance Company) and 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 Group Boards are responsible for providing reasonable assurance that the Group 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 Group's internal financial controls do not form an effective basis for preparation of the Annual Financial Statements. This is save for shortcomings identified in respect of the Branch in a Box transaction for the period under review, of which there are management actions in place to address same.

4. STATEMENT ON INTERNAL CONTROL AND RISK MANAGEMENT

Effectiveness of the group's internal control systems are monitored by the risk management and internal audit functions, on the basis of which, recommendations are made to management, the 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 Group.

5.2 Internal Audit

The Committee is mandated to ensure that the internal audit function within the Group 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 Group'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 Group'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.



Mark Bower

Chairperson of the Audit Committee

DIRECTORS' REPORT

for the year ended 30 June 2019

The Directors have pleasure in presenting the Directors' report which forms part of the Group's and Company's annual financial statements for the year ended 30 June 2019.

Nature of business

The Company is a registered insurer and underwrites all classes of short-term insurance business throughout the Republic of South Africa. The activities and details of the interest in subsidiaries, associates and joint venture are listed in notes 36 and 44 on pages 62 and 65 of the annual financial statements.

General review

In the year under review the Group achieved net profit attributable to equity holders of the parent of R575 326 000 (2018: R266 947 000), which arose from the Group's operations as follows:

	GROUP	
	2019 R'000	2018 R'000
Net premium income	8 478 683	8 441 843
Investment income	446 306	701 928
Other income	107 676	192 564
Total revenue	9 032 665	9 336 335
Net insurance claims	4 472 359	4 605 904
Other operating expenses	3 817 433	4 020 324
Total expenses	8 289 792	8 626 228
Results of operating activities	742 873	710 107
Share of profit in associates	50 544	50 282
Profit before taxation	793 417	760 389
Taxation	(190 794)	(453 020)
Profit for the year	602 623	307 369
Non-controlling interest	(27 297)	(40 422)
Net profit attributable to equity holders of the parents	575 326	266 947

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 R414 089 000 (2018: R595 503 000) were declared by the Company during the year.

Subsidiaries and associates

The Company's aggregate share of the profits of subsidiaries and associates for the year amounted to R24 670 655 and R50 544 040 respectively (2018: R96 430 150 and R50 281 735 respectively).

Going concern

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

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 23 November 2018:

- NG Kohler
- BF Mohale
- B Ngonyama and
- AS Nkosi.

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.

Executive Directors

S Ntombela (Group CEO), WT Lategan (Group CFO) (resigned 30 September 2018), DJ Viljoen (Group CFO) (appointed 1 October 2018) 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, S Patel, AS Nkosi, SC Gilbert 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 (appointed 1 August 2019)

Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P O Box 87419
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 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Assets					
Property and equipment	5	119 283	104 361	119 148	104 226
Investment property	6	28 001	28 001	–	–
Intangible assets	7	182 595	154 952	182 186	154 544
Interest in subsidiaries	8	–	–	47 096	51 531
Interest in associates	9	245 962	251 698	229 788	249 910
Financial assets	10	3 006 929	2 970 051	2 961 503	2 920 231
Reinsurance assets	21	2 011 090	2 752 461	2 011 090	2 752 461
Insurance, loans and other receivables	13	1 930 318	1 971 966	1 924 519	1 970 353
Deferred acquisition costs	22	109 729	116 443	109 729	116 443
Deferred taxation	14	103 609	85 196	103 609	85 196
Current income taxation	35	8	8	–	–
Cash and cash equivalents	15	2 575 793	2 219 916	2 575 926	2 221 041
Non-current assets held for sale	16	1 031 624	885 875	162 448	152 431
Total assets		11 344 941	11 540 928	10 427 042	10 778 367
Equity and liabilities					
Share capital and premium	17	1 642 601	1 642 601	1 642 601	1 642 601
Contingency reserve		20 499	20 499	–	–
Share option reserve		4 012	4 012	4 012	4 012
Foreign currency translation reserve	19	2 674	10 074	–	–
Non-distributable reserves	18	1 193	1 356	–	–
Credit protection reserves		3	3	–	–
Retained earnings		1 349 592	1 233 144	1 293 007	1 204 961
Equity attributable to equity holders of the parent		3 020 574	2 911 689	2 939 620	2 851 574
Non-controlling interest		33 059	7 020	–	–
Total equity		3 053 633	2 918 709	2 939 620	2 851 574
Insurance liabilities	21	4 839 221	4 841 376	4 839 221	4 841 376
Reinsurance liabilities		755 478	903 055	755 478	903 055
Non-current liabilities held for sale	16	754 383	653 254	–	–
Borrowings	24	600 806	600 653	600 452	600 299
Employee benefits	25	274 398	236 916	274 398	236 916
Trade and other payables	26	829 461	837 708	789 406	806 676
Deferred taxation	14	208 401	234 070	199 333	223 310
Current income taxation	35	29 160	315 187	29 134	315 161
Total liabilities		8 291 308	8 622 219	7 487 422	7 926 793
Total equity and liabilities		11 344 941	11 540 928	10 427 042	10 778 367

STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Revenue					
Gross premium income		11 325 711	11 179 153	10 856 041	10 259 310
Reinsurance premiums outwards		(2 509 436)	(2 662 149)	(2 282 852)	(2 330 438)
Net written premium income		8 816 275	8 517 004	8 573 189	7 928 872
Less: Change in unearned premium reserve		(337 592)	(75 161)	(321 563)	(43 268)
Gross amount		(383 269)	14 217	(378 688)	68 912
Reinsurer's share		45 677	(89 378)	57 125	(112 180)
Net premium income		8 478 683	8 441 843	8 251 626	7 885 604
Interest	27	254 266	259 654	202 551	196 104
Dividends	27	148 702	161 869	194 646	195 992
Rental income		3 104	2 808	-	-
Realised (loss)/profit on disposal of investments	28	(4 242)	(438 287)	(4 242)	477 160
Unrealised profit/(loss) on revaluation of investments	29	31 021	647 600	31 018	(212 129)
Profit on translation of foreign currencies		13 455	14 808	14 634	21 850
Profit on disposal of associates and subsidiaries		-	53 476	-	-
Investment income		446 306	701 928	438 607	678 977
Other income		107 676	192 564	61 923	154 132
Total revenue		9 032 665	9 336 335	8 752 156	8 718 713
Expenses					
Gross claims and loss adjustment expense		5 305 667	6 440 301	4 992 796	6 110 946
Reinsurer's share		(833 308)	(1 834 397)	(618 425)	(1 726 863)
Net insurance claims		4 472 359	4 605 904	4 374 371	4 384 083
Commission and other acquisition costs		964 401	962 400	909 741	894 333
Interest paid	27	80 475	111 534	75 891	107 612
Marketing and administration expenses		2 772 557	2 946 390	2 672 296	2 685 193
Total expenses		8 289 792	8 626 228	8 032 299	8 071 222
Results of operating activities		742 873	710 107	719 857	647 492
Share of profit of associates		50 544	50 282	-	-
Profit before taxation	30	793 417	760 389	719 857	647 492
Taxation	31	(190 794)	(453 020)	(175 005)	(428 389)
Profit for the year		602 623	307 369	544 852	219 103
Profit for the year attributable to:					
Equity holders of the parent		575 326	266 947		
Non-controlling interest		27 297	40 422		
		602 623	307 369		

STATEMENTS OF COMPREHENSIVE INCOME

as at 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Profit for the year		602 623	307 369	544 852	219 103
Other comprehensive income					
Exchange differences on translating foreign operations		(7 400)	48 524	-	-
Transfer from reserve		(163)	126	-	-
Unrealised gain on financial assets at fair value through other comprehensive income		(3 330)	(477 013)	-	-
Other comprehensive loss for the year	20	(10 893)	(428 363)	-	-
Total other comprehensive income for the year		591 730	(120 994)	544 852	219 103
Total other comprehensive income attributable to:					
Equity holders of the parent		565 691	123 909		
Non-controlling interest		26 039	(244 903)		
		591 730	(120 994)		

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Issued share capital R'000	Share premium R'000	Contingency reserve R'000	Share option reserve R'000	Foreign currency translation reserve R'000	Credit protection reserves R'000	Non- distributable reserves R'000	Retained earnings R'000	Total ordinary share- holders' equity R'000	Non- controlling interest R'000	Total equity R'000
GROUP											
Balance at 1 July 2017	1 586 687	55 914	39 439	4 012	(43 360)	3	1 230	1 236 804	2 880 729	286 250	3 166 979
Profit for the year	-	-	-	-	-	-	-	266 947	266 947	40 422	307 369
Other comprehensive loss	-	-	-	-	48 524	-	126	(191 688)	(143 038)	(285 325)	(428 363)
Total other comprehensive income	-	-	-	-	48 524	-	126	75 259	123 909	(244 903)	(120 994)
Transfer to contingency reserve	-	-	(18 940)	-	-	-	-	18 940	-	(18 898)	(18 898)
Transfer to non-controlling interest	-	-	-	-	(10 062)	-	-	-	(10 062)	-	(10 062)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	(595 503)	(595 503)	-	(595 503)
Disposal of non-current assets held for sale	-	-	-	-	14 972	-	-	497 644	512 616	(15 429)	497 187
Balance at 30 June 2018	1 586 687	55 914	20 499	4 012	10 074	3	1 356	1 233 144	2 911 689	7 020	2 918 709
Impact of transition adjustment	-	-	-	-	-	-	-	(42 717)	(42 717)	-	(42 717)
Restated opening balance at 30 June 2018	1 586 687	55 914	20 499	4 012	10 074	3	1 356	1 190 427	2 868 972	7 020	2 875 992
Profit for the year	-	-	-	-	-	-	-	575 326	575 326	27 297	602 623
Other comprehensive loss	-	-	-	-	(7 400)	-	(163)	(2 072)	(9 635)	(1 258)	(10 893)
Total other comprehensive income	-	-	-	-	(7 400)	-	(163)	573 254	565 691	26 039	591 730
Dividends paid on ordinary shares	-	-	-	-	-	-	-	(414 089)	(414 089)	-	(414 089)
Balance at 30 June 2019	1 586 687	55 914	20 499	4 012	2 674	3	1 193	1 349 592	3 020 574	33 059	3 053 633
COMPANY											
Balance at 1 July 2017	1 586 687	55 914	-	4 012	-	-	-	1 581 361	3 227 974		
Profit for the year	-	-	-	-	-	-	-	219 103	219 103		
Total other comprehensive income	-	-	-	-	-	-	-	219 103	219 103		
Dividends paid on ordinary shares	-	-	-	-	-	-	-	(595 503)	(595 503)		
Balance at 30 June 2018	1 586 687	55 914	-	4 012	-	-	-	1 204 961	2 851 574		
Impact of transition adjustment	-	-	-	-	-	-	-	(42 717)	(42 717)		
Restated opening balance at 30 June 2018	1 586 687	55 914	-	4 012	-	-	-	1 162 244	2 808 857		
Profit for the year	-	-	-	-	-	-	-	544 852	544 852		
Total other comprehensive income	-	-	-	-	-	-	-	544 852	544 852		
Dividends paid on ordinary shares	-	-	-	-	-	-	-	(414 089)	(414 089)		
Balance at 30 June 2019	1 586 687	55 914	-	4 012	-	-	-	1 293 007	2 939 620		

STATEMENTS OF CASH FLOWS

as at 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash flows from operating activities					
Cash receipts from policyholders and other customers		8 520 330	8 483 825	8 297 460	7 923 071
Cash paid to policyholders, suppliers and employees		(7 469 463)	(8 275 365)	(7 217 741)	(7 710 670)
Cash generated from operations	32	1 050 867	208 460	1 079 719	212 401
Interest paid	27	(80 475)	(111 534)	(75 891)	(107 612)
Dividends paid	33	(414 089)	(595 503)	(414 089)	(595 503)
Interest received	27	254 266	259 654	202 551	196 104
Dividends received	34	128 748	146 285	174 692	180 408
Taxation paid	35	(520 903)	(50 312)	(503 424)	(28 769)
Net cash outflow from operating activities		418 414	(142 950)	463 558	(142 971)
Cash flows from investing activities					
Acquisition of property and equipment		(38 201)	(54 388)	(38 201)	(54 388)
Acquisition of listed and unlisted investments		(129 102)	(166 049)	(129 102)	(166 049)
Acquisition of subsidiaries		(6 658)	-	(6 658)	-
Acquisition of intangible assets		(120 767)	(58 896)	(120 767)	(58 896)
Acquisition of bonds		(88 769)	(85 000)	(88 769)	(85 000)
Proceeds on disposal of listed and unlisted investments	37	216 938	265 224	216 938	265 224
Proceeds on disposal of non-current asset held for sale	38	-	483 527	-	483 527
Proceeds on maturity of bonds		32 877	(772)	32 877	(772)
Dividends received from associates		46 136	-	-	-
Decrease in loans to subsidiaries		-	-	-	(167)
Increase in loans		24 856	(100 312)	24 856	(100 312)
Net cash inflow from investing activities		(62 690)	283 334	(108 826)	283 167
Cash flows from financing activities					
Increase in long-term borrowings		153	144	153	143
Net cash inflow from financing activities		153	144	153	143
Cash and cash equivalents					
Net increase in cash and cash equivalents		355 877	140 528	354 885	140 339
Cash and cash equivalents at beginning of year		2 219 916	2 079 388	2 221 041	2 080 702
Cash and cash equivalents at end of year	15	2 575 793	2 219 916	2 575 926	2 221 041

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Accounting policies

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

1.1 Basis of presentation

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

These consolidated annual financial statements have been prepared on the historical cost basis, except for investment and owner-occupied property, interest in subsidiaries and associates, the revaluation of investment financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair value.

Use of estimates and judgements

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

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements are disclosed in note 2 to these financial statements.

Adoption of new and revised standards

The Group's and Company's accounting policies are consistent with those of the previous financial year except for those instances where new or revised standards and/or interpretations had to be adopted. The Group and Company adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* as issued by the International Accounting Standards Board (IASB) and the IFRIC of the IASB. Under the transitional approach adopted by the group for these standards there was no changes to comparative period primary financial statements or note disclosures. The impact to the group's opening retained income as at 1 July 2018 was a reduction of R42.7 million (relating to IFRS 9 only). There were also consequential amendments to IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments.

R'000	As previously reported under IAS 39	Transition adjustment	As classified under IFRS 9
Insurance, loans and other receivables ¹	1 971 966	(58 466)	1 913 501
Financial assets ²	2 970 051	15 749	2 985 800
Gross transition adjustment		(42 717)	

1. ECL charge on transition relating to branch in a box loans and intercompany loans.

2. ECL charge on transition relating to preference shares carried at amortised cost.

The Group and Company will comply with standards issued but not yet effective for the 2019 financial year, from the respective effective dates. It is expected that the application of certain of these standards will have an impact on the Group's reported results, financial position and cash flow. The adoption of these standards will give rise to additional disclosures including, in some cases, changes to existing accounting policies for the Group and Company. The new and amended IFRS and IFRIC interpretations together with the dates on or after which they became effective, are as follows:

International Financial reporting Standards and Amendments issued but not yet effective for the financial year ended 30 June 2019

- IFRS 16: *Leases* – This standard is expected to have an impact on the financial statements, this impact is currently being quantified.
- IFRS 9: *Financial Instruments* – Prepayment features with negative compensation. This standard is expected to have an impact on the financial statements, this impact is currently being quantified.
- IAS 28: *Investments in Associates and Joint Ventures* – Long-term interests in associates and joint ventures. This standard is expected to have an impact on the financial statements, this impact is currently being quantified.
- IFRIC 23: *Uncertainty over Income Tax Treatments* – This interpretation is expected to have an impact on the financial statements, this impact is currently being quantified.
- IFRS 17: *Insurance Contracts* – Original issue that replaces IFRS 4 Insurance Contracts (effective from annual periods beginning on or after 1 January 2021). This standard is expected to have a material impact on the financial statements, this impact is currently being quantified.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.2 Basis of consolidation

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

Investments in subsidiaries

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

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

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

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

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

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

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

Investments in associates

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

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

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

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

Interest in joint arrangements

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

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

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

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

Accounting for entities under common control

IFRS does not provide specific guidance on accounting for business combinations under common control. Therefore, an accounting policy would be elected using the principles outlined in IAS 8 Accounting policies, Changes in Accounting Estimates and Errors. This approach requires the entity first to consider the requirements in IFRSs dealing with similar and related issues. After this assessment, the entity evaluates the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

IFRS 3 is not applied to transactions where there is a transfer of a business between Group entities that are ultimately controlled by the same party before and after the transfer. Therefore, the predecessor accounting policy was selected for the accounting of entities under common control. Under this methodology, the assets and liabilities are transferred at their carrying amounts as they were recognised in the seller's financial statements. The excess between the assets and liabilities recognised and the purchase consideration transferred to the seller, is recognised as an equity transaction directly in the Statement of Changes in Equity.

Goodwill

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

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

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

1.3 Foreign currencies

General

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

Functional and presentation currency

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.3 Foreign currencies (continued)

Transactions and balances

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

Group companies

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

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

1.4 Property and equipment

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

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

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

Land is not depreciated.

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

Property

Owner-occupied properties are carried at fair value less subsequent depreciation for buildings. The fair value is determined every three years by external, independent professional valuers. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation increase arising on the revaluation of owner-occupied properties is credited to the revaluation surplus in other comprehensive income.

Decreases that offset previous increases of the same asset are charged against their valuation reserve in other comprehensive income. All other decreases are charged to the comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the comprehensive income and depreciation based on the asset's original cost, net of any related deferred tax, is transferred from the revaluation surplus to other comprehensive income.

1.5 Investment property

Property held either to earn rental income or for capital appreciation, or for both, and which is not occupied by companies in the Group, is classified as investment property. The Group's investment property comprises freehold land and buildings.

Investment property is treated as a long-term investment and is measured initially at cost, including transaction costs. After initial recognition, investment property is measured at open-market fair value and is subject to a valuation by an external, independent professional valuer every three years. If the open-market valuation information cannot be reliably determined, the Group uses alternative valuation methods such as recent prices on active markets. Gains or losses arising from changes in the fair value of investment property are credited or charged directly to the comprehensive income in the year in which they are identified. On disposal of investment property, the difference between the net disposal proceeds and the carrying value is recognised in the comprehensive income.

If an investment property were to become owner-occupied, it would be reclassified as property and equipment and would be fair valued at the date of reclassification.

1.6 Intangible assets

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

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

Computer software

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

Acquired rights over books of business

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

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

Intellectual property

The acquisition of intellectual property is recognised as intangible assets due to the fact that:

- It is probable that the expected future economic benefits attributable to the intellectual property will flow to the entity;
- The costs of intellectual property have been measured reliably;
- The intellectual property is initially recognised at cost; and
- The intellectual property is, subsequent to initial recognition, carried at cost less accumulated amortisation, fair value adjustments and any impairment losses;

1.7 Non-derivative financial instruments

Financial assets

Investments

The Group and Company classify its investments in debt and equity securities into the following categories: financial assets 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.

i) Financial assets at fair value through profit or loss

Under IAS 39 a financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking, or if so designated by management in terms of the Group's and Company's long-term investment strategy.

Investments which the Group and Company have elected to designate at fair value through profit or loss are investments held for the long term.

For the purpose of these consolidated annual financial statements, short term is defined as any period of less than 12 months and long term is defined as any period in excess of 12 months.

Under IFRS 9 a debt instrument is classified as a financial asset at fair value through profit or loss if so designated, as well as if the debt instrument financial assets were not classified as measured at amortised cost or fair value through other comprehensive income.

ii) Held-to-maturity investments

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

The held to maturity classification is no longer applicable under IFRS 9.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1 Accounting policies (continued)

1.7 Non-derivative financial instruments (continued)

Financial assets (continued)

Investments (continued)

iii) Financial assets at fair value through other comprehensive income

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

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

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

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

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

iv) Loans and receivables/Financial assets at amortised cost

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

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

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

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

Recognition and measurement

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

The expected credit loss (ECL) model applies to financial assets measured at amortised cost (for example loans and receivables and intercompany loans) and debt investments measured at 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 forecasts of forward-looking economic conditions.

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

Gains or losses

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

Fair value

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the comprehensive income.

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

Financial liabilities

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

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

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

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

1.8 Impairment of assets excluding goodwill

The Group and/or the Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired, other than those dealt with in terms of IFRS 9: Financial Instruments. A financial asset or group of financial assets other than those carried at fair value through profit or loss is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Group and/or the Company about the following events:

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

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

If there is objective evidence that an impairment loss has been incurred on premium receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the comprehensive income.

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1 Accounting policies (continued)

1.8 Impairment of assets excluding goodwill (continued)

Calculation of ECL

The ECL impairment loss allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions. The ECL model is dependent on the availability of relevant and accurate data to determine whether a significant increase in credit risk occurred since initial recognition, the probability of default (PD), the loss given default (LGD) and the possible exposure at default (EAD). Of equal importance is sound correlation between these parameters and forward-looking economic conditions. A counterparty is considered to be in default when it is considered that they are unlikely to settle their obligation to the company. Due to the low number of instruments subject to the ECL model, this definition is considered appropriate as each instrument is assessed individually. Write offs are further assessed on a case by case basis.

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

- Stage 1: At initial recognition a financial instrument is allocated into stage 1, except for purchased or originated credit impaired financial instruments.
- Stage 2: A financial instrument is allocated to stage 2 if there has been a significant increase in credit risk since initial recognition of the financial instrument.
- Stage 3: A financial instrument is allocated to stage 3 if the financial instrument is in default or is considered to be credit impaired.

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

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

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

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

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

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

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

1.9 Cash and cash equivalents

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

1.10 Non-current assets held for sale

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

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

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

1.11 Share capital

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

1.12 Insurance contracts

Classification of insurance contracts

The Group and/or Company issues contracts which transfer insurance risk or financial risk or, in some cases, both.

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

Receipts and payments under insurance contracts are accounted for in the comprehensive income in accordance with the requirements of IFRS 4: Insurance Contracts.

The Group and/or Company classifies financial guarantee business as insurance contracts.

Management of insurance and financial risk

As is stated above, the Group and/or Company issues contracts that transfer insurance risk or financial risk, or in some instances both. This section summarises these risks and the way in which the Group and/or Company manages them.

Premiums

Gross premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period and are disclosed gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior periods.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received. Reinsurance commissions received are recognised as income over the term of the reinsurance contract.

Unearned premium provision

Premiums are earned from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten. Unearned premiums, which represent the proportion of premiums written in the current year which relate to risks that have not expired by the end of the financial year, are calculated on a time-proportionate basis for even risk contracts and other bases that best represent the unearned risk profile for uneven risk contracts.

Deferred acquisition costs

Deferred acquisition costs consist of commissions and other variable costs directly connected with acquisition or renewal of insurance contracts. The deferred acquisition costs are amortised on a straight-line basis over the average term of the policies, from one to five years. Deferred acquisition costs are regularly tested for impairment using the liability adequacy test as per IFRS 4. The deferred acquisition cost is not reinstated once written off.

Claims incurred

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

The provision for outstanding claims comprises the Group's and/or Company's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets.

The majority of the Group's and Company's IBNR is calculated as a percentage of net earned premium as prescribed by Board Notice 169 of 2011. This percentage is a best estimate reserve, which represents the expected value of the unreported claims liabilities. Different percentages are applicable for different classes of business and appropriateness is assessed against the Group's and Company's past claims experience.

The Company's internal actuaries review the adequacy of the Company's claims provisions. The chain ladder method which involves the analysis of historical claims development factors and the selection of the estimated development factors based on the historical pattern is used to assess the adequacy of the reserves calculated according to Interim Measure principles. Where the Interim Measure reserves prove to be too low an additional reserve is raised.

Adjustments to the amounts of claims provisions established in prior years are reflected in the annual financial statements for the period in which the adjustments are made and disclosed separately.

Unexpired risk provision and liabilities and related assets under liability adequacy tests

Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premium provision in relation to such policies.

Liability adequacy tests are performed at the statement of financial position date to ensure the adequacy of the liability raised. Current best estimates of future contractual cash flows, claims handling and administration expenses are used in performing these tests. Any deficiency is recognised in income for the year (unexpired risk provision).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.12 Insurance contracts (continued)

Reinsurance

The Group and/or Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential. Reinsurance arrangements do not relieve the Group and/or Company from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are reflected in the comprehensive income and statement of financial position separately from the gross amounts.

Only those reinsurance contracts which give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. Reinsurance contracts that do not transfer significant insurance risk are accounted for as financial assets. Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date.

Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group and/or Company may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Group and/or Company will receive from the reinsurer. Impairment losses are recognised in the comprehensive income.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group and/or Company to sell property acquired in settling a claim. The Group and/or Company may also have the right to pursue third parties for payment of some or all costs. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of the liability for claims.

1.13 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 1.12.

Interest income and finance cost

Interest income and expenditure for all interest bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognised within investment income and finance costs in the comprehensive income using the effective interest method. When a receivable is impaired, the Group and/or Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

Dividend income for equities is recognised when the right to receive payment is established, which is the last day to trade in respect of quoted shares and when declared in respect of unquoted shares.

Rental income

Rental income from investment properties is recognised in the comprehensive income on a straight-line basis over the term of each lease.

Premium income

Premiums relating to the insurance business are stated gross and net of outward reinsurance premium and are accounted for by applying the accrual basis when collectability is reasonably assured.

Commission

Commission payments and receipts are shown gross of reinsurance commissions.

Revenue from contracts with customers

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

1.14 Employee benefits

Pension and provident scheme arrangements

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

Profit-sharing and bonus plans

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

Leave pay

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

Termination benefits

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

Other post-employment obligations

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

1.15 Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Taxable profit differs from profits as reported in the comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years, and it further excludes items that are never taxable nor deductible. Income tax is recognised in the comprehensive income 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.

Current taxation

Current taxation is the expected taxation payable using taxation rates enacted at statement of financial position date, including any prior year adjustments.

Deferred taxation

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

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

Dividend Withholding Tax

Government notice number 1073, issued by National Treasury on 20 December 2011 introduced a withholding tax on dividends into South Africa with effect from 1 April 2012 in lieu of STC. The Company is exempt from paying withholding tax on ordinary share dividends received as they are a company resident in the Republic of South Africa. Accordingly, no withholding tax should be deducted from dividends payable by the issuer to the Company.

1.16 Provisions

Provisions are recognised when the Group and/or Company has a present legal or constructive obligation of uncertain timing or amount as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

1.17 Borrowings

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

1.18 Operating leases

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

1.19 Dividend distribution

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

2. Critical accounting estimates and judgements

The Group and/or Company makes certain estimates and assumptions that affect the reported amounts of assets and liabilities in the annual financial statements.

2.1 Claims incurred

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's and/or Company's most critical accounting estimate. These estimates rely on the assumption that past experience adjusted for the effect of current developments and likely trends is an appropriate basis for predicting future events. The Group's and/or Company's estimates and assumptions are reviewed, and updated and the tools with which it monitors and manages risk are refined as new information becomes available.

The Group's and/or Company's processes for determining significant reserving assumptions are outlined in note 21.

2.2 Valuation of unlisted investments

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

Short term insurance companies are valued on a discounted cash flow basis. In instances where reliable future cash flows cannot be estimated, the valuation is based on a price earnings valuation technique. In the event that no cash flow information is available, the valuation is based on the net asset value of the business. Life Assurance companies are valued using an appraisal valuation method.

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

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

Due to the number and the diversity of investments the disclosure of a sensitivity analysis has not been prepared as it does not provide the user of the financial statements with a meaningful comparison.

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

3. Financial risk management

Introduction

The Group's and/or Company's principal objectives are to ensure that it will be able to continue as a going concern and to provide value to its shareholders and policyholders through a long-term, sustainable real return on capital as a result of managing its business risks within an appropriate risk framework. The Board of Directors has overall responsibility for establishing, monitoring and communicating the Group's and Company's risk management framework, including defining what constitute "appropriate" risk and control policies, and for ensuring that sufficient capital is held to support the taking of risk. In order to discharge some of its responsibility, the Board has established the Group Audit and Compliance Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The Committee reports regularly to the Board on its activities.

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

The Group's Audit and Compliance Committee oversees the way management monitors compliance with its established risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group and Company. The Group Audit and Compliance Committee is assisted in its 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 Group Audit and Compliance Committee.

3.1 Exposure to risk arising from financial instruments

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

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

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

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

3.1.1 Credit risk

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

- amounts due from insurance policyholders;
- amounts due from underwriting agencies and brokers;
- 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.

Insurance, loans and other receivables

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

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

The Group and Company provide for impairment in respect of its 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.

Goodwill

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

Investments

The Group and Company have a dedicated Investment Committee that monitors and approves the investment mandates stipulated by the Board. The Group and Company, through the said mandates, limit its exposure to credit risk through diversification and by mainly investing in liquid securities and various counterparties that have a minimum credit rating of A1 from internationally recognised credit rating agencies and A from Moody's, or where such rating is not available, by internal analysis according to strict criteria. Given these high credit rating requirements, management does not expect any counterparty to fail to meet its obligations.

The Group and Company seek 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. Financial assets are graded and invested according to this framework and the Investment Committee regularly reviews compliance to that effect.

The analysis of credit quality of the Group's and Company's assets is disclosed in note 4 on pages 30 to 38 of the 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. However, the Group and Company remain liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Group and Company are exposed to credit risk.

The Group and Company have exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The Group's and Company's largest reinsurance counterparty is Hannover Re. This exposure is monitored on a regular basis for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Group and Company will arise.

The Group and Company monitor the financial condition of reinsurers on an ongoing basis and review reinsurance arrangements periodically. The Group and Company have a Reinsurance and Underwriting Committee that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria. When selecting a reinsurer the Group and Company consider its security. This is assessed from public rating information and from internal investigations.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. Financial risk management (continued)

3.1 Exposure to risk arising from financial instruments (continued)

3.1.2 Liquidity risk

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

The Group and Company are exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. The Investment Committee sets limits on the minimum proportion of maturing funds to be available to meet such calls to cover claims at unexpected levels of demand.

Based on actuarial modelling of historical and future expected trends, the Group and Company have estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 4.2.3 on page 35. The maturity profile of the related insurance and investment assets is expected to be similar to the profile of the liabilities. The Group and Company have taken into account that the unearned premium provision, which will be recognised as earned premium in the future, will not lead to claim cash outflows equal to this provision. This has been taken into account in estimating future cash outflows associated with insurance liabilities.

3.1.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's and Company's income or the value of its 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 optimising the Group's and Company's return on investment.

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

a) Currency risk

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

The Group and Company are exposed to foreign currency risk for transactions that are denominated in a currency other than Rand. This exposure is limited to the operations of the Mozambique foreign subsidiaries, transactions with foreign reinsurers, debt securities and equity investments in foreign companies. These foreign investments were made for the purposes of obtaining favourable international exposure to foreign currency and are monitored by the Investment Committee.

b) Interest rate risk

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

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

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

c) Other market price (or equity) risk

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

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

The Group and Company are assisted by external asset managers in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis. The Investment Committee actively monitors equity assets, listed and unlisted, owned by the Group and Company, which include some material shareholding in the Group's and Company's strategic partners. Concentrations of specific equity holdings are also monitored.

3.1.4 Capital management

The Group and Company recognise share capital and premium, non-distributable reserves and retained earnings as capital.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times. The Company submits quarterly and annual returns to the Financial Sector Conduct Authority (FSCA) in terms of the Insurance Act, and is required at all times to maintain a statutory surplus asset ratio as defined in the Act. Interim measures was replaced in 1 July 2018 by new solvency requirements being developed in the FSCA's Solvency Assessment and Management (SAM) initiative. The returns submitted during the year showed that the Company met the minimum capital requirements throughout the year. The operating subsidiaries also met their respective solvency requirements.

In addition to the regulatory capital requirements, the Company calculates its economic capital requirement using an internal stochastic model. This model is used in the assessment of strategic business and investment decisions and in the allocation of capital to various initiatives.

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

- comply with the insurance capital requirements required by the regulators of the insurance markets where the Group and Company operate;
- safeguard the Group's and Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and other stakeholders;
- provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value; and
- effectively manage its capital structure and make adjustments to the structure, in light of changes in economic conditions.

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for the year ended 30 June 2019

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	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
GROUP				
Financial assets				
Investments in associates	245 962	241 556	-	-
Loans to associates	-	10 142	-	10 142
Listed investments (Financial assets at fair value through profit and loss)	812 669	868 724	-	-
Unlisted investments (Financial assets at fair value through profit and loss)	1 998 252	1 962 694	783 457	763 161
Financial assets held-to-maturity	196 009	138 633	196 009	138 633
Loans – interest bearing	18 422	39 700	18 422	39 700
Loans – non-interest bearing	74 779	129 221	74 779	129 221
Other loans and receivables	305 424	425 897	305 424	424 283
Cash and cash equivalents	2 575 793	2 219 916	2 575 793	2 219 916
Non-current assets held for sale	1 031 624	885 875	-	-
Insurance assets				
Insurance receivables	1 531 693	1 377 148	1 531 693	1 377 148
Deferred acquisition costs	109 729	116 443	-	-
Reinsurance assets	2 011 090	2 752 461	2 011 090	2 752 461
Total	10 911 446	11 168 410	7 496 667	7 854 665
COMPANY				
Financial assets				
Investments in subsidiaries	45 431	49 867	-	-
Loans to subsidiaries	1 664	1 664	1 664	1 664
Investments in associates	229 788	239 768	-	-
Loans to associates	-	10 142	-	10 142
Listed investments (Financial assets at fair value through profit and loss)	767 243	818 904	-	-
Unlisted investments (Financial assets at fair value through profit and loss)	1 998 252	1 962 694	783 457	763 161
Financial Assets – held-to-maturity	196 009	138 633	196 009	138 633
Loans – interest bearing	18 422	39 700	18 422	39 700
Loans – non-interest bearing	74 779	129 221	74 779	129 221
Other loans and receivables	299 625	424 283	299 625	424 283
Cash and cash equivalents	2 575 926	2 221 041	2 575 926	2 221 041
Non-current assets held for sale	162 448	152 431	-	-
Insurance assets				
Insurance receivables	1 531 693	1 377 148	1 531 693	1 377 148
Deferred acquisition costs	109 729	116 443	-	-
Reinsurance assets	2 011 090	2 752 461	2 011 090	2 752 461
Total	10 022 100	10 434 400	7 492 664	7 857 454

b) Credit rating

The following table provides information regarding the Group's and Company's aggregated credit quality of financial and insurance assets that are neither past due nor impaired at the reporting date.

GROUP	AA+ R'000	AA R'000	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB- R'000	BBB R'000	BB+ R'000	BB R'000	Not rated R'000	Total R'000
2019													
Financial assets held-to-maturity	-	-	-	20 689	-	-	-	43 777	-	51 242	-	80 301	196 009
Unlisted investments	-	-	-	-	-	-	-	-	-	-	-	783 457	783 457
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	398 626	398 626
Cash and cash equivalents	-	-	24 753	-	-	-	-	721 766	-	1 509 883	-	319 392	2 575 793
Insurance assets													
Insurance receivables	-	-	-	-	-	-	-	22 233	-	47 634	-	1 461 826	1 531 693
Reinsurance assets	-	7 783	184 760	337 612	39 071	1 173 284	22 931	16 453	-	629	(60)	228 626	2 011 090
Total	-	7 783	209 514	358 301	39 071	1 173 284	22 931	804 229	-	1 609 388	(60)	3 272 227	7 496 668
2018													
Financial assets held-to-maturity	-	-	-	25 117	-	-	-	42 614	20 507	-	-	50 395	138 633
Unlisted investments	-	-	-	-	-	-	-	-	-	-	-	763 161	763 161
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	593 205	593 205
Cash and cash equivalents	-	-	-	-	-	-	-	248 607	-	1 726 038	-	245 271	2 219 916
Insurance assets													
Insurance receivables	-	-	-	-	-	-	-	14 896	-	8 017	-	1 354 235	1 377 148
Reinsurance assets	15 910	-	665 748	408 219	15 366	909 217	13 511	46 656	-	2 972	-	674 864	2 752 463
Total	15 910	-	665 748	433 336	15 366	909 217	13 511	352 773	20 507	1 737 027	-	3 691 273	7 854 668
COMPANY													
2019													
Loans to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1 664	1 664
Financial assets held-to-maturity	-	-	-	20 689	-	-	-	43 777	-	51 242	-	80 301	196 009
Unlisted investments	-	-	-	-	-	-	-	-	-	-	-	783 457	783 457
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	392 827	392 827
Cash and cash equivalents	-	-	24 753	-	-	-	-	721 766	-	1 509 883	-	319 524	2 575 926
Insurance assets													
Insurance receivables	-	-	-	-	-	-	-	22 233	-	47 634	-	1 461 826	1 531 693
Reinsurance assets	-	7 783	184 760	337 612	39 071	1 173 284	22 931	16 453	-	629	(60)	228 624	2 011 090
Total	-	7 783	209 514	358 301	39 071	1 173 284	22 931	804 229	-	1 609 388	(60)	3 268 223	7 492 665
2018													
Loans to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1 664	1 664
Loans to associates	-	-	-	-	-	-	-	-	-	-	-	10 142	10 142
Financial assets held-to-maturity	-	-	-	25 117	-	-	-	42 614	20 507	-	-	50 395	138 633
Unlisted investments	-	-	-	-	-	-	-	-	-	-	-	763 161	763 161
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	593 205	593 205
Cash and cash equivalents	-	-	-	-	-	-	-	248 607	-	1 726 038	-	246 396	2 221 041
Insurance assets													
Insurance receivables	-	-	-	-	-	-	-	14 896	-	8 017	-	1 354 235	1 377 148
Reinsurance assets	15 910	-	665 748	408 219	15 366	909 217	13 511	46 656	-	2 972	-	674 864	2 752 463
Total	15 910	-	665 748	433 336	15 366	909 217	13 511	352 773	20 507	1 737 027	-	3 694 062	7 857 457

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for the year ended 30 June 2019

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:

	GROUP				COMPANY			
	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000
2019								
Loans to subsidiaries	-	-	-	-	1 664	-	38 047	39 711
Financial assets held-to-maturity	196 009	-	-	196 009	196 009	-	-	196 009
Unlisted investments	1 998 252	-	-	1 998 252	1 998 252	-	-	1 998 252
Other loans and receivables	213 636	184 991	1 138	399 764	207 836	184 991	1 138	393 965
Cash and cash equivalents	2 575 793	-	-	2 575 793	2 575 926	-	-	2 575 926
Financial assets	4 983 689	184 991	1 138	5 169 817	4 979 686	184 991	39 185	5 203 862
Insurance receivables	1 520 444	11 249	-	1 531 693	1 520 444	11 249	-	1 531 693
Reinsurance assets	1 985 597	25 493	-	2 011 090	1 985 597	25 493	-	2 011 090
Insurance assets	3 506 041	36 742	-	3 542 783	3 506 041	36 742	-	3 542 783
2018								
Loans to subsidiaries	-	-	-	-	1 664	-	37 957	39 621
Loans to associates	10 141	-	2 714	12 855	10 141	-	2 714	12 855
Financial assets held-to-maturity	138 633	-	-	138 633	138 633	-	-	138 633
Unlisted investments	1 962 694	-	-	1 962 694	1 962 694	-	-	1 962 694
Other loans and receivables	594 820	1 225	34 776	630 821	593 205	1 225	34 776	629 206
Cash and cash equivalents	2 219 916	-	-	2 219 916	2 221 041	-	-	2 221 041
Financial assets	4 926 204	1 225	37 490	4 964 919	4 927 378	1 225	75 447	5 004 050
Insurance receivables	1 249 249	127 899	-	1 377 148	1 249 249	127 899	-	1 377 148
Reinsurance assets	2 747 163	5 298	-	2 752 461	2 747 163	5 298	-	2 752 461
Insurance assets	3 996 412	133 197	-	4 129 609	3 996 412	133 197	-	4 129 609

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

	GROUP					COMPANY				
	<30 days R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000	<30 days R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000
2019										
Other loans and receivables	10 429	1 312	3 195	170 055	184 991	10 429	1 312	3 195	170 055	184 991
Insurance receivables	-	-	-	11 249	11 249	-	-	-	11 249	11 249
Reinsurance assets	-	-	-	25 493	25 493	-	-	-	25 493	25 493
	10 429	1 312	3 195	206 796	221 732	10 429	1 312	3 195	206 796	221 732
2018										
Other loans and receivables	20	20	20	1 165	1 225	20	20	20	1 165	1 225
Insurance receivables	-	56 147	7 838	63 914	127 899	-	56 147	7 838	63 914	127 899
Reinsurance assets	-	-	4 992	305	5 297	-	-	4 992	305	5 297
	20	56 167	12 850	65 384	134 421	20	56 167	12 850	65 384	134 421

The Group and Company record impairment allowances for loans and receivables in a separate impairment allowance account. The movement in the allowance for impairment in respect of loans and receivables and premium debtors for the Group and Company during the year was as follows:

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Balance at beginning of year	163 886	148 179	158 697	142 990
– Collective impairment loss reversed	(99 965)	(402)	(95 278)	(402)
– Collective impairment loss recognised	85 261	16 109	85 261	16 109
Balance at end of year	149 182	163 886	148 680	158 697

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

	GROUP				COMPANY			
	Subject to lifetime ECL				Subject to lifetime ECL			
	12 month ECL	Not credit impaired	Credit Impaired		12 month ECL	Not credit impaired	Credit Impaired	
Total allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Total allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	
As at 1 July 2018	42 717	–	3 193	39 524	42 717	–	3 193	39 524
Model changes, interest accrued and write offs	8 825	–	(400)	9 225	8 825	–	(400)	9 225
Balance at end of the year	51 542	–	2 793	48 749	51 542	–	2 793	48 749

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.

4.2 Liquidity risk

4.2.1 Maturity profile on financial and insurance assets

The following tables detail the Group's and Company's contractual maturities of financial and insurance assets, including interest payments:

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
GROUP						
2019						
Financial assets at fair value through profit or loss	2 810 920	2 810 920	959 741	69 734	–	1 781 445
Held-to-maturity assets	196 009	196 009	55 248	25 052	53 332	62 376
Reinsurance assets	2 011 090	2 011 090	2 011 090	–	–	–
Insurance, loans and other receivables	1 930 318	1 930 318	1 930 318	–	–	–
Deferred acquisition costs	109 729	109 729	109 729	–	–	–
Cash and cash equivalents	2 575 793	2 575 793	2 575 793	–	–	–
	9 633 859	9 633 859	7 641 919	94 786	53 332	1 843 821
2018						
Loans to associates	10 142	12 855	12 855	–	–	–
Financial assets at fair value through profit or loss	2 831 418	2 831 418	2 831 418	–	–	–
Held-to-maturity assets	138 633	138 633	–	–	138 633	–
Reinsurance assets	2 752 461	2 752 461	2 752 461	–	–	–
Insurance, loans and other receivables	1 971 966	1 971 966	1 971 966	–	–	–
Deferred acquisition costs	116 443	116 443	116 443	–	–	–
Cash and cash equivalents	2 219 916	2 219 916	2 219 916	–	–	–
	10 040 979	10 043 692	9 905 059	–	138 633	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

4. Risk management (continued)

4.2 Liquidity risk (continued)

4.2.1 Maturity profile on financial and insurance assets (continued)

	Carrying amount 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						
2019						
Loans to subsidiaries	1 664	39 712	39 712	–	–	–
Financial assets at fair value through profit or loss	2 765 494	2 765 494	914 316	69 734	–	1 781 445
Held-to-maturity assets	196 009	196 009	55 248	25 052	53 332	62 376
Reinsurance assets	2 011 090	2 011 090	2 011 090	–	–	–
Insurance, loans and other receivables	1 924 519	1 924 519	1 924 519	–	–	–
Deferred acquisition costs	109 729	109 729	109 729	–	–	–
Cash and cash equivalents	2 575 926	2 575 926	2 575 926	–	–	–
	9 584 432	9 622 479	7 630 540	94 786	53 332	1 843 821
2018						
Loans to subsidiaries	1 664	39 621	39 621	–	–	–
Loans to associates	10 142	12 855	12 855	–	–	–
Financial assets at fair value through profit or loss	2 781 598	2 781 598	2 781 598	–	–	–
Held-to-maturity assets	138 633	138 633	–	–	138 633	–
Reinsurance assets	2 752 461	2 752 461	2 752 461	–	–	–
Insurance, loans and other receivables	1 970 353	1 970 353	1 970 353	–	–	–
Deferred acquisition costs	116 443	116 443	116 443	–	–	–
Cash and cash equivalents	2 221 041	2 221 041	2 221 041	–	–	–
	9 992 335	10 033 005	9 894 372	–	138 633	–

4.2.2 Maturity profile of financial liabilities

The following tables detail the Group's and Company's contractual maturities of financial liabilities, including interest payments:

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000
GROUP			
2019			
Non-derivative financial liabilities			
Trade and other payables and employee benefits	1 103 856	1 103 856	1 103 856
	1 103 856	1 103 856	1 103 856
2018			
Non-derivative financial liabilities			
Trade and other payables and employee benefits	1 074 623	1 074 623	1 074 623
	1 074 623	1 074 623	1 074 623
COMPANY			
2019			
Non-derivative financial liabilities			
Trade and other payables and employee benefits	1 063 811	1 063 811	1 063 811
	1 063 811	1 063 811	1 063 811
2018			
Non-derivative financial liabilities			
Trade and other payables and employee benefits	1 043 593	1 043 593	1 043 593
	1 043 593	1 043 593	1 043 593

4.2.3 Maturity profile of insurance liabilities

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

	GROUP				COMPANY			
	Probable cash outflows R'000	Maturity within a year R'000	Maturity between 2 and 5 years R'000	Maturity more than 5 years R'000	Probable cash outflows R'000	Maturity within a year R'000	Maturity between 2 and 5 years R'000	Maturity more than 5 years R'000
2019								
Claims reported and loss adjustment expenses	2 122 986	1 711 785	392 753	18 449	2 122 986	1 711 785	392 753	18 449
Claims incurred but not yet reported	584 610	471 377	108 153	5 080	584 610	471 377	108 153	5 080
Unearned premium provision	2 054 250	2 012 579	41 666	4	2 054 250	2 012 579	41 666	4
Cash back reserve	77 375	28 722	48 653	-	77 375	28 722	48 653	-
Reinsurance liabilities	755 478	755 478	-	-	755 478	755 478	-	-
	5 594 699	4 979 941	591 225	23 533	5 594 699	4 979 941	591 225	23 533
2018								
Claims reported and loss adjustment expenses	2 383 751	1 905 590	460 698	17 463	2 383 751	1 905 590	460 698	17 463
Claims incurred but not yet reported	701 675	560 925	135 610	5 140	701 675	560 925	135 610	5 140
Unearned premium provision	1 684 032	1 630 557	53 475	-	1 684 032	1 630 557	53 475	-
Cash back reserve	71 918	36 882	35 036	-	71 918	36 882	35 036	-
Reinsurance liabilities	903 055	903 055	-	-	903 055	903 055	-	-
	5 744 431	5 037 009	684 819	22 603	5 744 431	5 037 009	684 819	22 603

4.3 Market risk

4.3.1 Sensitivity analysis

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

Currency risk

The following exchange rates applied during the year:

	2019		2018	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
GROUP				
Mozambique Metical	0.23	0.23	0.21	0.23
COMPANY				
British Pound	18.36	17.88	17.29	18.16
US Dollar	14.19	14.09	12.83	13.75

A 10% strengthening/devaluation in the relevant foreign currencies against the ZAR at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for prior year.

	Profit/(loss)		Equity	
	10% increase R'000	10% decrease R'000	10% increase R'000	10% decrease R'000
GROUP				
2019				
US Dollar	656	(656)	656	(656)
British Pound	-	-	-	-
	656	(656)	656	(656)
2018				
US Dollar	17 335	(17 335)	17 335	(17 335)
British Pound	3 696	(3 696)	3 696	(3 696)
	21 031	(21 031)	21 031	(21 031)

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for the year ended 30 June 2019

4. Risk management (continued)

4.3 Market risk (continued)

4.3.1 Sensitivity analysis (continued)

Currency risk (continued)

	Profit/(loss)		Equity	
	10% increase R'000	10% decrease R'000	10% increase R'000	10% decrease R'000
COMPANY				
2019				
US Dollar	656	(656)	656	(656)
British Pound	-	-	-	-
	656	(656)	656	(656)
2018				
US Dollar	17 335	(17 335)	17 335	(17 335)
British Pound	3 696	(3 696)	3 696	(3 696)
	21 031	(21 031)	21 031	(21 031)

There is no currency fluctuation effect on the Namibian Dollar. There was no exposure against the British pound at the current reporting date.

Interest rate risk

At the reporting date the interest rate profile of the Group's and Company's interest-bearing financial instruments was:

	2019 Carrying amount R'000	2018 Carrying amount R'000
GROUP		
Variable rate instruments		
<i>Financial assets</i>		
Cash and cash equivalents	2 575 793	2 219 916
	2 575 793	2 219 916
COMPANY		
Variable rate instruments		
<i>Financial assets</i>		
Cash and cash equivalents	2 575 926	2 221 041
	2 575 926	2 221 041

Sensitivity analysis for variable rate instruments of the Group and Company

The Group's and Company's investments in long-term debt and fixed income securities are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored through several measures that include scenario testing and stress testing using measures such as duration.

The Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

A change of 200 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or 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 as for prior year.

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
GROUP				
2019				
Cash and cash equivalents	51 516	(51 516)	51 516	(51 516)
Net cash flow sensitivity	51 516	(51 516)	51 516	(51 516)
2018				
Cash and cash equivalents	44 398	(44 398)	44 398	(44 398)
Net cash flow sensitivity	44 398	(44 398)	44 398	(44 398)

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
COMPANY				
2019				
Cash and cash equivalents	51 519	(51 519)	51 519	(51 519)
Net cash flow sensitivity	51 519	(51 519)	51 519	(51 519)
2018				
Cash and cash equivalents	44 421	(44 421)	44 421	(44 421)
Net cash flow sensitivity	44 421	(44 421)	44 421	(44 421)

Equity price risk

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

GROUP

Description of equity investments	2019			2018		
	Carrying amount R'000	Listed/not listed	Relevant stock exchange	Carrying amount R'000	Listed/not listed	Relevant stock exchange
Ordinary shares	682 534	Listed	JSE	745 214	Listed	JSE
Preference shares	130 134	Listed	JSE	123 510	Listed	JSE
	812 669			868 724		

All of the Group's listed equity investments are listed on the JSE Limited. For such investments a 5% increase in equity price at reporting date would increase equity and profit or loss by amounts as shown below. A 5% decrease in equity price should have had the equal but opposite effect. The analysis is performed on the same basis as for the prior year.

	Profit/(loss)		Equity	
	5% increase R'000	5% decrease R'000	5% increase R'000	5% decrease R'000
2019				
Ordinary shares – Listed	31 855	(31 855)	31 855	(31 855)
Preference shares – Listed	6 507	(6 507)	6 507	(6 507)
	38 361	(38 361)	38 361	(38 361)
2018				
Ordinary shares – Listed	31 899	(31 899)	31 899	(31 899)
Preference shares – Listed	6 175	(6 175)	6 175	(6 175)
	38 074	(38 074)	38 074	(38 074)

COMPANY

Description of equity investments	2019			2018		
	Carrying amount R'000	Listed/ Unlisted	Relevant stock exchange	Carrying amount R'000	Listed/ Unlisted	Relevant stock exchange
Ordinary shares	637 109	Listed	JSE	695 394	Listed	JSE
Preference shares	130 134	Listed	JSE	123 510	Listed	JSE
	767 243			818 904		

All of the Company's listed equity investments are listed on the JSE Limited. For such investments a 5% increase in equity price at reporting date would increase equity and profit or loss by amounts as shown below. A 5% decrease in equity price would have had the equal but opposite effect. The analysis is performed on the same basis as for prior year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

4. Risk management (continued)

4.3 Market risk (continued)

4.3.1 Sensitivity analysis (continued)

Equity price risk (continued)

	Profit/(loss)		Equity	
	5% increase R'000	5% decrease R'000	5% increase R'000	5% decrease R'000
2019				
Ordinary shares – Listed	31 855	(31 855)	31 855	(31 855)
Preference shares – Listed	6 507	(6 507)	6 507	(6 507)
	38 361	(38 361)	38 361	(38 361)
2018				
Ordinary shares – Listed	31 899	(31 899)	31 899	(31 899)
Preference shares – Listed	6 119	(6 119)	6 119	(6 119)
	38 018	(38 018)	38 018	(38 018)

4.4 Comprehensive income note

a) Financial income and expenditure

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

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Interest income on financial assets measured at amortised cost	146 383	142 727	146 383	140 692
Interest income on held-to-maturity assets	–	24 171	–	–
Net income on financial assets designated at fair value through profit or loss	56 248	92 756	56 168	55 412
Financial income	202 631	259 654	202 551	196 104
Interest expense on financial liabilities measured at amortised cost	80 475	111 534	75 891	107 612
Financial expense	80 475	111 534	75 891	107 612
Net financial income	122 156	148 120	126 660	88 492
The above financial income and expense items include the following in respect of financial assets/liabilities not at fair value through profit or loss:				
Total interest income	146 383	166 898	146 383	140 692
Total interest expense	(80 475)	(111 534)	(75 891)	(107 612)
	65 908	55 364	70 492	33 080

b) Impairment losses

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

Impairment of other loans and receivables

– Impairment reversed/(recognised)

Impairment of premium debtors

– Impairment (recognised)/reversed

	8 692	(20 708)	8 692	(20 708)
	(85 057)	16 109	(85 261)	16 109
Total	(76 365)	(4 599)	(76 569)	(4 599)

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

5. Property and equipment

Cost

Office equipment	254 691	227 912	254 310	227 531
Motor vehicles	8 392	8 400	8 373	8 381
Leasehold improvements	36 608	19 278	36 609	19 278
Total property and equipment cost	299 691	255 590	299 292	255 190

Accumulated depreciation

Office equipment	157 862	132 690	157 605	132 433
Motor vehicles	8 136	6 638	8 128	6 630
Leasehold improvements	14 411	11 901	14 411	11 901
Total Accumulated depreciation	180 409	151 229	180 144	150 964

Net carrying amount

Office equipment	96 829	95 222	96 705	95 098
Motor vehicles	256	1 762	245	1 751
Leasehold improvements	22 198	7 377	22 198	7 377
	119 283	104 361	119 148	104 226

Reconciliation of movement on net carrying amount:

Net carrying amount at beginning of year	104 361	72 974	104 226	72 838
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Prior year adjustments

	5 915	–	5 915	–
Office equipment	3 149	–	3 149	–
Motor vehicles	(134)	–	(134)	–
Leasehold improvements	2 900	–	2 900	–

Additions

	38 201	54 388	38 201	54 388
Office equipment	23 821	48 686	23 821	48 686
Motor vehicles	170	–	170	–
Leasehold improvements	14 210	5 702	14 210	5 702

Write-off

	–	(1 321)	–	(1 320)
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Depreciation for the year

	(29 194)	(21 680)	(29 194)	(21 680)
Office equipment	(25 363)	(18 796)	(25 363)	(18 796)
Motor vehicles	(1 542)	(863)	(1 542)	(863)
Leasehold improvements	(2 289)	(2 021)	(2 289)	(2 021)

Net carrying amount at end of year	119 283	104 361	119 148	104 226
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6. Investment property

Fair value at beginning of year	28 000	28 000	–	–
Additions	1	1	–	–
Fair value at end of year	28 001	28 001	–	–

Investment properties consist of:

- freehold property;
- sectional title located at stand 306 Ferreiras Dorp Township, Province of Gauteng, measuring 1162 square metres; and
- sectional title located at stand 317 Ferreiras Dorp Township, Province of Gauteng, measuring 1012 square metres.

The properties are carried at market value as last determined by an independent registered valuator.

Investment properties are not mortgaged as security for any liabilities.

Direct operating expenses incurred on the investment property amount to R2 399 772 (2018: R2 525 504), repairs and maintenance incurred amounts to R145 731 (2018: Rnil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
7. Intangible assets				
Intangible assets at fair value				
Cost				
Goodwill	409	8 256	–	7 848
Acquired rights over books of business	27 213	25 378	27 213	25 378
Intellectual property	83 876	–	83 876	–
Computer software	290 447	255 391	290 447	255 391
Total	401 945	289 025	401 536	288 617
Accumulated amortisation, impairment and fair value adjustments				
Acquired rights over books of business	25 054	23 896	25 054	23 896
Intellectual property	16 700	–	16 700	–
Computer software	177 596	110 177	177 596	110 177
Total	219 350	134 073	219 350	134 073
Net carrying amount				
Goodwill	409	8 256	–	7 848
Acquired rights over books of business	2 159	1 482	2 159	1 482
Intellectual property	67 176	–	67 176	–
Computer software	112 851	145 214	112 851	145 214
Net carrying value at end of year	182 595	154 952	182 186	154 544
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	154 952	137 537	154 544	137 128
Prior year adjustments	(1 734)	–	(1 734)	–
Computer software	(1 734)	–	(1 734)	–
Additions	120 767	58 896	120 767	58 896
Acquired rights over books of business	1 836	–	1 836	–
Intellectual property	83 876	–	83 876	–
Computer software	35 055	58 896	35 055	58 896
Write-off	–	(1 227)	–	(1 226)
Impairment, amortisation charge	(91 390)	(48 315)	(91 390)	(48 315)
Goodwill	(7 848)	–	(7 848)	–
Acquired rights over books of business	(1 158)	(8 464)	(1 158)	(8 464)
Intellectual property	(16 700)	–	(16 700)	–
Computer software	(65 685)	(39 851)	(65 685)	(39 851)
Revaluation	–	8 061	–	8 061
Net carrying value at end of year	182 595	154 952	182 186	154 544

The Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired. As at 30 June 2019, no impairment was raised relating to the investment in a subsidiary (2018: Rnil).

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

	COMPANY	
	2019 R'000	2018 R'000

8. Interest in subsidiaries

Interest in subsidiaries comprises:

Shares at fair value through profit or loss	45 432	49 867
Loans to subsidiaries	39 712	39 621
	85 144	89 488
Impairment on loans	(38 048)	(37 957)
	47 096	51 531
Non-current	47 096	51 531
Loans bear interest at the following rates:		
JIBAR	1 664	1 664
	1 664	1 664
The loans have the following terms of repayment:		
No fixed repayment terms	1 664	1 664
	1 664	1 664

This loan is unsecured.

Details of subsidiaries are provided in note 44 on page 67 of these annual financial statements.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

9. Interest in associates

Interest in associates comprises:

Shares at fair value through profit or loss	-	-	229 788	239 768
Shares at equity accounted carrying value	67 630	67 630	-	-
Group share of post-acquisition profits	178 332	173 926	-	-
Carrying value of associates	245 962	241 556	229 788	239 768
Loans to associates	-	10 142	-	10 142
	245 962	251 698	229 788	249 910
Loans bear interest at the following rates:				
Interest free	-	10 142	-	10 142
	-	10 142	-	10 142

The loan balance from prior year was secured by property of the associate to the extent of R10 142 000.

The loans have no fixed terms of repayment.

Details of associates are provided in note 44 on page 67 of these annual financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

9. Interest in associates (continued)

The financial position and performance of the Group's significant associates are categorised by nature of business as follows:

	Underwriting managers R'000	Property holdings R'000	Total
Analysis of associates for 30 June 2019			
Total assets	1 116 343	–	803 015
Total liabilities	447 766	–	90 261
Net assets	668 577	–	712 754
Net profit before taxation	180 000	–	180 000
Taxation	(50 400)	–	(50 400)
Net profit after taxation	129 600	–	129 600
Group share of post acquisition profits	101 658	–	101 658
Carrying amount of interest in associates	245 962	–	245 962
Fair valuation of associates (at Company level)	229 788	–	229 788

Losses incurred by associates are capped to the original investment amount. The carrying amount of our interest in the associates will therefore never be negative. Losses incurred on property holdings have been capped and are currently standing at a cumulative amount of R2 194 738 (2018: R2 194 738).

	Underwriting managers R'000	Property holdings R'000	Total
Analysis of associates for 30 June 2018			
Total assets	803 015	24 969	827 984
Total liabilities	90 261	176	90 437
Net assets	712 754	24 793	737 547
Net profit before taxation	177 877	–	177 877
Taxation	(49 806)	–	(49 806)
Net profit after taxation	128 071	–	128 071
Group share of post acquisition profits	49 948	–	49 948
Carrying amount of interest in associates	274 328	–	274 328
Loans to associates	–	10 142	10 142
Fair valuation of associates (at Company level)	239 768	–	239 768

Details of associates are provided in note 44 on page 67 of these annual financial statements.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
10. Financial assets				
Financial assets held-to-maturity	196 009	138 633	196 009	138 633
Financial assets at fair value through profit or loss	2 810 919	2 831 418	2 765 493	2 781 598
	3 006 929	2 970 051	2 961 503	2 920 231
Current	1 014 989	2 831 419	969 564	2 781 598
Non-current	1 991 939	138 633	1 991 939	138 633
	3 006 929	2 970 051	2 961 503	2 920 231
Financial assets at fair value through profit or loss				
Listed investments	812 668	868 724	767 243	818 904
Unlisted investments	1 998 252	1 962 694	1 998 252	1 962 694
Held-to-maturity	196 009	138 633	196 009	138 633
	3 006 929	2 970 051	2 961 503	2 920 231

An analysis of the Group and Company's financial assets by market sector and maturity spread is provided below.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
10.1 Listed investments				
At market value	812 668	868 724	767 243	818 904
Analysis of spread of listed investments by market sector	%	%	%	%
Automobiles and parts	0.05	0.06	0.06	0.06
Banks	13.69	11.76	14.50	12.48
Basic resources	0.72	0.41	0.77	0.44
Food and beverage	2.87	2.76	3.04	2.93
Financial services	0.19	0.32	0.20	0.34
Healthcare	-	0.07	-	0.08
Industrial goods and services	0.23	0.19	0.25	0.21
Insurance	81.28	83.31	80.17	82.29
Media	0.29	0.44	0.31	0.47
Personal and household goods	0.10	0.34	0.11	0.36
Real estate	0.17	0.15	0.18	0.16
Retail	0.31	0.08	0.33	0.09
Travel and leisure	0.08	0.10	0.09	0.10
	100.00	100.00	100.00	100.00
10.2 Unlisted investments				
At fair value	1 998 252	1 962 694	1 998 252	1 962 694
	%	%	%	%
Linked policies	55	51	55	51
Private equity investments	39	39	39	39
Unit trusts	6	10	6	10
	100	100	100	100
Total listed and unlisted investments at fair value	2 810 919	2 831 418	2 765 493	2 781 598
	GROUP		COMPANY	
	R'000	% maturity spread	R'000	% maturity spread
10.3 Debt securities (Bonds)				
Analysis of debt securities by maturity spread for 2019				
0 – 1 years	55 248	28	55 248	28
1 – 2 years	25 052	13	25 052	13
More than 2 years	115 709	59	115 708	59
	196 009	100	196 008	100
Analysis of debt securities by maturity spread for 2018				
More than 2 years	138 633	100	138 633	100
	138 633	100	138 633	100

All bonds reported above are listed on the Johannesburg stock exchange.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

11. Categories and classes of financial and insurance assets and financial and insurance liabilities

	Fair value through profit or loss R'000	At amortised cost investments R'000	Financial assets at fair value through other comprehensive income R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
GROUP								
2019								
Assets								
Investments in associates	-	-	-	-	-	245 962	245 962	245 962
Financial assets	2 223 472	783 457	-	3 006 929	-	-	3 006 929	3 006 929
Preference shares and debt instruments	448 072	783 457	-	1 231 529	-	-	1 231 529	1 231 529
Equities	684 546	-	-	684 546	-	-	684 546	684 546
Linked policies	1 090 854	-	-	1 090 854	-	-	1 090 854	1 090 854
Reinsurance assets	-	-	-	-	2 011 090	-	2 011 090	2 011 090
Insurance, loans and other receivables	-	209 531	-	209 531	1 531 693	189 095	1 930 318	1 930 318
Deferred acquisition costs	-	-	-	-	109 729	-	109 729	109 729
Cash and cash equivalents	-	2 575 793	-	2 575 793	-	-	2 575 793	2 575 793
Non-current assets held for sale	1 031 624	-	-	1 031 624	-	-	1 031 624	1 031 624
	3 255 096	3 568 781	-	6 823 878	3 652 512	435 057	10 911 446	10 911 446
Liabilities								
Borrowings	-	600 806	-	600 806	-	-	600 806	600 806
Insurance liabilities	-	-	-	-	4 839 221	-	4 839 221	4 839 221
Reinsurance liabilities	-	-	-	-	755 478	-	755 478	755 478
Employee benefits	-	-	-	-	-	274 398	274 398	274 398
Trade and other payables	-	-	-	-	-	829 459	829 459	829 459
Non current liabilities held for sale	-	-	-	-	-	-	-	-
	-	600 806	-	600 806	5 594 698	1 103 856	7 299 361	7 299 361
2018								
Assets								
Investments in associates	-	-	-	-	-	241 556	241 556	241 556
Loans to associates	-	10 142	-	10 142	-	-	10 142	10 142
Financial assets	2 970 050	-	-	2 970 050	-	-	2 970 050	2 970 050
Preference shares and debt instruments	1 228 617	-	-	1 228 617	-	-	1 228 617	1 228 617
Equities	745 725	-	-	745 725	-	-	745 725	745 725
Linked policies	995 708	-	-	995 708	-	-	995 708	995 708
Reinsurance assets	-	-	-	-	2 752 461	-	2 752 461	2 752 461
Insurance, loans and other receivables	-	278 689	-	278 689	1 377 148	316 130	1 971 967	1 971 967
Deferred acquisition costs	-	-	-	-	116 443	-	116 443	116 443
Cash and cash equivalents	-	2 219 916	-	2 219 916	-	-	2 219 916	2 219 916
Non-current assets held for sale	885 875	-	-	885 875	-	-	885 875	885 875
	3 855 925	2 508 747	-	6 364 672	4 246 052	557 686	11 168 410	11 168 410
Liabilities								
Borrowings	-	600 653	-	600 653	-	-	600 653	600 653
Insurance liabilities	-	-	-	-	4 841 376	-	4 841 376	4 841 376
Reinsurance liabilities	-	-	-	-	903 055	-	903 055	903 055
Employee benefits	-	-	-	-	-	236 916	236 916	236 916
Trade and other payables	-	-	-	-	-	837 708	837 708	837 708
	-	600 653	-	600 653	5 744 431	1 074 624	7 419 708	7 419 708

	Fair value through profit or loss R'000	At amortised cost investments R'000	Financial assets at fair value through other comprehensive income R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per statement of financial position R'000	Fair value of financial instruments R'000
COMPANY								
2019								
Assets								
Investments in subsidiaries	45 431	-	-	45 431	-	-	45 431	45 431
Loans to subsidiaries	-	1 664	-	1 664	-	-	1 664	1 664
Investments in associates	229 788	-	-	229 788	-	-	229 788	229 788
Financial assets	2 178 047	783 457	-	2 961 503	-	-	2 961 503	2 961 503
Preference shares and debt instruments	448 072	783 457	-	1 231 529	-	-	1 231 529	1 231 529
Equities	639 121	-	-	639 121	-	-	639 121	639 121
Linked policies	1 090 854	-	-	1 090 854	-	-	1 090 854	1 090 854
Reinsurance assets	-	-	-	-	2 011 090	-	2 011 090	2 011 090
Insurance, loans and other receivables	-	209 531	-	209 531	1 531 693	183 295	1 924 519	1 924 519
Deferred acquisition costs	-	-	-	-	109 729	-	109 729	109 729
Cash and cash equivalents	-	2 575 926	-	2 575 926	-	-	2 575 926	2 575 926
Non-current assets held for sale	162 448	-	-	162 448	-	-	162 448	162 448
	2 615 714	3 570 578	-	6 186 292	3 652 512	183 295	10 022 099	10 022 099
Liabilities								
Borrowings	-	600 452	-	600 452	-	-	600 452	600 452
Insurance liabilities	-	-	-	-	4 839 221	-	4 839 221	4 839 221
Reinsurance liabilities	-	-	-	-	755 478	-	755 478	755 478
Employee benefits	-	-	-	-	-	274 398	274 398	274 398
Trade and other payables	-	-	-	-	-	789 413	789 413	789 413
	-	600 452	-	600 452	5 594 699	1 063 811	7 258 962	7 258 962
2018								
Assets								
Investments in subsidiaries	49 867	-	-	49 867	-	-	49 867	49 867
Loans to subsidiaries	-	1 664	-	1 664	-	-	1 664	1 664
Investments in associates	239 768	-	-	239 768	-	-	239 768	239 768
Loans to associates	-	10 142	-	10 142	-	-	10 142	10 142
Financial assets	2 920 231	-	-	2 920 231	-	-	2 920 231	2 920 231
Preference shares and debt instruments	1 228 617	-	-	1 228 617	-	-	1 228 617	1 228 617
Equities	695 906	-	-	695 906	-	-	695 906	695 906
Linked policies	995 708	-	-	995 708	-	-	995 708	995 708
Reinsurance assets	-	-	-	-	2 752 461	-	2 752 461	2 752 461
Insurance, loans and other receivables	-	278 688	-	278 688	1 377 148	314 517	1 970 352	1 970 352
Deferred acquisition costs	-	-	-	-	116 443	-	116 443	116 443
Cash and cash equivalents	-	2 221 041	-	2 221 041	-	-	2 221 041	2 221 041
Non-current assets held for sale	152 431	-	-	152 431	-	-	152 431	152 431
	3 362 297	2 511 535	-	5 873 832	4 246 052	314 517	10 434 400	10 434 400
Liabilities								
Borrowings	-	600 299	-	600 299	-	-	600 299	600 299
Insurance liabilities	-	-	-	-	4 841 376	-	4 841 376	4 841 376
Reinsurance liabilities	-	-	-	-	903 055	-	903 055	903 055
Employee benefits	-	-	-	-	-	236 916	236 916	236 916
Trade and other payables	-	-	-	-	-	806 676	806 676	806 676
	-	600 299	-	600 299	5 744 431	1 043 592	7 388 322	7 388 322

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

12. Determination of fair value and fair value 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
GROUP				
2019				
Financial assets carried at fair value through profit or loss				
Listed ordinary shares	69 925	-	612 609	682 534
Listed preference shares	130 134	-	-	130 134
Unlisted ordinary shares*	-	-	2 011	2 011
Linked policies	-	1 090 854	-	1 090 854
Unit trusts	-	121 930	-	121 930
Bonds	-	196 009	-	196 009
	200 059	1 408 793	614 621	2 223 472
2018				
Financial assets carried at fair value through profit or loss				
Listed ordinary shares	745 213	-	-	745 213
Listed preference shares	123 510	-	-	123 510
Unlisted ordinary shares*	-	-	511	511
Unlisted preference shares*	-	-	763 161	763 161
Linked policies	-	995 708	-	995 708
Unit trusts	-	203 313	-	203 313
Bonds	-	138 633	-	138 633
	868 723	1 337 654	763 672	2 970 049
COMPANY				
2019				
Financial assets carried at fair value through profit or loss				
Interest in associates	-	-	229 788	229 788
Interest in subsidiaries	-	-	45 431	45 431
Listed ordinary shares	24 500	-	612 609	637 109
Listed preference shares	130 134	-	-	130 134
Unlisted ordinary shares*	-	-	2 011	2 011
Unit trusts	-	121 930	-	121 930
Linked policies	-	1 090 854	-	1 090 854
Bonds	-	196 009	-	196 009
	154 634	1 408 792	889 839	2 453 266
2018				
Financial assets carried at fair value through profit or loss				
Interest in associates	-	-	239 768	239 768
Interest in subsidiaries	-	-	49 867	49 867
Listed ordinary shares	695 394	-	-	695 394
Listed preference shares	123 510	-	-	123 510
Unlisted ordinary shares*	-	-	511	511
Unlisted preference shares*	-	-	763 161	763 161
Unit trusts	-	203 313	-	203 313
Linked policies	-	995 708	-	995 708
Bonds	-	138 633	-	138 633
	818 904	1 337 654	1 053 307	3 209 865

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

Included in the Level 1 category are financial assets 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 the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices for observable current market transactions of assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

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

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

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 July 2018 R'000	Total gains/ (losses) in profit or loss statement R'000	Total gains/ (losses) recorded in other compre- hensive income R'000	Purchases R'000	Interest, dividends and management fees R'000	Sales R'000	Impair- ment R'000	Transfer from/(to) other category R'000	At 30 June 2019 R'000	Total gains/ (losses) for the period included in profit or loss for assets held at 30 June 2019 R'000
GROUP										
2019										
Financial assets at fair value through profit or loss										
Unlisted ordinary shares	511	-	-	1 500	-	-	-	-	2 011	-
Listed ordinary shares	-	-	-	-	-	-	-	612 609	612 609	-
Unlisted preference shares	763 162	4 511	-	-	-	-	15 783	(783 457)	-	4 511
Total financial instruments	763 673	4 511	-	1 500	-	-	15 783	(170 847)	614 621	4 511
COMPANY										
2019										
Financial assets at fair value through profit or loss										
Investment in associates	239 768	36 158	-	-	-	(46 138)	-	-	229 788	36 158
Investment in subsidiaries	49 867	(4 435)	-	6 658	-	-	(6 658)	-	45 432	(4 435)
Listed ordinary shares	-	-	-	-	-	-	-	612 609	612 609	-
Unlisted ordinary shares	511	-	-	1 500	-	-	-	-	2 011	-
Unlisted preference shares	763 162	4 511	-	-	-	-	15 783	(783 456)	-	4 511
Total financial instruments	1 053 308	36 234	-	8 158	-	(46 138)	9 125	(170 847)	889 840	36 234

During the current financial year the valuation methodology was changed for certain assets which resulted in transfers to level 3.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

12. Determination of fair value and fair value hierarchy (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 July 2017 R'000	Total gains/ (losses) in profit or loss statement R'000	Total gains/ (losses) recorded in other compre- hensive income R'000	Purchases R'000	Interest, dividends and management fees R'000	Sales R'000	Impair- ment R'000	Transfer from/(to) other category R'000	At 30 June 2018 R'000	Total gains/ (losses) for the period included in profit or loss for assets held at 30 June 2018 R'000
GROUP										
2018										
Financial assets at fair value through profit or loss										
Unlisted ordinary shares	511	-	-	-	-	-	-	-	511	-
Unlisted preference shares	807 531	(7 847)	-	89 946	101 105	(227 573)	-	-	763 162	(7 847)
Total financial instruments	808 042	(7 847)	-	89 946	101 105	(227 573)	-	-	763 673	(7 847)
COMPANY										
2018										
Financial assets at fair value through profit or loss										
Investment in associates	207 764	32 004	-	-	-	-	-	-	239 768	32 004
Investment in subsidiaries	41 241	8 626	-	-	-	-	-	-	49 867	8 626
Unlisted ordinary shares	511	-	-	-	-	-	-	-	511	-
Unlisted preference shares	807 531	(7 847)	-	89 946	101 105	(227 573)	-	-	763 162	(7 847)
Total financial instruments	1 057 047	32 783	-	89 946	101 105	(227 573)	-	-	1 053 308	32 783

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

The following table shows the sensitivity of the fair value of financial assets:

	GROUP			COMPANY		
	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000	Carrying amount R'000	2% effect of reasonably possible alternative assumptions (+) R'000	2% effect of reasonably possible alternative assumptions (-) R'000
2019						
Financial assets carried at fair value through profit or loss						
Interest in associates	-	-	-	229 788	240 322	219 907
Interest in subsidiaries	-	-	-	45 432	45 432	45 432
Unlisted ordinary shares	2 011	-	-	2 011	-	-
Total financial instruments at fair value	2 011	-	-	277 231	285 754	265 339
2018						
Financial assets carried at fair value through profit or loss						
Interest in associates	-	-	-	239 768	226 735	253 866
Interest in subsidiaries	-	-	-	49 867	49 867	49 867
Unlisted ordinary shares	511	-	-	511	-	-
Unlisted preference shares	763 162	761 547	758 089	763 162	761 547	758 089
Total financial instruments at fair value	763 673	761 547	758 089	1 053 308	1 038 149	1 061 822

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

Companies are valued on a price earnings ratio method or on a discounted cash flow basis. A build-up method was used to construct the discount rate, incorporating all the appropriate risk components as well as a bond yield of 6.35% (R2030). The following appropriate risk components are incorporated in the discount rates and earnings factors used:

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

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

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

The above sensitivity analysis in the positive scenario assumes a 2% decrease in the discount rate and a 2% increase in projected free cash flows. The converse applies to the negative analysis where discount rates were increased by 2% and cash flows were decreased by 2%.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
13. Insurance, loans and other receivables				
Insurance receivables	1 531 693	1 377 148	1 531 693	1 377 148
Other receivables	189 094	316 130	183 295	314 517
Total insurance and other receivables	1 720 787	1 693 278	1 714 988	1 691 665
Originated at amortised cost				
Loans bearing interest				
– Loans to staff	11 025	10 220	11 025	10 220
– Loans to other	7 397	29 480	7 397	29 480
Interest-free loans				
– Loans to other	74 779	129 221	74 779	129 221
Total loans	93 201	168 921	93 201	168 921
Receivable from Group companies	142 414	144 543	142 414	144 543
Impairment provision	(26 084)	(34 776)	(26 084)	(34 776)
Total loans receivable from Group companies	116 330	109 767	116 330	109 767
Total Insurance, loans and other receivables	1 930 318	1 971 966	1 924 519	1 970 353
The interest rates charged on the secured and unsecured loans comprise:				
Prime less 1.5%	–	945	–	945
Prime less 3%	–	5 812	–	5 812
80% of prime	274	8 212	274	8 212
Prime plus 1%	–	1 467	–	1 467
Prime plus 2%	72	2 541	72	2 541
Prime plus 5%	1 641	–	1 641	–
Prime plus 6%	6 950	8 866	6 950	8 866
Interest at 7%	–	1 637	–	1 637
Interest at 6.5%	2 016	1 946	2 016	1 946
South African Revenue Service (SARS) rate	7 469	8 274	7 469	8 274
Interest-free loans	74 779	129 221	74 779	129 221
	93 201	168 921	93 201	168 921
The loans have the following terms of repayment:				
No fixed repayment terms	81 730	11 445	81 730	11 445
On specified date	10 169	15 272	10 169	15 272
90 days notice period	1 302	142 204	1 302	142 204
	93 201	168 921	93 201	168 921

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

13. Insurance, loans and other receivables (continued)

Certain loans are secured by assets of the counterparty to the extent of R4 510 343 (2018: R5 812 154) and the balance of the loans are unsecured.

Loans are carried at amortised cost using the effective interest method and are reviewed for impairment at the end of the financial year. Insurance, trade and other receivables are widespread and have been adjusted for impairments where required

Loans to subsidiaries and associates are deemed to be part of the investment and therefore included in notes 8 and 9 on page 41 of these annual financial statements.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

14. Deferred taxation

Deferred income tax assets

– Deferred income tax to be recovered within 12 months

103 609 85 196 103 609 85 196

Balance at end of year

103 609 85 196 103 609 85 196

Balance at beginning of year

85 196 79 690 85 196 79 690

Movements during the year attributable to:

Unutilised tax losses

– 62 – 62

Provisions

18 413 5 444 18 413 5 444

Balance at end of year

103 609 85 196 103 609 85 196

Balance comprises:

Unutilised tax losses

– 9 325 – 9 325

Provisions

103 609 75 871 103 609 75 871

103 609 85 196 103 609 85 196

Deferred income tax liabilities

– Deferred income tax to be recovered after 12 months

208 401 234 070 199 333 223 310

Balance at end of year

208 401 234 070 199 333 223 310

Balance at beginning of year

234 070 174 250 223 310 166 581

Movements during the year attributable to:

Unrealised gains on assets at fair value through profit or loss

(25 669) 59 820 (23 977) 56 729

Balance at end of year

208 401 234 070 199 333 223 310

Balance comprises:

Unrealised gains on assets at fair value through profit or loss

208 401 234 070 199 333 223 310

15. Cash and cash equivalents

Cash on call

1 940 938 1 640 247 1 940 937 1 640 247

Cash at bank

614 406 511 479 614 696 512 761

Cash on deposit

20 397 68 118 20 241 67 961

Cash on hand

52 72 52 72

2 575 793 2 219 916 2 575 926 2 221 041

16. Non-current assets and liabilities held for sale

The Group and Company hold the following assets as held for sale:

Investment in subsidiary: Hollard Mocambique Companhia de Seguros, S.A.R.L.

1 031 624 885 875 162 448 152 431

1 031 624 885 875 162 448 152 431

The Group and Company hold the following liabilities as held for sale:

Investment in subsidiary: Hollard Mocambique Companhia de Seguros, S.A.R.L.

754 383 653 254 – –

754 383 653 254 – –

The investments are expected to be sold within the next 12 months and are carried at the lower of carrying value or fair value less cost to sell.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

17. Share capital and premium

Authorised

6 000 000 ordinary shares	12 000	12 000	12 000	12 000
3 000 000 class A redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000
2 999 999 class B redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000

18 000 18 000 **18 000** 18 000

Issued and fully paid

4 914 999 ordinary shares	1 580 687	1 580 687	1 580 687	1 580 687
3 000 000 class A redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000
2 999 999 class B redeemable convertible preference shares of R1 each	3 000	3 000	3 000	3 000

1 586 687 1 586 687 **1 586 687** 1 586 687

Share premium **55 914** 55 914 **55 914** 55 914

Issued share capital **1 642 601** 1 642 601 **1 642 601** 1 642 601

The class A and B preference shares receive dividends at the discretion of the Board of Directors. The class A preference shares have voting rights equal to one vote for one share.

	GROUP	
	2019 R'000	2018 R'000

18. Non-distributable reserves

Non-distributable reserves consist of:

Revaluation reserve 1 193 1 356

Movements for the year were as follows:

Balance at beginning of year 1 356 1 230

Transfer (from)/to reserves (163) 126

Balance at end of year **1 193** 1 356

19. Foreign currency translation reserve

Balance at beginning of year 10 074 (43 360)

Exchange differences (net of non-controlling interest) on translation of foreign operations (7 400) 48 524

Disposal of non-current asset held for sale - 14 972

Transfer to non-controlling interest - (10 062)

Balance at end of year **2 674** 10 074

20. Components of other comprehensive income

	GROUP			
	2019			
	Gross amount R'000	Non-controlling interest R'000	Tax expense R'000	Net of tax R'000
Exchange differences on translating foreign operations	(7 400)	-	-	(7 400)
Transfer to reserve	(163)	-	-	(163)
Unrealised gain on financial assets at fair value through other comprehensive income	(3 330)	(1 258)	-	(3 352)
	(10 893)	(1 258)	-	(10 915)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

20. Components of other comprehensive income (continued)

	GROUP			
	2018			
	Gross amount R'000	Non-controlling interest R'000	Tax expense R'000	Net of tax R'000
Exchange differences on translating foreign operations	48 524	(10 062)	–	38 462
Transfer from reserve	126	–	–	126
Unrealised gain on financial assets at fair value through other comprehensive income	(477 013)	(285 325)	–	(762 338)
	(428 363)	(295 387)	–	(723 750)

	GROUP		COMPANY	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000

21. Insurance liabilities and reinsurance assets

Gross

Claims reported and loss adjustment expenses	2 122 985	2 383 751	2 122 985	2 383 751
Claims incurred but not yet reported	584 610	701 675	584 610	701 675
Unearned premium provision	2 054 251	1 684 032	2 054 251	1 684 032
Cash back reserve	77 375	71 918	77 375	71 918
Total gross insurance liabilities	4 839 221	4 841 376	4 839 221	4 841 376

Recoverable from reinsurers

Claims reported and loss adjustment expenses	867 561	1 382 791	867 561	1 382 791
Claims incurred but not yet reported	118 228	165 858	118 228	165 858
Unearned premium provision	460 123	402 619	460 123	402 619
Reinsurance recoveries	565 178	801 193	565 178	801 193
Total reinsurers' share of insurance liabilities	2 011 090	2 752 461	2 011 090	2 752 461

Net

Claims reported and loss adjustment expenses	1 255 425	1 000 960	1 255 425	1 000 960
Claims incurred but not yet reported	466 382	535 817	466 382	535 817
Unearned premium provision	1 594 128	1 281 413	1 594 128	1 281 413
Cash back reserve	77 375	71 918	77 375	71 918
Reinsurance recoveries	(565 178)	(801 193)	(565 178)	(801 193)
Total insurance liabilities – net	2 828 132	2 088 915	2 828 132	2 088 915

Movement in insurance liabilities and reinsurance assets

a) Claims reported and loss adjustment expenses

	2019			2018		
	Gross R'000	Reinsurance asset R'000	Net R'000	Gross R'000	Reinsurance asset R'000	Net R'000
GROUP						
Balance at beginning of year	2 383 751	1 382 791	1 000 960	2 629 385	1 511 577	1 117 808
Claims paid	(5 253 562)	(1 213 166)	(4 040 396)	(6 356 580)	(1 860 518)	(4 496 062)
Claims raised	4 992 796	697 935	4 294 861	6 110 946	1 731 732	4 379 214
Balance at end of year	2 122 985	867 560	1 255 425	2 383 751	1 382 791	1 000 960
COMPANY						
Balance at beginning of year	2 383 751	1 382 791	1 000 960	2 629 385	1 511 577	1 117 808
Claims paid	(5 253 562)	(1 213 166)	(4 040 396)	(6 356 580)	(1 860 518)	(4 496 062)
Claims raised	4 992 796	697 935	4 294 861	6 110 946	1 731 732	4 379 214
Balance at end of year	2 122 985	867 560	1 255 425	2 383 751	1 382 791	1 000 960

	2019			2018		
	Gross R'000	Reinsurance asset R'000	Net R'000	Gross R'000	Reinsurance asset R'000	Net R'000
b) Claims incurred but not yet reported						
GROUP						
Balance at beginning of year	701 675	165 858	535 817	719 527	177 171	542 356
Movements for the year	(117 066)	(47 630)	(69 435)	(17 852)	(11 313)	(6 539)
Balance at end of year	584 610	118 228	466 382	701 675	165 858	535 817
COMPANY						
Balance at beginning of year	701 675	165 858	535 817	719 527	177 171	542 356
Movements for the year	(117 066)	(47 630)	(69 436)	(17 852)	(11 313)	(6 539)
Balance at end of year	584 610	118 228	466 381	701 675	165 858	535 817
c) Unearned premium provision						
GROUP						
Balance at beginning of year	1 684 032	402 619	1 281 413	1 783 781	518 297	1 265 484
Movements for the year	370 219	57 504	312 715	(99 749)	(115 678)	15 929
Balance at end of year	2 054 251	460 123	1 594 128	1 684 032	402 619	1 281 413
COMPANY						
Balance at beginning of year	1 684 032	402 619	1 281 413	1 783 781	518 297	1 265 484
Movements for the year	370 219	57 504	312 715	(99 749)	(115 678)	15 929
Balance at end of year	2 054 251	460 123	1 594 128	1 684 032	402 619	1 281 413
d) Cash-back reserve						
GROUP						
Balance at beginning of year	71 918	–	71 918	39 897	–	39 897
Movements for the year	5 457	–	5 457	32 021	–	32 021
Balance at end of year	77 375	–	77 375	71 918	–	71 918
COMPANY						
Balance at beginning of year	71 918	–	71 918	39 897	–	39 897
Movements for the year	5 457	–	5 457	32 021	–	32 021
Balance at end of year	77 375	–	77 375	71 918	–	71 918
e) Reinsurance recoveries						
GROUP						
Balance at beginning of year	–	801 193	(801 193)	–	786 404	(786 404)
Movements for the year	–	(236 015)	236 015	–	14 789	(14 789)
Balance at end of year	–	565 178	(565 178)	–	801 193	(801 193)
COMPANY						
Balance at beginning of year	–	801 193	(801 193)	–	786 404	(786 404)
Movements for the year	–	(236 015)	236 015	–	14 789	(14 789)
Balance at end of year	–	565 178	(565 178)	–	801 193	(801 193)
Total						
GROUP						
Balance at beginning of year	4 841 376	2 752 461	2 088 915	5 172 590	2 993 449	2 179 141
Claims paid	(5 253 562)	(1 213 166)	(4 040 396)	(6 356 580)	(1 860 518)	(4 496 062)
Movements for the year	258 611	9 874	248 737	(85 580)	(126 991)	41 411
Claims raised	4 992 796	697 935	4 294 861	6 110 946	1 731 732	4 379 214
Reinsurance recoveries	–	(236 015)	236 015	–	14 789	(14 789)
Balance at end of year	4 839 221	2 011 089	2 828 132	4 841 376	2 752 461	2 088 915
COMPANY						
Balance at beginning of year	4 841 376	2 752 461	2 088 915	5 172 590	2 993 449	2 179 141
Claims paid	(5 253 562)	(1 213 166)	(4 040 396)	(6 356 580)	(1 860 518)	(4 496 062)
Movements for the year	258 610	9 874	248 737	(85 580)	(126 991)	41 411
Claims raised	4 992 796	697 935	4 294 861	6 110 946	1 731 732	4 379 214
Reinsurance recoveries	–	(236 015)	236 015	–	14 789	(14 789)
Balance at end of year	4 839 221	2 011 089	2 828 132	4 841 376	2 752 461	2 088 915

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

21. Insurance liabilities and reinsurance assets (continued)

Insurance risk

Exposure to insurance risk

The Group and Company underwrite risks that natural persons, corporate or other entities wish to transfer to an insurer. Such risks may relate to property, accident, personal accident, motor, liability, engineering, marine, credit and other perils which may arise from an insured event. As such the Group and Company are exposed to uncertainty surrounding the timing, frequency and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are by nature random and the actual size and number of events in any one year may vary from those estimated and experienced in prior periods.

The Group and Company underwrite primarily short-tailed risks, that is, insurance under which claims are typically settled within one year of the occurrence of the events giving rise to the claims. Risks that are long tail in nature represent an insignificant portion of the Group's and Company's insurance portfolio. Consequently, whilst the Group and Company may experience variations in its claims patterns from one year to the next, the Group's and Company's exposure at any time to insurance contracts issued more than one year before is limited.

The product features of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts in the Group and Company are described below:

Property

Provide/provides indemnity for loss or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake and malicious damage. These contracts may also include business interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

Accident

Provide/provides indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accidental classes are legal liabilities an insured may incur as a result of accidental damage to third-party property or accidental death or injury to a third party by the insured.

Personal accident

Provide/provides compensation arising out of the death, permanent or temporary total disability of the insured, the family of the insured or the employees of a business. This cover is restricted to certain accidents and does not provide the wider benefits available from the life insurance industry.

Motor

Provides/provides indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all-risks basis providing a wide scope of cover, however the insured may select restricted forms of cover such as fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third-party property or death or injury to a third party are also covered in this class. Warranty and maintenance cover on insured vehicles are incorporated in this class of business.

Engineering

Provide/provides indemnity for losses sustained through the use of machinery and equipment or the erection of buildings and structures. Risks covered by this type of contract include machinery breakdown, business interruption and loss or damage to plant and equipment.

Marine

Provide/provides indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo. Hull covers accidental loss or damage to commercial vessels.

Liability

Provide/provides indemnity for actual or alleged breach of professional duty arising out of the insured's activities, indemnify directors and officers of a company against court compensation and legal defence costs, provide indemnity for the insured against damages consequent to a personal injury or property damage.

The Group and Company distribute these products across personal and commercial policyholders using traditional methods of distribution through intermediaries and direct sales, as well as through strategic partnerships with niche underwriting managers, retailers, banks and motor dealers. These non-traditional distribution arrangements include profit participation measures to promote good risk management amongst the insurers and originators of the business. The Group and Company also provide primary risk policies, which are contracts structured to provide entry level insurance cover for corporate entities.

Limiting exposure to insurance risk

The Group and Company limit its exposure to insurance risk through setting clearly defined underwriting strategy and limits, application of appropriate risk assessment techniques, and centralised management of reinsurance.

The Group's and Company's underwriting strategy ensures diversification of insurance risk in terms of type and amount of risk covered, geographical location and type of industry covered. The underwriting strategy also aims to develop a sufficiently large population of risks to reduce the variability of the expected outcome. The underwriting strategy is detailed in underwriting authorities which set the limits for underwriters in terms of line, size, class of business, geographical location and industry to enforce appropriate risk selection within the portfolio. The underwriting mandates are applicable to both internal underwriters and partners. Management review and periodic internal audits ensure that underwriters operate within these limits.

Analysis of the Group's and Company's risk profiles shows that the Group and Company underwrite a well diversified portfolio of risks and that the Group's and Company's business has a low correlation factor between the types of insurance products and classes it underwrites. Using gross written premium as an indicator, the table below illustrates the Group's and Company's distribution of risks underwritten across classes of business:

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Gross written premium per class of business				
Property	3 933 125	3 577 005	3 852 132	3 471 431
Transportation	423 148	409 099	406 412	393 424
Motor	4 831 933	5 025 304	4 733 775	4 840 600
Accident/health	377 515	499 846	241 793	282 666
Guarantee	188 574	63 467	182 121	61 785
Liability	696 390	542 277	676 489	520 480
Contract/engineering	610 186	608 505	557 990	529 381
Life	49 150	163 924	–	–
Miscellaneous	215 690	289 726	205 329	159 543
Total	11 325 711	11 179 153	10 856 041	10 259 310

The Group and Company underwrite insurance contracts across South Africa as well as Mozambique. Using gross written premium as an indicator the table below illustrates the Group's geographical diversification.

	GROUP	
	2019 R'000	2018 R'000
South Africa	10 856 041	10 259 310
Foreign	469 670	919 843
Total	11 325 711	11 179 153

Ongoing review and analysis of underwriting information enables the Group and Company to monitor its risks and take timely corrective action. The ability to adjust premiums allows the Group and Company to mitigate the risk of underwriting losses by addressing adverse loss ratios in terms of different classes of business and different portfolios or clients. The risk of fraudulent claims is reduced by internal controls embedded in the claims handling processes and specific techniques developed to proactively detect fraudulent claims.

Reinsurance governance

The Group and Company have implemented an integrated risk management framework to manage risk in accordance with the Group's and Company's risk appetite. The Group Reinsurance Committee was integrated into the Group Actuarial Committee (ACTCOMM) in March 2018, with this Board subcommittee providing oversight of reinsurance activities.

The main objective of the ACTCOMM is to provide oversight of relevant actuarial, financial and business risks, including the Capital Position and Asset-Liability matching position of the Company. The ACTCOMM provides oversight of the Company's reinsurance activities in accordance with the approved Reinsurance Risk Management Policy, reviewing the reinsurance programme for cost efficiency and security while ensuring compliance with related regulatory requirements.

At least annually, the Head of Actuarial Function expresses an independent opinion on the adequacy of reinsurance arrangements and notifies the Board if there is any reason for concern.

Reinsurance strategy

The Group and Company utilises third-party reinsurance cover to mitigate risk from single events or risk accumulation which could significantly impact earnings or economic capital. This cover is placed on local and international reinsurance markets by the Reinsurance Department.

Dynamic financial analysis is performed each year to inform the risk retention and reinsurance purchase, including analysis of the economic capital position. Hollard's insurance risk and return position is tested against a wide range of reinsurance alternatives including proportional, non-proportional and aggregate structures.

The Group and Company uses catastrophe modelling to assess its exposure to low-frequency high-severity risks, the most common of these risks relates to natural catastrophes such as earthquake, flood, wildfire and windstorm. Catastrophe reinsurance is specifically put in place to reduce the threat associated with such events.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

21. Insurance liabilities and reinsurance assets (continued)

Insurance risk (continued)

Risk retention parameters

The Company undertakes the insuring of risks appropriate to the risk/reward balance and the Group's and Company's absolute capacity in terms of shareholder funds and free reserves. The Company implements reinsurance structures to balance cost against risk mitigation and volatility, taking into account the risk appetite limits and surplus capital levels.

Counterparty risk and SAM Equivalence

The Company only utilises reinsurers with credit ratings A- or higher by S&P, or equivalent ratings by A.M. Best, Fitch or Moody's, unless express permission is sought from the ACTCOMM. The total exposure to each reinsurer is monitored across catastrophe cover, treaty and facultative reinsurance to ensure sufficient diversification across counterparties.

Wherever possible, reinsurers in SAM equivalent jurisdictions are preferred given the capital and regime security considerations. The Company's Balance Sheet and Investment Management function regularly monitors the credit ratings of Hollard counterparties including reinsurers.

Treaty placing process

The treaty placing process is the responsibility of the Reinsurance Department, accountable to the Group Chief Underwriting Officer. The Group Chief Underwriting Officer reports directly to the CEO and is accountable to the Board via the RCOM.

The development of claims liabilities provides an indicator of the Group's and Company's ability to estimate the ultimate value of claims. The majority of the Group's and Company's insurance contracts are classified as short tailed. The shorter settlement period for this type of business allows the Group and Company to achieve a higher degree of certainty about the estimated costs of claims. The longer time required to assess the emergence of a long tail claim makes the estimation process more uncertain for these type of claims. The Group's and Company's limited exposure to long-tailed business is in the personal accident, third-party motor liability, specialised liability and some engineering and marine classes. Actuarial valuations of the required technical provisions for these classes are performed regularly.

Process used to determine significant assumptions

Insurance risks are unpredictable and the Group and Company recognise that it is impossible to forecast with absolute certainty the future claims payable under existing insurance contracts. Actuarial valuations are performed on pockets of the business to ensure that the technical provisions are adequate.

Claim provisions

The Group's and Company's outstanding claims provisions include notified claims as well as incurred but not yet reported claims.

Notified claims

Claims provisions are based on previous claims expenditure, knowledge of events, terms and conditions of the relevant policies and interpretation of circumstances.

Each notified claim is assessed on a separate, case-by-case basis with due regard to the specific circumstances, information available from the insured and loss adjuster and past experience with similar claims. The Group and Company employ staff experienced in claims handling and rigorously apply standardised policies and procedures around claims assessment. In addition the Group and Company utilise the services of specialised administrators to perform the claims assessment process for some of its business. The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Estimates are reviewed regularly and updated if new information becomes available.

Claims incurred but not yet reported (IBNR)

The majority of the Group's and Company's IBNR is calculated using triangulation methods, and is held at a 75th percentile. As a result, different levels of provisions are applicable for different classes of business and appropriateness is assessed against the Group's and Company's past claims experience.

The Company's internal actuaries review the adequacy of the Company's claims provisions. The chain ladder method which involves the analysis of historical claims development factors and the selection of the estimated development factors based on the historical pattern is used to assess the adequacy of the reserves.

When testing the appropriateness of the reserves the provision for notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries.

Unearned premium provisions

The Group and Company raise provisions for unearned premiums on a basis which reflects the underlying risk profile of the insurance contracts. The majority of the Group's and Company's insurance contracts have an even risk profile and the unearned premium provisions, raised at the commencement of the contract are released evenly over the period of insurance using a time-proportionate basis as prescribed in Board Notice 169 of 2011. The provisions for unearned premiums are initially determined on a gross level and thereafter the reinsurance impact is recognised.

Assumptions

The main assumption is that the past experience will be indicative of future experience.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
22. Deferred acquisition costs (DAC)				
Deferred commission and acquisition costs net of reinsurance	109 729	116 443	109 729	116 443
Current	109 729	116 443	109 729	116 443
Reconciliation of changes in acquisition costs				
Balance at beginning of year	116 443	143 311	116 443	143 311
Acquisition costs deferred during the year	101 836	99 988	101 836	99 988
Acquisition costs expensed during the year	(108 550)	(126 856)	(108 550)	(126 856)
Balance at the end of financial year	109 729	116 443	109 729	116 443

23. Claims development tables

The presentation of the claims development tables for the Company is based on the actual date of the event that caused the claim (accident year basis).

The claims development tables represent the development of actual claims paid.

Reporting year	Total R'000	Claims paid in respect of:							
		2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000	2013 R'000	2012 and earlier R'000
GROUP									
Gross									
Actual claims costs									
2019	5 302 190	4 275 208	585 575	233 585	116 368	45 378	23 736	11 442	10 897
2018	6 348 577	-	4 466 794	1 676 791	138 797	28 185	5 155	11 108	21 745
2017	6 649 542	-	-	4 791 745	1 673 813	100 593	26 144	54 483	2 764
2016	6 003 250	-	-	-	3 994 269	1 739 521	187 651	51 445	30 363
2015	5 241 627	-	-	-	-	4 017 569	1 127 986	63 532	32 540
2014	4 249 764	-	-	-	-	-	3 513 019	646 968	89 778
2013	3 208 605	-	-	-	-	-	-	2 620 643	587 962
2012	3 048 362	-	-	-	-	-	-	-	3 048 362
2011	3 036 839	-	-	-	-	-	-	-	3 036 839
2010	2 912 078	-	-	-	-	-	-	-	2 912 078
2009	2 585 923	-	-	-	-	-	-	-	2 585 923
Cumulative payments to date	48 586 756	4 275 208	5 052 369	6 702 122	5 923 247	5 931 246	4 883 691	3 459 621	12 359 251
Net									
Actual claims costs									
2019	4 097 885	3 318 872	444 489	177 738	86 900	34 207	18 174	8 941	8 562
2018	4 561 878	-	3 422 536	1 050 394	71 579	11 136	151	5 191	891
2017	4 704 484	-	-	3 504 387	1 084 856	69 899	23 567	17 845	3 930
2016	4 620 334	-	-	-	3 582 355	939 705	65 565	18 238	14 471
2015	4 282 180	-	-	-	-	3 423 731	811 316	26 658	20 475
2014	3 436 912	-	-	-	-	-	2 874 337	519 442	43 133
2013	2 753 103	-	-	-	-	-	-	2 130 371	622 732
2012	2 629 894	-	-	-	-	-	-	-	2 629 894
2011	2 619 606	-	-	-	-	-	-	-	2 619 606
2010	2 490 920	-	-	-	-	-	-	-	2 490 920
2009	2 198 161	-	-	-	-	-	-	-	2 198 161
Cumulative payments to date	38 395 354	3 318 872	3 867 027	4 732 519	4 825 692	4 478 678	3 793 113	2 726 687	10 652 777

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
24. Borrowings				
Current borrowings				
Unsecured				
Non-interest bearing borrowings				
These loans have no fixed terms of repayment.	232	232	-	-
Total	232	232	-	-
Non-current borrowings				
Unsecured				
Interest bearing loan	600 452	600 299	600 452	600 299
The loan bears interest at 3month JIBAR + 215bps and is serviced quarterly. The loan is repayable on the tenth anniversary of the advance date (12 August 2016).				
Interest bearing loan	354	354	-	-
The loan bears interest at prime less 1% and is repayable over 48 months.				
Total	600 806	600 653	600 452	600 299
25. Employee benefits				
At beginning of year	236 916	235 098	236 916	235 098
Movement	37 482	1 818	37 482	1 818
- additional provisions raised during the year	161 209	122 339	161 209	122 339
- leave pay provision utilised during the year	(5 509)	(8 584)	(5 509)	(8 584)
- incentive bonus utilised during the year	(118 218)	(111 937)	(118 218)	(111 937)
Balance at end of year	274 398	236 916	274 398	236 916

Analysis of provisions

Current

Leave pay

In terms of the Group's and Company's policy, employees are entitled to accumulate a maximum of 25 days' leave and the leave pay provision is calculated on that basis. Any leave accumulated over this number is forfeited by the employees concerned. Whilst all employees are encouraged to take their full annual leave, they are entitled to encash a maximum of 5 days' leave (taxed) in a leave cycle. When employees who have leave due to them cease their employment with the Group, all accumulated and accrued leave is paid to them at the current total cost to company rate as part of their final salary payment, limited to a maximum number of 25 days.

The Group's and Company's provision for leave pay amounted to R31 845 000 and R30 433 000 respectively at the statement of financial position date (2017: R28 615 000 and R28 615 000 respectively).

Incentive scheme

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

The Group's and Company's provision for staff incentives amounted to R242 553 000 and R242 553 000 respectively at the statement of financial position date (2018: R206 483 000 and R206 483 000 respectively).

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
26. Trade and other payables				
Trade and other creditors	689 434	735 976	693 351	739 447
Group company payables	80 064	67 720	36 324	33 436
Other liabilities	59 963	34 012	59 731	33 793
	829 461	837 708	789 406	806 676

All balances are current.

27. Interest received and dividend income

Interest received

Financial assets measured at amortised cost

	146 690	142 727	146 383	140 692
Interest on call and term deposits	131 277	118 454	130 986	116 451
Sundry interest income	15 412	24 273	15 397	24 241

Financial assets at fair value through profit or loss

	75 712	92 756	56 168	55 412
Interest received on investments	28 488	24 236	28 567	24 236
Sundry interest income (on bank accounts, etc.)	47 224	68 520	27 601	31 176

Financial assets held-to-maturity

	31 864	24 171	-	-
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Total interest received

	254 266	259 654	202 551	196 104
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Dividends received

Financial assets at fair value through profit or loss

Ordinary shares – dividends received				
– Quoted shares	44 082	41 403	44 082	41 403
– Unquoted shares	3 194	2 938	49 138	38 411
Preference shares – dividends received				
– Quoted shares	11 990	12 314	11 990	12 314
– Unquoted shares	86 287	101 105	86 287	101 105
Unit trusts – dividends received				
– Unquoted shares	3 150	4 109	3 150	2 759

Total dividends received

	148 702	161 869	194 646	195 992
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Total interest and dividend income

	402 968	421 523	397 197	392 096
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Interest paid

Interest paid – collateral deposit	-	29	-	29
Interest paid – treaty reserves	17 627	26 924	17 627	26 924
Interest paid – general	61 202	62 796	56 618	58 875
Interest paid – SARS	1 646	21 785	1 646	21 784

Total interest paid

	80 475	111 534	75 891	107 612
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28. Realised profits/(losses) on disposal of investments and other financial assets

Listed investments	(9 374)	536	(9 374)	536
Unlisted investments, subsidiaries and associates	5 132	(903)	5 132	(903)
Non-current assets held for sale	-	(437 920)	-	477 527
	(4 242)	(438 287)	(4 242)	477 160
Net realised (losses)/profits on fair value through profit or loss	(4 242)	(438 287)	(4 242)	477 160

29. Unrealised profits/(losses) on revaluation of investments and other financial assets

Listed investments	(37 404)	120 494	(37 404)	109 275
Unlisted investments, subsidiaries and associates	68 425	527 106	68 423	(321 404)
	31 021	647 600	31 018	(212 129)
Net unrealised profits/(losses) on fair value through profit or loss assets	31 021	647 600	31 018	(212 129)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	2019			2018		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
30. Profit before taxation						
Profit before taxation is determined after charging:						
Directors' and prescribed officers' emoluments						
Executive Directors						
<i>Director A</i>						
Basic salary	-	-	-	634	634	1 268
Bonus and performance related payments	-	-	-	7 884	7 884	15 768
Estimated monetary value of other benefits	-	-	-	144	144	288
Pension/provident fund contributions	-	-	-	73	73	146
	-	-	-	8 735	8 735	17 470
<i>Director B</i>						
Basic salary	1 463	4 389	5 852	918	2 754	3 672
Bonus and performance related payments	1 853	5 559	7 412	1 213	3 637	4 850
Estimated monetary value of other benefits	20	60	80	37	109	146
Pension/provident fund contributions	164	492	656	103	309	412
	3 500	10 500	14 000	2 271	6 809	9 080
<i>Director C</i>						
Basic salary	646	1 938	2 584	-	-	-
Bonus and performance related payments	168	504	672	-	-	-
Estimated monetary value of other benefits	27	81	108	-	-	-
Pension/provident fund contributions	75	225	300	-	-	-
	916	2 748	3 664	-	-	-
<i>Director D</i>						
Basic salary	263	789	1 052	980	2 940	3 920
Bonus and performance related payments	1 321	3 963	5 284	3 043	9 127	12 170
Estimated monetary value of other benefits	11	33	44	79	235	314
Pension/provident fund contributions	30	90	120	114	340	454
	1 625	4 875	6 500	4 216	12 642	16 858
Non-Executive Directors						
Director A	178	534	712	143	429	572
Director B	157	472	629	143	427	570
Director C	221	665	886	202	606	808
Director D	226	680	906	305	915	1 220
Director E	153	460	613	135	405	540
Director F	194	582	776	208	622	830
Director G	304	912	1 216	286	858	1 144
Director H	130	391	521	127	379	506
	1 563	4 696	6 259	1 549	4 641	6 190
Prescribed officers						
<i>Prescribed officer A</i>						
Basic salary	2 285	761	3 046	2 150	717	2 867
Bonus and performance related payments	2 999	1 000	3 999	4 263	1 421	5 684
Estimated monetary value of other benefits	155	51	206	150	50	200
Pension/provident fund contributions	271	90	361	256	85	341
	5 709	1 902	7 611	6 819	2 273	9 092
<i>Prescribed officer B</i>						
Basic salary	322	965	1 287	520	1 560	2 080
Bonus and performance related payments	791	2 375	3 166	697	2 092	2 789
Estimated monetary value of other benefits	8	23	31	11	33	44
Pension/provident fund contributions	36	108	144	58	175	233
	1 157	3 471	4 628	1 286	3 860	5 146

	2019			2018		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
<i>Prescribed officer C</i>						
Basic salary	2 227	742	2 969	2 098	699	2 797
Bonus and performance related payments	3 205	1 068	4 273	4 420	1 473	5 893
Estimated monetary value of other benefits	235	78	313	224	75	299
Pension/provident fund contributions	271	90	361	256	85	341
	5 937	1 978	7 915	6 998	2 332	9 330
<i>Prescribed officer D</i>						
Basic salary	727	2 180	2 907	686	2 057	2 743
Bonus and performance related payments	1 272	3 818	5 090	1 764	5 291	7 055
Estimated monetary value of other benefits	31	94	125	30	90	120
Pension/provident fund contributions	83	250	333	79	236	315
	2 113	6 342	8 455	2 559	7 674	10 233
<i>Prescribed officer E</i>						
Basic salary	645	1 937	2 582	609	1 826	2 435
Bonus and performance related payments	822	2 468	3 290	1 132	3 395	4 527
Estimated monetary value of other benefits	12	37	49	12	37	49
Pension/provident fund contributions	72	217	289	68	205	273
	1 551	4 659	6 210	1 821	5 463	7 284
<i>Prescribed officer F</i>						
Basic salary	553	1 658	2 211	523	1 569	2 092
Bonus and performance related payments	587	1 763	2 350	808	2 425	3 233
Estimated monetary value of other benefits	70	209	279	65	194	259
Pension/provident fund contributions	68	206	274	65	194	259
	1 278	3 836	5 114	1 461	4 382	5 843
<i>Prescribed officer G</i>						
Basic salary	2 240	746	2 986	2 118	706	2 824
Bonus and performance related payments	3 008	1 002	4 010	3 991	1 330	5 321
Estimated monetary value of other benefits	115	38	153	104	35	139
Pension/provident fund contributions	260	86	346	245	82	327
	5 623	1 872	7 495	6 458	2 153	8 611
<i>Prescribed officer H</i>						
Basic salary	2 366	788	3 154	-	-	-
Bonus and performance related payments	1 192	398	1 590	-	-	-
Estimated monetary value of other benefits	104	34	138	-	-	-
Pension/provident fund contributions	275	91	366	-	-	-
	3 936	1 311	5 247	-	-	-
<i>Prescribed officer I</i>						
Basic salary	757	2 269	3 026	592	1 776	2 368
Bonus and performance related payments	928	2 782	3 710	672	2 015	2 687
Estimated monetary value of other benefits	6	18	24	5	14	19
Pension/provident fund contributions	85	254	339	66	199	265
	1 776	5 324	7 100	1 335	4 004	5 339
Total directors and prescribed officers emoluments	36 684	53 513	90 197	47 054	63 422	110 476

During the current financial year the following changes were made to the directors and prescribed officers emoluments:

The directors emoluments splits between company and rest of group were adjusted for the prior financial year to accurately reflect the provision of services.

The prescribed officers emoluments were adjusted for the prior financial year to accurately reflect the composition of prescribed officers.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
30. Profit before taxation (continued)				
Auditor's remuneration				
Audit fees	8 989	11 579	7 163	9 847
	8 989	11 579	7 163	9 847
Depreciation				
Office equipment	25 363	18 796	25 363	18 796
Motor vehicles	1 542	863	1 542	863
Leasehold improvements	2 289	2 021	2 289	2 021
	29 194	21 680	29 194	21 680
Revaluation of intangibles	8 061	8 061	–	8 061
Expenses for the acquisition of insurance contracts				
Commission	967 099	962 400	909 741	894 333
Impairment losses on financial assets				
– Impairment loss on loans to associates, subsidiaries and other	(226)	–	(226)	63 190
– Impairment write-back on unlisted investment	–	(861)	–	(861)
Other expenditure				
Amortisation of intangible assets	66 843	48 315	66 843	48 316
Impairment of intangible assets	24 548	–	24 548	–
Write back of intangible asset	–	1 227	–	1 226
Write-off of premium debtors	18 948	–	18 948	–
Write back of property and equipment	–	1 321	–	1 320
Administration fees paid	889 469	896 179	889 469	896 179
Movement in net provision for claims reported and loss adjustment expenses	254 465	(116 848)	254 465	(116 848)
Professional fees	73 659	92 763	73 659	92 763
Operating lease rentals – building	41 329	37 274	41 329	37 274
Operating lease rentals – computer	9 740	13 350	9 740	13 350
Research and development	(2)	3	(2)	3
	190 794	453 020	175 005	428 389
31. Taxation				
South African normal taxation:				
– Current year	235 309	162 249	217 392	201 918
– Prior year	–	264 150	–	174 616
Deferred taxation:				
– Current year	(44 519)	22 778	(42 391)	50 923
– Prior year	–	–	–	302
Withholding tax and foreign tax	4	3 843	4	630
	190 794	453 020	175 005	428 389
All taxation is payable in respect of continuing operations.				
Tax rate reconciliation:	%	%	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0	28.0	28.0
Normal taxation – prior year	1.3	39.4	1.3	27.0
Capital gains tax	3.1	–	3.1	–
Permanent differences				
– Exempt income dividends not taxable	(11.3)	(6.9)	(11.3)	(8.3)
– Unrealised gains not taxable	0.5	8.1	0.5	9.1
– Other non-taxable income/non-deductible expenses	2.4	7.2	2.7	10.2
Effective rate	24.0	75.7	24.3	66.2

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

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

Profit before taxation	793 417	760 389	719 857	647 492
Adjustments for:				
Depreciation	29 194	21 680	29 194	21 680
Write-off of property and equipment	-	1 320	-	1 320
Write-off of loans	9 042	402	9 042	402
Intangible asset amortisation	66 843	48 316	66 843	48 316
Intangible asset impairment	24 548	-	24 548	-
Write-off of intangible asset	-	1 226	-	1 226
Loss on disposal of investments	4 242	367	4 242	367
Profit on foreign currency translation difference	-	(14 808)	-	-
Net interest and dividend income	(322 493)	(309 989)	(321 306)	(284 484)
Unrealised loss/(gain) on revaluation of listed investments	37 404	(109 275)	37 404	(109 275)
Unrealised gain on revaluation of unlisted investments	(73 600)	(73 580)	(77 994)	(65 202)
Unrealised gain on revaluation of bonds	(1 484)	(544)	(1 484)	(544)
Unrealised loss/(gain) on revaluation of associates	-	-	9 980	(32 005)
Unrealised loss/(gain) on revaluation of subsidiaries	-	-	11 093	(8 627)
Unrealised gain on intangible assets	-	(8 061)	-	(8 061)
Profit on disposal of non-current assets held for sale	-	(53 476)	-	-
Unrealised loss/(gain) on revaluation of non-current assets held for sale	-	39 458	(10 017)	(50 598)
Impairment allowances on loans	(226)	63 190	(226)	63 190
Impairment allowances on premium debtors	110 461	(3 278)	110 461	(3 278)
Share of profits in associates	(50 544)	(50 282)	-	-
Operating cash flows before working capital changes	626 805	313 055	611 636	221 919
Working capital changes	424 062	(104 595)	468 082	(9 517)
(Increase)/decrease in insurance receivables, loans and other receivables	(157 926)	145 590	(153 739)	102 663
Decrease in insurance liabilities	(2 155)	(331 215)	(2 155)	(331 214)
Increase in reinsurance assets	741 371	240 988	741 371	240 988
Decrease in deferred acquisition costs	6 714	26 869	6 714	26 868
(Decrease)/increase in reinsurance liabilities	(147 577)	12 950	(147 577)	12 950
Net movement in non-current assets held for sale	(54 703)	(163 116)	-	-
Increase/(decrease) in trade and other accounts payables and employee benefits	38 339	(36 661)	23 468	(61 772)
Cash generated from operations	1 050 867	208 460	1 079 719	212 401

33. Dividends paid

Amounts due at beginning of year	-	-	-	-
Amounts declared for the year	(414 089)	(595 503)	(414 089)	(595 503)
Amounts declared to non-controlling interest	-	-	-	-
Amounts due at end of year	-	-	-	-
Cash amounts paid	(414 089)	(595 503)	(414 089)	(595 503)

34. Dividends received

Amounts due at beginning of year	46 368	29 924	46 368	29 924
Dividends received per profit and loss statement	148 702	161 869	194 646	195 992
Impairment of accrued dividends per profit and loss statement	-	860	-	860
Amounts due at end of year	(66 322)	(46 368)	(66 322)	(46 368)
Cash amounts received	128 748	146 285	174 692	180 408

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
35. Taxation paid				
Amounts due at beginning of year	(464 053)	(61 345)	(453 276)	(53 656)
Amounts charged to profit and loss statement	(190 794)	(453 020)	(175 005)	(428 389)
Amounts due at end of year	133 945	464 053	124 857	453 276
Cash amounts paid	(520 903)	(50 312)	(503 424)	(28 769)
Amounts due at end of year comprised as follows:				
Deferred income tax asset	(103 609)	(85 196)	(103 609)	(85 196)
Deferred income tax liability	208 401	234 070	199 333	223 311
Current taxation asset	(8)	(8)	-	-
Current taxation liability	29 160	315 187	29 134	315 161
	133 945	464 053	124 857	453 276

36. Business combinations

36.1 Summary of business combinations – 30 June 2018

Disposal of investments in subsidiary:

	Comingo Trading (Pty) Ltd	Total
Loans and other receivables	100	100
Trade and other payables	(100)	(100)
Proceeds on disposal of subsidiary	100	100
Net cash outflow arising on disposal:		
– Cash and cash equivalents	-	-
Cash and cash equivalents disposed of	100	100

36.1.1 Disposal of 100% shareholding in the Comingo Trading (Pty) Ltd

During the prior financial year, the Group disposed of 100% of its investments in Comingo Trading (Pty) Ltd. At the date of disposal, the fair value of the investment in the Company was Rnil and the net asset value was Rnil. The Company generated R100 gain on disposal whereas the Group generated no gain or loss on disposal.

36.1.2 Acquisition of 100% of Bidcap Investments (Pty) Ltd

On 1 October 2018, the Group acquired 100% shareholding in Bidcap Investments (Pty) Ltd for a consideration of R1.9 million. At the date of acquisition, the carrying value of the investment in the company was Rnil.

36.1.3 Acquisition of 35% of Buckingham Risk Solutions (Pty) Ltd

On 1 October 2018, the Group acquired a 35% shareholding in Buckingham Risk Solutions (Pty) Ltd for a consideration of R3.4 million. At the date of acquisition, the carrying value of the investment in the company was Rnil. The remaining 65% shareholding is held by Bidcap Investments (Pty) Ltd, effectively Buckingham Risk Solutions (Pty) Ltd is a subsidiary of The Hollard Insurance Company.

36.1.4 Acquisition of 100% of Primus Risk Services Investments (Pty) Ltd

On 1 October 2018, the Group acquired 100% shareholding in Primus Risk Services Investments (Pty) Ltd for a consideration of R1.3 million. At the date of acquisition, the carrying value of the investment in the company was Rnil.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
37. Proceeds on disposal of investments				
Proceeds on disposal of listed investments	66 495	59 369	66 495	59 369
Proceeds on disposal of unlisted investments	150 443	205 855	150 443	205 855
	216 938	265 224	216 938	265 224

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
38. Proceeds on disposal of non-current assets and liabilities held for sale				
Fair value of assets sold	-	537 003	-	483 527
Profit/(loss) on disposal	-	(53 476)	-	-
	-	483 527	-	483 527

39. Capital expenditure

The following capital expenditure budget has been approved by the Board for the financial year ending 30 June 2020:

Furniture, office equipment and computer hardware and software			160 612	129 000
			160 612	129 000

None of this expenditure has been contracted for and will be funded from internal sources.

40. Commitments and contingencies

Operating lease commitment

The Hollard Life Assurance Company Limited entered into a ten-year lease agreement with Hollard Life Properties (Pty) Ltd, to sub-lease the Arcadia premises with effect from 1 July 2016. The lease runs to 30 June 2026. With effect from 1 July 2009 the lease agreement between The Hollard Life Assurance Company Limited and Hollard Life Properties (Pty) Ltd to sub-lease the Arcadia (Phase 1) premises was restructured. Part of the restructuring resulted in a sublease agreement between The Hollard Life Assurance Company Limited and The Hollard Insurance Company Limited for the same period.

	COMPANY	
	2019 R'000	2018 R'000
The payments recognised as an expense for the year amount to	41 329	37 274
	41 329	37 274

41. Contingent liability

The Hollard Insurance Company, in the ordinary course of business enters into transactions which expose the company to tax, legal and business risk. Provisions are made for known liabilities which are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or where it is considered improbable that an outflow would result, are noted as a contingent liability. This is in accordance with IAS 37: *Provisions, contingent liabilities and contingent assets*.

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

42. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund with 446 (2018: 366) employees of the Company being members of the fund. The Company and employees' contributions to the fund charged against income for the year were R22 606 800 (2018: R12 015 770).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund with 907 (2018: 785) employees of the Company being members of the fund. The Company and employees' contribution to the fund charged against income for the year were R43 703 208 (2018: R26 131 107).

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

43. Related party transactions

Related party relationships exist between the Group, fellow subsidiaries, associated companies and the holding company. All material transactions are at arm's length.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

43. Related party transactions (continued)

The following transactions were carried out with related parties during the year:

	COMPANY			
	Sum insured		UPR	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Guarantee policies issued				
Affiliated companies:				
• Advantage Motor Plan (Pty) Ltd	10 000	10 000	10 000	10 000
• Biz Afrika 1932 (Pty) Ltd	-	3 374	-	3 379
• Hollard Insurance Company of Namibia Limited (incorporated and operational in Namibia)	-	10 000	-	-
• NER Estates – Zanray Investments	6 141	6 141	-	-
• Brokoop Insurance Brokers (Pty) Ltd	2 746	2 746	-	-
• UTZ Consulting (Pty) Ltd	300	300	-	-
• PWV Insurance Brokers	37 930	37 930	-	-
• Sapcor (Pty) Ltd	14 800	14 800	-	-
• Insurance Zone Insurance Brokers (Pty) Ltd	13 469	13 469	-	-
• RBS	35 500	-	-	-
• NMG and C&A Holdings	25 000	-	-	-

The guarantee policies were issued on commercial terms and conditions at market related rates.

	COMPANY	
	2019 R'000	2018 R'000
Loans to/(from) related parties	(445 663)	(475 577)
Loans to subsidiaries	1 664	1 664
Loans to associates	-	10 142
Loans to Hollard Specialist Insurance	34 547	1 876
Loans to Hollard Specialist Life Assurance	410	-
Loans to Syndicate Investments (Pty) Ltd	61 225	55 107
Loans to Syringa Tree (Pty) Ltd	24 768	22 387
Loans to ITOO	13 418	15 310
Loans from Sandolive Investments (Pty) Ltd	(6 999)	(6 999)
Loans to SMART (Pty) Ltd	5 247	5 247
Loans to Hollard Holdings (Pty) Ltd	15 008	15 005
Loans from Fundco (RF) (Pty) Ltd*	(600 299)	(600 156)
Loan to C Shorter	2 480	2 298
Loan to G Venter	2 868	2 541
Loans to prescribed officers		
M. Shezi	2 100	1 946
B. Wyborn	6 446	5 973
Management fees		
- Paid to Hollard Life Assurance Company Limited	208 965	260 653
Dividends		
- Dividends received from related parties	49 138	38 411
Interest		
- Interest received from related parties	4 584	3 921
Investment policy with		
- The Hollard Life Assurance Company Limited	1 090 854	995 708
Key management compensation		
- Salaries, bonuses and other short-term employee benefits	59 774	50 870
(Key management refers to Executive Committee members excluding Executive Directors)		
Other transactions		
- Rent paid to Hollard Life Properties (Pty) Ltd	41 329	37 274

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

Refer to notes 8 and 9 on page 41, as well as note 44 on page 67 of these annual financial statements for details of loans with Group companies and other related parties.

44. Subsidiaries, associates and joint venture

Carrying value of interest in subsidiaries

	Nature of business	Place of business	Issued share capital R	Proportion held 2019 %	Proportion held 2018 %	2019 Shares R'000	2019 Indebtedness R'000	2018 Shares R'000	2018 Indebtedness R'000
Directly held subsidiaries									
Apex Underwriting Managers (Pty) Ltd	B	RSA	100	100.00	100.00	-	2 034	-	1 944
Casa Luigi Properties (Pty) Ltd	A	RSA	100	100.00	100.00	-	-	-	-
Electronic Risk Underwriting Managers (Pty) Ltd	B	RSA	100	100.00	100.00	-	-	-	-
EquiMed Underwriting Managers (Pty) Ltd	B	RSA	100	100.00	100.00	-	-	-	-
Ground Lily Investments (Pty) Ltd	C	RSA	1	100.00	100.00	-	-	-	-
Hollard Portfolio Management (Pty) Ltd	C	RSA	1	100.00	100.00	45 432	-	49 867	-
JJK Marketing Consultants (Pty) Ltd	B	RSA	100	100.00	100.00	-	-	-	-
Newsshelf 33 (Pty) Ltd	C	RSA	1	100.00	100.00	-	-	-	-
Precept Supply Chain Management (Pty) Ltd	D	RSA	3 001 010	100.00	100.00	-	-	-	-
Accredited Investments (Pty) Ltd	C	RSA	1	100.00	100.00	-	-	-	-
Leungo Investments (Pty) Ltd	A	RSA	100	100.00	100.00	-	37 677	-	37 677
Execuline Underwriting Managers (Pty) Ltd	B	RSA	100	100.00	100.00	-	-	-	-
Primus Risk Services Investments (Pty) Ltd	C	RSA	100	100.00	-	-	-	-	-
Bidcap Investments (Pty) Ltd	C	RSA	100	100.00	-	-	-	-	-
Buckingham Risk Solutions (Pty) Ltd	B	RSA	100	100.00	-	-	-	-	-
						45 432	39 711	49 867	39 621
Impairment on loan						-	(38 047)	-	(37 957)
						45 432	1 664	49 867	1 664

The investment in Hollard Mocambique Companhia de Seguros, S.A.R.L (incorporated and operational in Mozambique) is held for sale and details are disclosed in note 16 on page 48 of these financial statements.

Carrying value of interest in associates

	Nature of business	Issued share capital R	Proportion held 2019 %	Proportion held 2018 %	2019 Shares R'000	2019 Indebtedness R'000	2018 Shares R'000	2018 Indebtedness R'000
Directly held associates								
Legal Expenses Group Africa Limited	F	1 700	39.90	39.90	229 788	-	239 768	-
Louwfut Beleggings 1077 (Pty) Ltd	A	1 000	46.20	46.20	-	-	-	12 855
					229 788	-	239 768	12 855
Impairment on loans					-	-	-	(2 714)
					229 788	-	239 768	10 141

Carrying value of interest in joint venture

	Nature of business	Issued share capital R	Proportion held 2019 %	Proportion held 2018 %	2019 Shares R'000	2019 Indebtedness R'000	2018 Shares R'000	2018 Indebtedness R'000
Directly held joint ventures								
Exiliti Services (Pty) Ltd	E	400	50.00	50.00	-	10 943	-	10 943
Impairment on loans						(10 943)		(10 943)
					-	-	-	-

Nature of business

- A Property holding
- B Underwriting managers
- C Investment holding
- D Venture capital
- E Business process outsourcing services
- F General insurance
- G Administration

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

45. Going concern

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

46. Subsequent events

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

DIRECTORATE AND ADMINISTRATION

To 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	WT Lategan (resigned 30 September 2018)
Group Chief Financial Officer	DJ Viljoen (appointed 1 October 2018)
Non-Executive Director	NG Kohler
Independent Non-Executive Director	R Fihrer
Independent Non-Executive Director	MR Bower
Independent Non-Executive Director	BF Mohale
Independent Non-Executive Director	AS Nkosi
Independent Non-Executive Director	B Ngonyama
Independent Non-Executive Director	S Patel
Independent Non-Executive Director	NV Simamane
Independent Non-Executive Director	SC Gilbert

Company Secretary

Corpstat Governance Services (Pty) Ltd (appointed 1 August 2019)

Public Officer

U Murphy

Compliance Officer

W Luus

Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P O Box 87419
Houghton
2041

Website

www.hollard.co.za

Nature of business

The Company transacts short-term insurance business.

Auditors

Deloitte & Touche
Building 8
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead
Sandton

Registration number

1952/003004/06

Hollard.

THE HOLLARD LIFE ASSURANCE COMPANY LIMITED 2019



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

These annual financial statements have been prepared by the Financial Manager Chadd Bartlett (CA(SA)), under supervision of the Head of Finance, Prevashini Naicker (CA(SA)).

*(Registration number: 1993/001405/06)
Audited consolidated annual financial statements
for the year ended 30 June 2019*

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GROUP SALIENT FEATURES

for the year ended 30 June 2019

	2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000
Statement of profit or loss information					
Gross premium income ⁽¹⁾	6 729 148	6 497 835	5 859 951	5 559 092	5 175 795
Net written premium income ⁽²⁾	5 024 891	4 990 758	4 515 535	4 919 405	4 411 143
Investment income ⁽³⁾	238 329	483 223	580 816	659 883	613 552
Net insurance claims	2 089 957	2 043 762	1 321 759	1 531 859	1 612 730
Profit attributable to equity holders of the parent	529 414	686 274	854 885	1 264 206	1 073 562
Statement of financial position information					
Insurance liabilities	17 481 388	10 211 542	7 867 088	9 363 579	10 177 737
Equity attributable to equity holders of the parent	1 208 734	1 480 513	1 459 195	1 898 546	2 321 795
Total assets	21 754 834	14 349 989	11 551 833	13 048 984	14 173 460
Financial assets (i.e. listed investments and unlisted investments)	17 866 468	10 998 545	8 874 154	10 466 866	11 154 706
Cash and cash equivalents	2 534 326	2 046 510	1 241 566	1 716 828	1 970 839
Actuarial information					
Value of in-force business ⁽⁴⁾	5 487 108	5 131 678	5 075 131	4 558 706	4 906 397
Total embedded value⁽⁴⁾	6 731 984	6 629 552	6 553 718	6 471 975	7 280 584

(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's holding company joint venture partners.

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

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

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

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

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

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

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

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

These annual financial statements, set out on pages 74 to 137 have been approved by the Board of the Group and Company and are signed on their behalf by:



ADH Enthoven
Chairman

24 October 2019



S Ntombela
Chief Executive Officer

24 October 2019

CERTIFICATION BY COMPANY SECRETARY

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 (appointed 1 August 2019)
Company Secretary

24 October 2019

AUDIT COMMITTEE REPORT

The Committee is composed of three independent non-executive directors. The work of the Committee is specified by its charter, and the provisions of the Long Term Insurance Act, 1998. The Committee has reviewed the Group's and Company's annual financial statements, and recommends them for approval to the board. The Committee further reviewed the Group's and Company's accounting policies, and the reports of the internal and external audit functions, and of the compliance officer. The Committee met three times during the year, and the chairman of the Committee reported on the work of the Committee to the Board.

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



MR Bower
Chairman: Audit Committee

24 October 2019

EMBEDDED VALUE STATEMENT

as at 30 June 2019

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 11.70% (2018: 12.40%).

- Expenses were allowed for based on an expense analysis carried out during the year;
- Expenses inflation of 4.70% per annum (2018: 5.80%);
- Mortality assumptions were set based on the results of a mortality experience analysis carried out during the year with explicit allowance for HIV/AIDS (the mortality basis for direct funeral business was revised to be consistent with the results of the analysis);
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year (the Altrisk lapse rates at durations in excess of 6 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 policyholder liabilities.
- Income tax was allowed for explicitly at the appropriate rates and capital gains tax was allowed for implicitly in the discount rate (unchanged).
- A discretionary margin of R269 million (2018: R191 million) was held as partial elimination of negative reserves;
- A contingency reserve to cover possible data problems of R30 million (2018: R30 million) was held as a discretionary reserve; and
- Negative reserves were allowed for on the published reporting basis (unchanged).

	2019 R'000	2018 R'000
Value of in-force business	5 487 108	5 131 678
Excess of assets over liabilities	1 244 876	1 497 874
Total embedded value	6 731 984	6 629 552

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

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2019

TO THE SHAREHOLDER OF HOLLARD LIFE ASSURANCE COMPANY LIMITED

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of The Hollard Life Assurance Company Limited and its subsidiaries ("the Group") set out on pages 81 to 137, which comprise the consolidated and separate statements of financial position as at 30 June 2019, statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 30 June 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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 [Statement of Directors' Responsibility and Approval and] the Directors' Report as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

for the year ended 30 June 2019

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

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

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of The Hollard Life Assurance Company Limited for 26 years.

Deloitte & Touche

Deloitte & Touche

Registered Auditor

Per: H Kana

Partner

31 October 2019

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer *AF Mackie Audit & Assurance *N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting *JK Mazzocco Talent & Transformation *MG Dicks Risk Independence & Legal *KL Hodson Corporate Finance *TJ Brown Chairman of the Board

A full list of partners and directors is available on request

*Partner and Registered Auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

AUDIT COMMITTEE REPORT

for the year ended 30 June 2019

The Hollard Group Audit and Compliance Committee is pleased to present its annual report, for the financial year ended 30 June 2019, 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 (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 Group are effectively mitigated
- To monitor the relationship between external assurance providers and the Group
- To oversee the Internal Audit function and provide specific input on the appointment, performance assessment and/or dismissal of the Group 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 Group's insurance cover
- To review any material business irregularities and litigation matters that may have a significant impact on the Group's financial statements
- To review the quality of the Group'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 Group 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 in consultation 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 Group'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.

AUDIT COMMITTEE REPORT (CONTINUED)

for the year ended 30 June 2019

2. STATUTORY DUTIES

2.1. Financial Statements and Accounting Policies

The Committee has reviewed the Group's Accounting Policies and Financial Statements for the financial year ended 30 June 2019 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 Group's documented status, including key assumptions prepared by management, and is comfortable in recommending to the Boards that the Group is a 'going concern', as reflected in the Annual Financial Statements.

2.3. External Auditor appointment and independence

In consultation with the Group's executive management, the Committee approved continuation of Deloitte South Africa as External Auditor for the 2019 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 Group, and compliance with criteria relating to independence and conflicts of interest the Committee has satisfied itself that Deloitte South Africa is independent of the Group. Guarantees provided by the auditing firm confirm that its claim to independence is supported and demonstrated by its own internal governance processes.

At the AGMs of The Hollard Insurance Company, Hollard Life Assurance Company, Hollard Specialist Insurance (formerly Regent Insurance Company) and 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 Group Boards are responsible for providing reasonable assurance that the Group 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 Group's internal financial controls do not form an effective basis for preparation of the Annual Financial Statements. This is save for shortcomings identified in respect of the Branch in a Box transaction for the period under review, of which there are management actions in place to address same.

4. STATEMENT ON INTERNAL CONTROL AND RISK MANAGEMENT

Effectiveness of the group's internal control systems are monitored by the risk management and internal audit functions, on the basis of which, recommendations are made to management, the 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 Group.

5.2 Internal Audit

The Committee is mandated to ensure that the internal audit function within the Group 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 Group'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 Group'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.



Mark Bower

Chairperson of the Audit Committee

DIRECTORS' REPORT

for the year ended 30 June 2019

The Directors have pleasure in presenting the Directors' report which forms part of the Group's and Company's annual financial statements for the year ended 30 June 2019.

Nature of business

The Company is a registered life assurer and transacts in all classes of life assurance business throughout the Republic of South Africa. The activities and details of the interests in subsidiaries, associates and joint ventures are listed in notes 30 and 36 on pages 128 and 132 of the annual financial statements.

General review

In the year under review the Group achieved net profit attributable to the equity holders of the parent of R565 256 000 (2018: R686 274 000), which arose from the Group's operations as follows:

	2019 R'000	2018 R'000
Net premium income	5 024 891	4 990 758
Investment income	238 329	483 223
Other income	444 502	464 048
Total revenue	5 707 723	5 938 029
Net insurance benefits and claims	2 089 957	2 043 762
Other operating expenses	2 886 261	2 909 184
Total expenses	4 976 218	4 952 946
Results of operating activities	731 505	985 083
Share of profit of associates	13 633	18 727
Profit before taxation	745 138	1 003 810
Taxation	(179 881)	(317 536)
Profit for the year	565 256	686 274
Non-controlling interest	-	-
Net profit attributable to the equity holder of the parent	565 256	686 274

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 R688 660 195 (2018: R663 885 555) were declared by the Company during the year.

Subsidiaries, associates and joint ventures

The Company acquired a 100% shareholding in the following subsidiary during the year:

- Richton Employee Benefit (Pty) Ltd

The Company's aggregate share of the profits and (losses) of subsidiaries and associates for the year amounted to R714 930 and R14 216 877 respectively (2018: R1 146 106 and R18 727 000 respectively).

Going concern

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

Subsequent events

Hollard Life is in the process of modifying its direct distribution model from a purely outsourced model to a hybrid model incorporating both insured and franchised branches. As at 1 September 2019, branches in respect of two previously outsourced partners have been taken under Hollard management. There may be more branches insured in this financial period.

DIRECTORS' REPORT (CONTINUED)

for the year ended 30 June 2019

Regulatory

Hollard Life Assurance Company Limited is reporting their first set of results on the SAM regulatory regime for the year ending 30 June 2019.

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 27 November 2017:

SC Gilbert, S Patel and NV Simamane.

Executive Directors

S Ntombela (Group CEO), WT Lategan (Group CFO) (resigned 30 September 2018), DJ Viljoen (Group CFO) (appointed 1 October 2018), M Shezi (Executive Director) (resigned 31 October 2018) and B Ruele (Executive Director) (appointed 1 November 2018) were the only Executive Directors who held office during the year.

Non-Executive Directors

ADH Enthoven, MR Bower, B Ngonyama, SC Gilbert, NV Simamane, S Patel, R Fihrer, AS Nkosi, BF Mohale and HG Kohler 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 (appointed 1 August 2019)

Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P O Box 87428
Houghton
2041

Holding company

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

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Assets					
Property and equipment	4	163 326	154 624	163 013	154 624
Intangible assets	5	32 422	25 473	32 422	25 473
Interest in subsidiaries	6	–	–	18 260	12 197
Investments in associates	7	66 821	63 156	73 600	70 534
Financial assets	8	17 866 468	10 998 545	17 866 425	10 998 545
Reinsurance assets		224 454	190 574	224 454	190 574
Insurance, loans and other receivables	10	833 562	795 129	832 143	800 957
Deferred taxation	11	21	15 466	–	15 452
Current income taxation		49	60 512	–	60 507
Cash and cash equivalents	12	2 534 326	2 046 510	2 519 439	2 030 823
Total assets		21 721 449	14 349 989	21 729 756	14 359 686
Equity and liabilities					
Share capital and premium	13	20 000	20 000	20 000	20 000
Foreign currency translation reserve		22 244	22 051	–	–
Non-distributable reserves		19 373	19 373	–	–
Retained earnings		1 162 056	1 419 089	1 224 877	1 477 874
Equity attributable to equity holders of the parent		1 223 673	1 480 513	1 244 877	1 497 874
Non-controlling interest		–	–	–	–
Total equity		1 223 673	1 480 513	1 244 877	1 497 874
Long-term borrowings	17	400 302	400 200	400 302	400 200
Policyholder liabilities	14	17 481 388	10 211 542	17 481 388	10 211 542
Outstanding claims		449 109	391 167	449 109	391 167
Reinsurance liabilities		243 740	261 377	243 740	261 377
Employee benefits	15	154 642	155 151	154 367	155 101
Deferred taxation	11	444 821	608 390	444 821	608 390
Trade and other payables	16	1 303 086	841 594	1 290 509	834 035
Current income taxation		20 688	55	20 643	–
Total liabilities		20 497 776	12 869 476	20 484 879	12 861 812
Total equity and liabilities		21 721 449	14 349 989	21 729 756	14 359 686

STATEMENTS OF PROFIT OR LOSS

for the year ended 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Revenue					
Gross premium income	18	6 729 148	6 497 835	6 729 148	6 497 835
Reinsurance premiums outwards	18	(1 704 257)	(1 507 077)	(1 704 257)	(1 507 077)
Net premium income		5 024 891	4 990 758	5 024 891	4 990 758
Interest		205 791	249 139	204 532	248 387
Dividends		71 828	70 543	82 103	83 393
Realised profit on disposal of investments	19	25 452	13 090	25 452	14 092
Unrealised profit on revaluation of investments	20	(77 702)	141 693	(70 836)	142 790
Rental income		12 961	8 758	12 926	8 758
Investment income		238 330	483 223	254 177	497 420
Other income	21	444 502	464 048	426 763	460 450
Total revenue		5 707 723	5 938 029	5 705 831	5 948 628
Expenses					
Policyholder benefits	24	3 036 658	2 708 993	3 036 658	2 708 993
Transfer from policyholder liabilities	14	(946 701)	(665 231)	(946 701)	(665 231)
Net insurance claims		2 089 957	2 043 762	2 089 957	2 043 762
Commission and other acquisition costs		525 695	522 748	525 695	522 748
Interest paid		69 290	66 896	69 265	66 896
Marketing and administration expenses		2 291 276	2 319 540	2 272 095	2 314 981
Total expenses		4 976 218	4 952 946	4 957 012	4 948 387
Results of operating activities		731 505	985 083	748 819	1 000 241
Share of profit of associates		13 633	18 727	-	-
Profit before taxation	22	745 138	1 003 810	748 819	1 000 241
Taxation	23	179 881	317 536	179 526	317 068
Profit for the year		565 256	686 274	569 293	683 173
Profit for the year attributable to:					
Equity holders of the parent		565 256	686 274		
Non-controlling interest		-	-		
		565 256	686 274		

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Profit for the year	565 256	686 274	569 292	683 173
Other comprehensive (loss)/income				
Exchange differences on translating foreign operations	193	(451)	-	-
Other comprehensive (loss)/income for the year	193	(451)	-	-
Total comprehensive income for the year	565 449	685 823	569 292	683 173
Total comprehensive income attributable to:				
Equity holders of the parent	565 449	685 823		
Non-controlling interests	-	-		
	565 449	685 823		

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Attributable to equity holders of the parent							
	Issued share capital R'000	Share premium R'000	Foreign currency translation reserve R'000	Non-distributable reserves R'000	Retained earnings R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
GROUP								
Balance at 1 July 2017	20	19 980	22 502	10 738	1 405 955	1 459 195	1 450	1 460 645
Profit for the year	-	-	-	-	686 274	686 274	-	686 274
Other comprehensive loss	-	-	(451)	-	-	(451)	-	(451)
Total comprehensive income	-	-	(451)	-	686 274	685 823	-	685 823
Transfer between reserves	-	-	-	8 635	(8 635)	-	-	-
Acquisition of subsidiaries	-	-	-	-	176	-	-	-
Disposal of subsidiaries	-	-	-	-	(795)	-	(1 450)	-
Dividends paid on ordinary shares	-	-	-	-	(663 886)	(663 886)	-	(663 886)
Balance at 30 June 2018	20	19 980	22 051	19 373	1 419 089	1 480 513	-	1 480 513
Profit for the year	-	-	-	-	565 256	565 256	-	565 256
Other comprehensive income	-	-	193	-	-	193	-	193
Total comprehensive income	-	-	193	-	565 256	565 449	-	565 449
Transfer between reserves	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-
IFRS 9 transition adjustment	-	-	-	-	(133 629)	(133 629)	-	(133 629)
Dividends paid on ordinary shares	-	-	-	-	(688 660)	(688 660)	-	(688 660)
Balance at 30 June 2019	20	19 980	22 244	19 373	1 162 056	1 223 673	-	1 223 673
COMPANY								
Balance at 1 July 2017	20	19 980	-	-	1 458 587	1 478 587	-	-
Profit for the year	-	-	-	-	683 173	683 173	-	-
Total comprehensive income	-	-	-	-	683 173	683 173	-	-
Dividends paid on ordinary shares	-	-	-	-	(663 886)	(663 886)	-	-
Balance at 30 June 2018	20	19 980	-	-	1 477 874	1 497 874	-	-
Impact of transition adjustment	-	-	-	-	(133 629)	(133 629)	-	-
Profit for the year	-	-	-	-	569 292	569 292	-	-
Total comprehensive income	-	-	-	-	569 292	569 292	-	-
Dividends paid on ordinary shares	-	-	-	-	(688 660)	(688 660)	-	-
Balance at 30 June 2019	20	19 980	-	-	1 224 877	1 244 877	-	-

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash flows from operating activities					
Cash receipts from policyholders and other customers		4 986 459	5 046 025	4 993 705	5 044 180
Cash paid to policyholders, suppliers and employees (net of transfers to reserves)		2 569 151	(2 191 807)	2 582 073	(2 194 320)
Cash generated/(utilised) by operations					
Interest paid	25	7 555 610	2 854 218	7 575 778	2 849 860
Dividends paid	26	(69 290)	(66 896)	(69 265)	(66 896)
Interest received		(688 660)	(663 886)	(688 660)	(663 886)
Dividends received		205 791	249 139	204 532	248 387
Rental received	27	64 187	73 208	74 462	86 058
Other Income		12 961	8 758	12 926	8 758
Taxation paid	28	444 502	464 048	426 763	460 450
		(246 909)	(265 168)	(246 493)	(264 315)
Net cash outflow from operating activities					
		7 278 193	2 653 420	7 290 043	2 658 416
Cash flows from investing activities					
Acquisition of property and equipment	4	(41 744)	(100 552)	(41 357)	(101 580)
Acquisition of intangible assets		(19 273)	(10 696)	(19 273)	(10 696)
Acquisition of listed and unlisted investments		(6 527 335)	(1 624 729)	(6 527 335)	(1 623 006)
Acquisition of bonds		(3 537 795)	(1 698 553)	(3 537 795)	(1 698 553)
Proceeds on disposal of listed and unlisted investments		1 895 710	418 601	1 895 710	418 601
Proceeds on disposal of bonds		1 452 129	980 374	1 452 129	980 374
Proceeds on disposal of non-current assets held for sale		-	-	-	-
Proceeds on disposal of subsidiaries		-	1 245	-	1 245
Acquisition of subsidiary	29	(2 083)	(2 000)	(2 083)	(2 000)
Cash movement through acquisition and sale of subsidiaries	29	1 161	558	-	-
Acquisition of associates		-	-	-	-
Dividends received from associates		10 275	8 650	-	-
Decrease in loans to subsidiaries		-	-	-	5 633
Decrease in loans to associates		-	102	-	102
Increase in foreign currency translation reserve		-	-	-	-
Increase in loans due to Group companies		11 173	(93 246)	11 173	(93 246)
Increase in other loans		(32 697)	271 674	(32 697)	271 674
Net cash (outflow)/inflow from investing activities					
		(6 790 479)	(1 848 572)	(6 801 600)	(1 851 452)
Cash flows from financing activities					
Increase in long-term borrowings		102	96	102	96
Net cash inflow from financing activities					
		102	96	102	96
Cash and cash equivalents					
Net increase/(decrease) in cash and cash equivalents		487 816	804 944	488 617	807 060
Cash and cash equivalents at beginning of year		2 046 510	1 241 566	2 030 823	1 223 763
Cash and cash equivalents at end of year					
	12	2 534 326	2 046 510	2 519 439	2 030 823

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Accounting policies

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

1.1 Basis of presentation

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

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

Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements is disclosed in note 1.19 on page 97 of these financial statements.

Adoption of new and revised standards

The Group's and Company's accounting policies are consistent with those of the previous financial year except for those instances where new or revised standards and/or interpretations had to be adopted. The Group and Company adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as issued by the International Accounting Standards Board (IASB) and the IFRIC of the IASB. Under the transitional approach (modified retrospective approach) adopted by the group for these standards there were no changes to comparative period primary financial statements or note disclosures. The impact to the group's opening retained income as at 1 July 2018 was a reduction of R96 million after taxation (relating to IFRS 9 only). Consequential amendments to IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments: Disclosures impacted only the 2019 annual financial statements.

R'000	As previously reported under IAS 39	Transition adjustment	As classified under IFRS 9
Loans and receivables ¹	795 129	(130 142)	664 987
Financial assets ²	10 998 545	(3 488)	10 995 057
Gross transition adjustment		(133 630)	

¹ ECL charge on transition relating to Branch in a box loans and intercompany loans.

² ECL charge on transition relating to preference shares carried at amortised cost.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 July 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The group does not apply hedge accounting.

IFRS 15 establishes a comprehensive framework for determining and reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It replaces all existing revenue standards and their related interpretations in IFRS and applies to all contracts with customers except for contracts that are within the scope of other standards on leases, insurance contracts and financial instruments. The group's revenue subject to IFRS 15 is attributed to service fee income from investment business.

Apart from providing more qualitative disclosures on the groups other income (which includes fees from the investment business), the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the group. As at the date of initial application, no adjustments were required to the group's performance or financial position relating to IFRS 15.

As at the end of the financial period, the following related to the service fees earned from the investment business:

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Service fees earned during the year	86 492	62 305	86 492	62 305
Income received in advance (earned over the remainder of the contract)	196 925	93 861	196 925	93 861

The Group and Company will comply with standards issued but not yet effective for the 2019 financial year, from the respective effective dates. It is expected that the application of these standards will have an impact on the Group's and Company's reported results, financial position and cashflow. The adoption of these standards will give rise to additional disclosures including, in some cases, changes to existing accounting policies for the Group and Company. The new and amended IFRS and IFRIC interpretations, together with the dates on or after which they became effective, are as follows:

International Financial Reporting Standards and Amendments issued but not yet effective for the financial year ended 30 June 2019

- IFRS 16: *Leases* – This standard is expected to have an impact on the financial statements.
- IFRS 9: *Financial Instruments* – Prepayment features with negative compensation. This standard is expected to have an impact on the financial statements.
- IAS 28: *Investments in Associates and Joint Ventures* – Long-term interests in associates and joint ventures. This standard is expected to have an impact on the financial statements.
- IFRIC 23: *Uncertainty over Income Tax Treatments* – This interpretation is expected to have an impact on the financial statements.
- IFRS 17: *Insurance Contracts* – Original issue that replaces IFRS 4 Insurance Contracts (effective from annual periods beginning on or after 1 January 2022). This standard is expected to have a material impact on the financial statements. This impact is currently being quantified.

1.2 Basis of consolidation

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

Investments in subsidiaries

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

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

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

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

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

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

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

Investments in associates

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.2 Basis of consolidation (continued)

Investments in associates (continued)

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

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

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

Interests in joint arrangements

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

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

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

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

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary and joint ventures at the acquisition date. Goodwill arising on the acquisition of subsidiaries and joint ventures is initially recognised at cost as a separate asset. Goodwill is tested annually for impairment and is carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. During the year there was a goodwill impairment calculation on one of the subsidiaries as disclosed in Note 29.

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

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

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

1.3 Foreign currencies

General

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

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate at the statement of financial position date. None of the Group entities have the currency of a hyper-inflationary economy.

1.4 Property and equipment

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

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

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

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

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

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

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

1.5 Intangible assets

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

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

Computer software

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

Re-acquired rights

The intangible asset is under development and will be amortised on a straight-line basis over five years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.6 Financial instruments

Capital management

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

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

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

Financial assets

Investments

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

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

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

Under IAS 39 a financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term; if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking; or if so designated by management in terms of the Group's and Company's long-term investment strategy.

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

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

ii) Held-to-maturity investments

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

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

iii) Financial assets at fair value through other comprehensive income

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

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

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

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

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

iv) Loans and receivables/financial assets at amortised cost

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

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

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

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

v) Linked products

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

vi) Forward share purchase agreements

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

vii) Other

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

Recognition and measurement

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

The expected credit loss (ECL) model applies to financial assets measured at amortised cost (for example loans and receivables and intercompany loans) and debt investments measured at 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 forecasts of forward-looking economic conditions. A counterparty is considered to be in default when it is considered that they are unlikely to settle their obligation to the company. Due to the low number of instruments subject to the ECL model, this definition is considered appropriate as each instrument is assessed individually. Write offs are further assessed on a case basis.

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

Gains or losses

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

Fair value

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.6 Financial instruments (continued)

Financial assets (continued)

Offsetting

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

Financial liabilities

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

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

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

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

1.7 Impairment of assets excluding goodwill

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

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

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

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

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

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

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

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

Calculation of ECL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.8 Cash and cash equivalents

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

1.9 Non-current assets held for sale

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.10 Share capital

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

1.11 Policyholder insurance and investment contracts – Classification

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 capital adequacy requirements (CAR) for statutory purposes in accordance with APNs issued by ASSA.

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

- APN 103 : Report by the Statutory Actuary in the Annual Financial Statements of South African Long-Term Insurers;
- SAP 104 : Calculation of the Value of the Assets, Liabilities and 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 Group and Company issue contracts which transfer insurance risk or financial risk or, in some cases, both. The Group and Company demarcate these contracts in the following two broad categories:

i) Insurance contracts

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

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

Claims incurred

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

ii) Investment contracts

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

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

Management of insurance and financial risk

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

i) Insurance risk

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

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

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

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

Reinsurance arrangements

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

Policyholder behaviour risk

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

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

The Capital Adequacy Requirement (CAR) as part of the risk management framework

The Group and Company are required to demonstrate solvency to the Registrar of Long-Term Insurance in accordance with the Act. This requires the Group and Company to demonstrate that it has sufficient assets to meet its liabilities and CAR, in the event of substantial deviations from the main risk assumptions affecting the business. These capital adequacy requirements are determined according to the generally accepted actuarial principles in terms of the guidelines issued by the ASSA. Statutory returns are submitted to the Registrar quarterly and valuations are performed annually. In addition, the Long-Term Return (LT) is submitted to the Registrar annually.

The CAR is intended to approximate a risk-based capital measure and gives guidance to the Board regarding the acceptable minimum Group and Company capital requirements. As is outlined in the notes to the Statement of actuarial values of assets and liabilities on page 5, the CAR is the additional amount required, over and above the actuarial liabilities, to enable Hollard Life to meet material deviations in the main parameters affecting its business. The CAR has been calculated in accordance with SAP 104 as the greater of the Termination Capital Adequacy Requirement (TCAR) and the Ordinary Capital Adequacy Requirement (OCAR). The TCAR examines a highly selective scenario in which all policies where the surrender value is greater than the policy liability terminate immediately. The OCAR is calculated based on a number of stress tests, which together with compulsory margins, are intended to provide approximately a 95% confidence level that the Group and Company will be able to meet all of its obligations.

It explicitly includes stress tests for the following risks:

- Financial risk arising from mismatches between assets and liabilities, including specific provision for mismatches between assets backing liabilities in respect of the liabilities themselves;
- Changes in lapse and withdrawal experience;
- Fluctuations in experience for mortality, morbidity and expenses; and
- The risk that assumptions for mortality and morbidity are not accurate estimates.

Mortality and morbidity business

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.11 Policyholder insurance and investment contracts – Classification (continued)

Management of insurance and financial risk (continued)

i) Insurance risk (continued)

Mortality and morbidity business (continued)

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

The statutory actuary reports annually on the actuarial soundness of the premium rates in use and the profitability of the Group's and Company's business taking into consideration the reasonable benefit expectations of policyholders. These rates are revised where appropriate in response to changes in mortality and/or morbidity experience.

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

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

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

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

Liability adequacy test

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

Claims development table

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

ii) Financial risk

Financial assets and liabilities are stated at fair value in the statement of financial position. Assets include listed equities, stated at fair value as determined by their market values as at 30 June 2019, and unlisted equities, stated at fair value as determined by either the contractual terms of the investment or by directors' valuation.

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

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

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

Interest rate risk

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

Equity risk

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

Currency risk

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

Credit risk

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

Key areas of credit risk exposure include:

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

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

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

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

Liquidity risk

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.12 Revenue recognition and insurance activity expenditure

Premium income

Premiums relating to the insurance business are stated gross and net of outward reinsurance premium and are accounted for by applying the accrual basis when collectability is reasonably assured. Premiums arising from investment contracts are excluded from the income statement in accordance with the requirements of IFRS 9.

Interest income and expenditure

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

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

Dividend income

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

Rental income

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

Policyholder benefits

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

Policyholder liabilities

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

Commission

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

Revenue from contracts with customers

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

1.13 Employee benefits

Pension and provident scheme arrangements

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

Profit-sharing and bonus plans

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

Leave pay

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

Termination benefits

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

Equity compensation plan

The Group and Company operate a cash-settled equity compensation plan for the benefit of black employees of the Group and Company. The fair value of options granted is measured at each statement of financial position date and any change in the fair value of the liability is recognised in the income statement. On termination any share liability in Hollard Life will be reclassified to equity.

Other post-employment obligations

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

1.14 Taxation

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

Income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Current taxation

Current taxation is the expected taxation payable using taxation rates enacted at statement of financial position date, including any prior year adjustments.

Deferred taxation

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

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

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

Dividend Withholding Tax

Government notice number 1073, issued by National Treasury on 20 December 2011, introduced a withholding tax on dividends into South Africa with effect from 1 April 2012 in lieu of secondary tax on companies. The Company is exempt from paying withholding tax on ordinary share dividends received as they are a company resident in the Republic of South Africa. Accordingly, no withholding tax should be deducted from dividends payable by the issuer to the Company.

1.15 Provisions

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

1. Accounting policies (continued)

1.16 Borrowings

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

1.17 Operating leases

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

1.18 Dividend distribution

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

1.19 Critical accounting estimates and judgements in applying accounting policies

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

Liability arising from claims under insurance contracts

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

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

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

The Group and Company's procedures for determining significant reserving assumptions are outlined in note 1.11 on page 91 of these financial statements.

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

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

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

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

Valuation of unlisted investments

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

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

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

Due to the number and the diversity of investments the disclosure of a sensitivity analysis has not been prepared as it does not provide the user of the financial statements with a meaningful comparison.

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

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

Goodwill

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

2. Financial risk management

2.1 Introduction

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

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

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

2. Financial risk management (continued)

2.2 Exposure to risks arising from financial instruments

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

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

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

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

2.2.1 Credit risk

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

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

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

Insurance, loans and other receivables

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

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

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

Investments

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

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

The analysis of credit quality of the Group's and Company's assets is disclosed in note 3.1 (a) on page 102 of these annual financial statements.

Reinsurance

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

The Group and Company have exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any new or renegotiated treaty. The Group's and Company's largest reinsurance counterparty is Hannover Re. This exposure is monitored on a regular basis for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Group and Company will arise.

2.2.2 Liquidity risk

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

The Group and Company are exposed to daily calls on their available cash resources as a result of claims arising from their life insurance and investment contracts. The Investment Committee sets limits on the minimum proportion of maturing funds that must be available to meet such calls in order to cover claims at unexpected levels of demand. Based on actuarial modelling of historical and future expected trends, the Group and Company have estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out in note 3.2 on pages 38 to 39. The maturity profile of the related insurance and investment assets is expected to be similar to the profile of the liabilities.

2.2.3 Market risk

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

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

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

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

a) Currency risk

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

The Group and Company are exposed to foreign currency risk for transactions that are denominated in a currency other than Rand. This exposure is limited to the Group's joint venture operations that were disposed of during the current year, transactions with foreign reinsurers, debt securities and equity investments in foreign companies. These foreign investments were made for the purposes of obtaining favourable international exposure to foreign currency and are monitored by the Investment Committee. The Group and Company do not take cover on foreign currency transactions and balances as the net exposure is considered minimal.

The table in note 3.3.1 on page 107 of these annual financial statements illustrates the Group's split of assets and liabilities by major currency.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

2. Financial risk management (continued)

2.2 Exposure to risks arising from financial instruments (continued)

2.2.3 Market risk (continued)

b) Interest rate risk

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

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

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

c) Other market price (or equity) risk

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

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

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

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

Capital management

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

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

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

In each country in which the Group and 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 Group and 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.

3. Risk management

3.1 Credit risk

a) Credit rating

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

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

GROUP	AA R'000	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not rated R'000	Total R'000
2019														
Unlisted investments – Preference Shares	-	-	-	-	-	-	-	-	-	-	-	-	341 483	341 483
Bonds – held at fair value through profit or loss*	-	-	-	50 937	-	-	-	5 682 490	129 177	-	-	217 027	39 031	6 118 662
Loans – interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	177 718	177 718
Loans – non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	25 916	25 916
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	122 907	122 907
Cash and cash equivalents	-	21 723	-	272	-	-	-	1 056 417	1 117 902	-	17 365	-	320 647	2 534 326
Financial Assets	-	21 723	-	51 209	-	-	-	6 738 907	1 247 079	-	17 365	217 027	1 027 702	9 321 012
Premium debtors	-	-	17 279	-	-	-	-	30 659	-	-	-	-	286 529	334 467
Policy loans	-	-	-	-	-	-	-	-	-	-	-	-	7 006	7 006
Reinsurance assets	-	-	43 619	-	23 540	105 638	-	5 035	-	-	-	-	46 621	224 453
Other insurance assets	-	-	-	-	-	-	-	-	-	-	-	-	181 124	181 124
Insurance Assets	-	-	60 898	-	23 540	105 638	-	35 694	-	-	-	-	521 280	747 050
2018														
Unlisted investments – Preference Shares	-	-	-	-	-	-	-	-	-	-	-	-	339 151	339 151
Bonds – held at fair value through profit or loss*	-	-	-	-	371 871	-	-	2 429 136	817 100	-	-	210 563	28 955	3 857 625
Loans – interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	133 269	133 269
Loans – non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	96 706	96 706
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	34 281	34 281
Cash and cash equivalents	-	43 935	-	-	-	-	-	604 874	972 748	-	17 368	-	407 585	2 046 510
Financial Assets	-	43 935	-	-	371 871	-	-	3 034 010	1 789 848	-	17 368	210 563	1 039 947	6 507 542
Premium debtors	-	-	-	-	-	-	-	-	-	-	-	-	301 472	301 472
Policy loans	-	-	-	-	-	-	-	-	-	-	-	-	7 398	7 398
Reinsurance assets	-	31 225	57 536	-	10 054	51 649	9	4 509	19 292	-	-	-	16 300	190 574
Other insurance assets	-	-	-	-	-	-	-	30	-	-	-	-	221 973	222 003
Insurance Assets	-	31 225	57 536	-	10 054	51 649	9	4 539	19 292	-	-	-	547 143	721 447

* These assets are designated at fair value through profit and loss, and would otherwise have been measured at amortised cost. As with all financial assets disclosed here, the carrying amount of these assets represents their maximum exposure to credit risk, with no related credit enhancements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. Risk management (continued)

3.1 Credit risk (continued)

a) Credit rating (continued)

COMPANY	AA R'000	AA- R'000	A+ R'000	A R'000	A- R'000	BBB+ R'000	BBB R'000	BBB- R'000	BB+ R'000	BB R'000	BB- R'000	B R'000	Not rated R'000	Total R'000
2019														
Unlisted investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Preference shares	-	-	-	-	-	-	-	-	-	-	-	-	341 483	341 483
Bonds - held at fair value through profit or loss *	-	-	-	50 937	-	-	-	5 682 490	129 177	-	-	217 027	39 031	6 118 662
Loans - interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	177 718	177 718
Loans - non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	24 496	24 496
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	122 907	122 907
Cash and cash equivalents	-	21 723	-	272	-	-	-	1 056 417	1 117 902	-	17 365	-	305 760	2 519 439
Financial Assets	-	21 723	-	51 209	-	-	-	6 738 907	1 247 079	-	17 365	217 027	1 011 395	9 304 705
Premium debtors	-	-	17 279	-	-	-	-	30 659	-	-	-	-	286 529	334 467
Policy loans	-	-	-	-	-	-	-	-	-	-	-	-	7 006	7 006
Reinsurance assets	-	-	43 619	-	23 540	105 638	-	5 035	-	-	-	-	46 621	224 453
Other insurance assets	-	-	-	-	-	-	-	-	-	-	-	-	181 124	181 124
Insurance Assets	-	-	60 898	-	23 540	105 638	-	35 694	-	-	-	-	521 280	747 050
2018														
Unlisted investments	-	-	-	-	-	-	-	-	-	-	-	-	339 151	339 151
Bonds - held at fair value through profit or loss *	-	-	-	-	371 871	-	-	2 429 136	817 100	-	-	210 563	28 955	3 857 625
Loans - interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	133 269	133 269
Loans - non-interest bearing	-	-	-	-	-	-	-	-	-	-	-	-	102 535	102 535
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	34 281	34 281
Cash and cash equivalents	-	43 935	-	-	-	-	-	604 874	972 748	-	17 368	-	391 898	2 030 823
Financial Assets	-	43 935	-	-	371 871	-	-	3 034 010	1 789 848	-	17 368	210 563	1 030 089	6 497 684
Premium debtors	-	-	-	-	-	-	-	-	-	-	-	-	301 472	301 472
Policy loans	-	-	-	-	-	-	-	-	-	-	-	-	7 398	7 398
Reinsurance assets	-	31 225	57 536	-	10 054	51 649	9	4 509	19 292	-	-	-	16 300	190 574
Other insurance assets	-	-	-	-	-	-	-	30	-	-	-	-	221 973	222 003
Insurance Assets	-	31 225	57 536	-	10 054	51 649	9	4 539	19 292	-	-	-	547 143	721 447

* These assets are designated at fair value through profit and loss, and would otherwise have been measured at amortised cost. As with all financial assets disclosed here, the carrying amount of these assets represents their maximum exposure to credit risk, with no related credit enhancements.

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

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

	GROUP				COMPANY			
	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000	Neither past due nor impaired R'000	Past due but not impaired R'000	Individually impaired R'000	Gross carrying amount R'000
2019								
Loans to associates	-	-	-	-	-	-	-	-
Unlisted investments	10 400 789	-	-	10 400 789	10 400 789	-	-	10 400 789
Bonds – at fair value through profit and loss	6 118 663	-	-	6 118 663	6 118 663	-	-	6 118 663
Financial assets	16 519 452	-	-	16 519 452	16 519 452	-	-	16 519 452
Premium debtors	255 606	78 861	8 801	343 268	255 606	78 861	8 801	343 268
Insurance assets	255 606	78 861	8 801	343 268	255 606	78 861	8 801	343 268
2018								
Loans to associates	-	-	2 260	2 260	-	-	2 260	2 260
Unlisted investments	5 886 795	-	-	5 886 795	5 886 795	-	-	5 886 795
Bonds – at fair value through profit and loss	3 857 624	-	-	3 857 624	3 857 624	-	-	3 857 624
Financial assets	9 744 419	-	2 260	9 746 679	9 744 419	-	2 260	9 746 679
Premium debtors	301 472	12 977	5 988	320 437	301 472	12 977	5 988	320 437
Insurance assets	301 472	12 977	5 988	320 437	301 472	12 977	5 988	320 437

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

	GROUP				COMPANY			
	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000	31 to 60 days R'000	61 to 90 days R'000	More than 90 days R'000	Total past due but not impaired R'000
2019								
Premium debtors	16 143	14 661	48 057	78 861	16 143	14 661	48 057	78 861
	16 143	14 661	48 057	78 861	16 143	14 661	48 057	78 861
2018								
Premium debtors	-	-	12 977	12 977	-	-	12 977	12 977
	-	-	12 977	12 977	-	-	12 977	12 977

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

	2019 R'000	2018 R'000
Balance at beginning of year	(5 988)	(6 301)
– Collective impairment loss recognised	(17 077)	-
– Collective impairment loss utilised	14 264	313
Balance at end of year	(8 801)	(5 988)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. Risk management (continued)

3.1 Credit risk (continued)

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

	GROUP				COMPANY			
	Subject to lifetime ECL				Subject to lifetime ECL			
	12 month ECL	Not credit impaired	Credit Impaired		12 month ECL	Not credit impaired	Credit Impaired	
	Total allowance for ECL R'000	Total allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000	Allowance for ECL R'000			
As at 1 July 2018	133 630	–	1 347	132 283	133 630	–	1 347	132 283
Originations, purchases and interest accruals	–	–	–	–	–	–	–	–
Repayments and other derecognitions excluding write-offs	–	–	–	–	–	–	–	–
Model changes, interest accrued and write offs	17 112	–	14	17 098	17 112	–	14	17 098
Balance at end of the year	150 742	–	1 361	149 381	150 742	–	1 361	149 381

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.

3.2 Liquidity risk

3.2.1 Liquidity profile of financial assets

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

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Open-ended R'000
GROUP						
2019						
Financial assets	17 866 469	17 866 468	10 483 659	5 991 637	143 837	1 247 335
Reinsurance assets	224 454	224 454	224 454	–	–	–
Insurance, loans and other receivables	833 562	833 562	833 562	–	–	–
Cash and cash equivalents	2 534 326	2 534 326	2 534 326	–	–	–
	21 458 811	21 458 810	14 076 001	5 991 637	143 837	1 247 335
2018						
Financial assets	10 998 545	10 998 545	6 596 268	2 832 765	99 525	1 469 987
Reinsurance assets	190 574	190 574	190 574	–	–	–
Insurance, loans and other receivables	795 129	795 129	691 025	104 104	–	–
Loans to associates	–	2 260	2 260	–	–	–
Cash and cash equivalents	2 046 510	2 046 510	2 046 510	–	–	–
	14 030 758	14 033 018	9 526 637	2 936 869	99 525	1 469 987

	Carrying amount R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Open-ended R'000
COMPANY						
2019						
Financial assets	17 866 425	17 866 425	10 483 615	5 991 637	143 837	1 247 335
Reinsurance assets	224 454	224 454	224 454	-	-	-
Insurance, loans and other receivables	832 143	832 143	832 143	-	-	-
Cash and cash equivalents	2 519 438	2 519 438	2 519 438	-	-	-
	21 442 460	21 442 460	14 059 650	5 991 637	143 837	1 247 335
2018						
Financial assets	10 998 545	10 998 545	6 596 268	2 832 765	99 525	1 469 987
Reinsurance assets	190 574	190 574	190 574	-	-	-
Loans to subsidiaries	-	-	-	-	-	-
Loans to associates	-	2 260	2 260	-	-	-
Insurance, loans and other receivables	800 957	800 957	696 854	104 103	-	-
Cash and cash equivalents	2 030 823	2 030 823	2 030 823	-	-	-
	14 020 899	14 023 159	9 516 779	2 936 868	99 525	1 469 987

3.2.2 Maturity profile of financial liabilities including insurance liabilities

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

	GROUP			COMPANY		
	Probable cash outflows R'000	Maturity within 1 year R'000	Maturity between 1 and 5 years R'000	Probable cash outflows R'000	Maturity within 1 year R'000	Maturity between 1 and 5 years R'000
2019						
Insurance Liabilities						
Reinsurance liabilities	243 740	243 740	-	243 740	243 740	-
Outstanding claims	449 109	-	449 109	449 109	-	449 109
Policyholder liabilities	17 481 388	-	17 481 388	17 481 388	-	17 481 388
	18 174 237	243 740	17 930 497	18 174 237	243 740	17 930 497
Financial Liabilities						
Long-term liabilities	400 302	302	400 000	400 302	302	400 000
Trade and other payables	1 303 086	1 303 086	-	1 290 509	1 290 509	-
	1 703 388	1 303 388	400 000	1 690 811	1 290 811	400 000
2018						
Insurance Liabilities						
Reinsurance liabilities	261 377	261 377	-	261 377	261 377	-
Outstanding claims	391 167	-	391 167	391 167	-	391 167
Policyholder liabilities	10 211 542	-	10 211 542	10 211 542	-	10 211 542
	10 864 086	261 377	10 602 709	10 864 086	261 377	10 602 709
Financial Liabilities						
Long-term liabilities	400 200	200	400 000	400 200	200	400 000
Trade and other payables	841 594	841 594	-	834 035	834 035	-
	1 241 794	841 794	400 000	1 234 235	834 235	400 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. Risk management (continued)

3.3 Market risk

3.3.1 Currency risk

The Group's and Company's exposure to currency risk at the reporting date was as follows based on notional amounts:

Asset class	2019				2018			
	ZAR Carrying amount R'000	USD \$'000	Euro €'000	GBP £'000	ZAR Carrying amount R'000	USD \$'000	Euro €'000	GBP £'000
Financial assets								
Hedge fund investments	-	-	-	-	925	56	6	3
Bonds	35 823	2 543	-	-	-	-	-	-
Cash and cash equivalents	2 962	211	-	(1)	183	11	-	2
Gross statement of financial position exposure	38 785	2 754	-	(1)	1 108	67	6	5

The following significant exchange rates applied during the year:

	2019		2018	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	14.19	14.09	12.83	13.75
Euro	16.19	16.02	15.32	16.07
GBP	18.36	17.88	17.29	18.16

3.3.2 Sensitivity analysis – foreign exposure

A 5% strengthening/(devaluation) in the relevant foreign currencies against ZAR at the reporting date would have increased/(decreased) equity and profit/(loss) by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

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

	Profit/(loss)		Equity	
	5% increase	5% decrease	5% increase	5% decrease
2019				
USD	1 955	(1 955)	1 940	(1 940)
GBP	1	(1)	1	(1)
	1 954	(1 954)	1 941	(1 941)
2018				
USD	44	(44)	47	(47)
GBP	4	(4)	4	(4)
	48	(48)	51	(51)

3.3.3 Interest rate risk

Profile – Group

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

	Carrying amount R'000	2019 Nominal interest rate %	Effective interest rate %	2018 Carrying amount R'000	Nominal interest rate %	Effective interest rate %
Fixed rate instruments						
<i>Financial assets</i>						
Bonds						
– Due in 2 years or less	269 110	8.75	11.29	1 316 129	7.37	7.98
– Due between 2 years and 5 years*	5 681 450	8.25	8.85	1 864 695	8.91	9.32
– Due after 5 years	168 103	10.98	11.07	676 800	8.78	9.08
	6 118 663			3 857 624		

* This maturity bucket includes structured notes with ABSA which mature based on an underlying index and the asset return hinges on the market performance of the underlying index. Nominal and effective rates are not calculated on these instruments and have not been factored into the average rates on the maturity buckets. The value of these instruments amounts to R879 million and has been included in the relevant maturity bucket for completeness.

	2019 Carrying amount R'000	2018 Carrying amount R'000
Variable rate instruments		
<i>Financial assets</i>		
Loans – interest-bearing	177 718	133 269
Cash and cash equivalents	2 534 326	2 046 510
	2 712 044	2 179 779

Profile – Company

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

	Carrying amount R'000	2019 Nominal interest rate %	Effective interest rate %	2018 Carrying amount R'000	Nominal interest rate %	Effective interest rate %
Fixed rate instruments						
<i>Financial assets</i>						
Bonds						
– Due in 2 years or less	269 110	8.75	11.29	1 316 129	7.37	7.98
– Due between 2 and 5 years	5 681 450	8.25	8.85	1 864 695	8.91	9.32
– Due after 5 years	168 103	10.98	11.07	676 800	8.78	9.08
	6 118 663			3 857 624		
Variable rate instruments						
<i>Financial assets</i>						
Loans – interest bearing	177 718			133 269		
Cash and cash equivalents	2 519 438			2 030 823		
	2 697 157			2 164 092		

Sensitivity analysis for fixed rate instruments of the Group and Company

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

Sensitivity analysis for variable rate instruments of the Group and Company

A change of 100 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 2018.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

3. Risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

Sensitivity analysis for variable rate instruments of the Group and Company (continued)

	Profit/(loss)		Equity	
	1% increase	1% decrease	1% increase	1% decrease
2019				
Loans – interest bearing	1 751	(1 751)	1 751	(1 751)
Cash and cash equivalents	77 932	(77 932)	77 932	(77 932)
Net cash flow sensitivity	79 683	(79 683)	79 683	(79 683)
2018				
Loans – interest bearing	(1 956)	1 956	1 956	(1 956)
Cash and cash equivalents	60 254	(60 254)	60 254	(60 254)
Net cash flow sensitivity	58 298	(58 298)	62 210	(62 210)

3.4 Equity price risk

3.4.1 Sensitivity analysis

Exposure to equity price risk

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

Description of equity investment	2019			2018		
	Carrying amount R'000	Listed/Not listed	Relevant stock exchange	Carrying amount R'000	Listed/Not listed	Relevant stock exchange
Ordinary shares	1 346 973	Listed	JSE	1 254 127	Listed	JSE
Ordinary shares	259 838	Not listed	N/A	152 384	Not listed	N/A
Preference shares	341 483	Not listed	N/A	346 860	Not listed	N/A
	1 948 294			1 753 371		

Sensitivity analysis

All other variables constant, for listed equity investments, a 200 basis point increase/(decrease) in the relevant stock exchange index over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis for 2018.

	Profit/(loss)		Equity	
	2% increase	2% decrease	2% increase	2% decrease
2019				
Description of equity investment				
Ordinary shares – JSE	26 939	(26 939)	26 939	(26 939)
	26 939	(26 939)	26 939	(26 939)
2018				
Description of equity investment				
Ordinary shares – JSE	25 083	(25 083)	(25 083)	25 083
	25 083	(25 083)	(25 083)	25 083

For unlisted equity investments, a 200 basis point increase/(decrease) in the relevant industry average over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis for 2018.

	Profit/(loss)		Equity	
	2% increase	2% decrease	2% increase	2% decrease
2019				
Description of equity investment				
Ordinary shares	3 947	(3 947)	3 947	(3 947)
Preference shares	6 560	(6 560)	6 560	(6 560)
	10 507	(10 507)	10 507	(10 507)
2018				
Description of equity investment				
Ordinary shares	(1 139)	1 139	(1 139)	1 139
Preference shares	(7 417)	7 417	7 417	(7 417)
	(8 556)	8 556	6 278	(6 278)

3.5 Income statement note

a) Financial income and expenditure

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

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Interest income on unimpaired loans and receivables	28 844	45 771	28 844	45 771
Interest income on financial assets measured at amortised cost	72 740	52 606	72 740	52 606
Interest income on financial assets designated as at fair value through profit and loss	104 207	150 763	102 948	150 011
Net gain on financial assets as at fair value through profit and loss*	19 578	225 326	(15 425)	212 000
Financial income	225 369	474 466	189 107	460 388
Interest expense on financial liabilities measured at amortised cost	69 290	66 896	69 265	66 896
Net fee costs from third parties in respect of holding financial assets on their behalf	12 173	9 864	12 173	9 864
Financial expense	81 463	76 760	81 438	76 760
Net financial income	142 676	397 706	106 439	383 628
The above financial income and expense items include the following in respect of financial assets/liabilities not at fair value through profit or loss:				
– Total interest income	101 584	98 377	101 584	98 377
– Total interest expense	69 290	66 896	69 265	66 896
	32 294	31 481	32 319	31 481

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

b) Impairment losses

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

Impairment of loans

Impairment recognised 23 574 13 019 23 574 13 019

Impairment of premium debtors

Impairment recognised 8 801 5 988 8 801 5 988

Total 32 375 19 007 32 375 19 007

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
4. Property and equipment				
Cost				
Office equipment	67 826	52 019	67 453	52 019
Motor vehicles	322	322	322	322
Furniture and fittings	-	-	-	-
Leasehold improvements	176 332	150 451	176 332	150 451
Total Property and equipment cost	244 481	202 792	244 107	202 792
Accumulated depreciation				
Office equipment	(24 090)	(14 867)	(24 030)	(14 867)
Motor vehicles	(251)	(155)	(251)	(155)
Furniture and fittings	-	-	-	-
Leasehold improvements	(56 813)	(33 146)	(56 813)	(33 146)
Total Accumulated depreciation	(81 154)	(48 168)	(81 094)	(48 168)
Net carrying amount				
Office equipment	43 581	37 152	43 423	37 152
Motor vehicles	71	167	71	167
Furniture and fittings	-	-	-	-
Leasehold improvements	119 519	117 305	119 519	117 305
Net carrying amount at end of year	163 326	154 624	163 013	154 624
Reconciliation of movement on net carrying amount:				
Net carrying amount at beginning of year	154 625	84 696	154 624	83 491
Additions	41 730	101 580	41 357	101 580
Office equipment	15 598	15 100	15 401	15 100
Leasehold improvements	25 956	86 480	25 956	86 480
Disposals	(7)	-	-	-
Office equipment	(140)	-	-	-
Office equipment – Acc Depreciation	140	-	-	-
IT Equipment Cost	(83)	-	-	-
IT Equipment	75	-	-	-
Write-off reversal	-	177	-	177
Office equipment	-	177	-	177
Depreciation for the year	(33 034)	(30 624)	(32 968)	(30 624)
Office equipment	(9 194)	(8 775)	(9 128)	(8 775)
Motor vehicles	(96)	(54)	(96)	(54)
Leasehold improvements	(23 743)	(21 795)	(23 743)	(21 795)
Properties – owner-occupied	-	-	-	-
Furniture and fittings	-	-	-	-
Disposal of subsidiary	-	(1 204)	-	-
Office equipment	-	(279)	-	-
Motor vehicles	-	-	-	-
Leasehold improvements	-	-	-	-
Properties – owner-occupied	-	-	-	-
Furniture and Fittings	-	(363)	-	-
IT Equipment	-	(562)	-	-
Acquisition through business combination	14	-	-	-
Office equipment	14	-	-	-
Net carrying amount at end of year	163 326	154 625	163 013	154 624

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

5. Intangible assets

Intangible assets at cost

Cost

Computer software	49 207	38 953	49 207	38 953
Acquired rights over books of business	9 020	–	9 020	–

Accumulated amortisation and impairment

Computer software	(20 683)	(13 480)	(20 683)	(13 480)
Acquired rights over books of business	(5 122)	–	(5 122)	–

	(25 805)	(13 480)	(25 805)	(13 480)
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Net carrying amount

Computer software	28 524	25 473	28 524	25 473
Acquired rights over books of business	3 898	–	3 898	–

Net carrying value at end of year	32 422	25 473	32 422	25 473
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Reconciliation of movement on net carrying amount:

Net carrying amount at beginning of year	25 473	20 686	25 473	20 686
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Additions

Goodwill	–	–	–	–
Acquired rights over books of business	9 020	–	9 020	–
Computer software	10 254	10 697	10 254	10 697

Impairment, amortisation charge

Goodwill	–	–	–	–
Acquired rights over books of business	(5 122)	–	(5 122)	–
Computer software	(7 203)	(5 910)	(7 203)	(5 910)

Net carrying value at end of year	32 422	25 473	32 422	25 473
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	COMPANY	
	2019 R'000	2018 R'000

6. Interest in subsidiaries

Interest in subsidiaries comprises:

Shares at fair value through profit or loss	18 260	12 197
Loans to subsidiaries	–	–

Impairment on loans	–	–
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	18 260	12 197
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Details of subsidiaries are provided in note 36 on page 135 of these financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
7. Investments in associates				
Investments in associates comprise:				
Shares at fair value through profit or loss	-	-	73 600	70 534
Shares at cost	54 594	54 594	-	-
Group share of post-acquisition profits	12 227	8 562	-	-
Carrying value of associates	66 821	63 156	73 600	70 534

The financial position and performance of the Group's significant associates are categorised by nature of business as follows:

	Life assurance R'000	Total R'000
Analysis of associates for 30 June 2019		
Total assets	451 663	451 663
Total liabilities	(135 666)	(135 666)
Net assets	315 997	315 997
Net profit before taxation	57 481	57 481
Taxation	(2 336)	-
Net profit after taxation	55 145	57 482
Group share of post-acquisition profits	12 227	12 811
Carrying amount of interest in associates	66 821	67 405
Fair valuation of associates (at Company level)	73 600	73 600
Analysis of associates for 30 June 2018		
Total assets	441 063	441 063
Total liabilities	(139 496)	(139 496)
Net assets	235 052	235 052
Net profit before taxation	77 209	77 209
Taxation	(5 794)	(5 794)
Net profit after taxation	71 415	71 415
Group share of post-acquisition profits	8 562	8 562
Carrying amount of interest in associates	63 156	63 156
Loans to associates	-	-
Fair valuation of associates (at Company level)	63 156	63 156

8. Financial assets

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Fair value through profit and loss	17 866 468	10 998 545	17 866 425	10 998 545
	17 866 468	10 998 545	17 866 425	10 998 545

Group and Company's financial assets are designated into the following three broad categories for management reporting purposes:

Listed investments (financial assets designated as at fair value through profit and loss)	1 347 017	1 254 127	1 346 973	1 254 127
Unlisted investments (financial assets designated as at fair value through profit and loss)	10 059 306	5 886 795	10 059 306	5 886 795
Unlisted investments (at amortised cost)	341 483	–	341 483	–
Bonds (financial assets designated as at fair value through profit and loss)	6 118 662	3 857 623	6 118 663	3 857 623
	17 866 468	10 998 545	17 866 425	10 998 545

Listed investments:

Shares at fair value	1 347 017	1 254 127	1 346 973	1 254 127
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Unlisted investments

Shares at fair value	368 941	353 693	368 941	353 693
Linked products at fair value	10 031 848	5 533 102	10 031 848	5 533 102

Unlisted investments at fair value	10 400 789	5 886 795	10 400 789	5 886 795
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Total listed and unlisted investments at fair value	11 747 806	7 140 922	11 747 762	7 140 922
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	GROUP AND COMPANY			
	R'000	Maturity spread %	Nominal interest rate %	Effective interest rate %
Bonds (Financial assets carried at fair value through profit or loss):				
Analysis of debt securities by maturity spread for 30 June 2019				
0 – 2 years	269 110	4.40	8.75	11.29
2 – 5 years	5 681 449	93.00	8.25	8.85
Later than 5 years	168 103	2.70	10.98	11.07
	6 118 662	100		
Analysis of debt securities by maturity spread for 30 June 2018				
0 – 2 years	1 316 129	34.10	7.37	7.98
2 – 5 years	1 864 694	48.40	8.91	9.32
Later than 5 years	676 800	17.50	8.78	9.08
	3 857 623	100.00		

All bonds reported above are South African in origin.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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

	Designated at fair value through profit or loss R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per Statement of Financial Position R'000	Fair value of financial instruments R'000
GROUP							
2019							
Assets							
Investments in associates	-	-	-	-	66 821	66 821	66 821
Financial assets	17 524 985	341 483	17 866 468	-	-	17 866 468	17 866 468
Reinsurance assets	-	-	-	224 454	-	224 454	-
Insurance, loans and other receivables	-	299 202	299 202	351 818	182 542	833 562	299 202
Cash and cash equivalents	-	2 534 326	2 534 326	-	-	2 534 326	2 534 326
Total assets	17 524 985	3 175 011	20 699 996	576 272	249 363	21 525 631	20 766 817
Liabilities							
Long-term liabilities	-	400 302	400 302	-	-	400 302	400 302
Policyholder liabilities	-	-	-	17 481 388	-	17 481 388	-
Outstanding claims	-	-	-	449 109	-	449 109	-
Reinsurance liabilities	-	-	-	243 740	-	243 740	-
Employee benefits	-	-	-	-	154 642	154 642	-
Trade and other payables	-	-	-	691 344	611 742	1 303 086	-
Total liabilities	-	400 302	400 302	18 865 581	766 384	20 032 267	400 302
2018							
Assets							
Investments in associates	-	-	-	-	63 156	63 156	63 156
Financial assets	10 998 545	-	10 998 545	-	-	10 998 545	10 998 545
Reinsurance assets	-	-	-	190 574	-	190 574	-
Insurance, loans and other receivables	-	277 482	277 482	318 966	198 681	795 129	277 482
Cash and cash equivalents	-	2 046 510	2 046 510	-	-	2 046 510	2 046 510
Total assets	10 998 545	2 323 992	13 322 537	509 540	261 837	14 093 914	13 385 693
Liabilities							
Long-term liabilities	-	400 200	400 200	-	-	400 200	400 200
Policyholder liabilities	-	-	-	10 211 542	-	10 211 542	-
Outstanding claims	-	-	-	391 167	-	391 167	-
Reinsurance liabilities	-	-	-	261 377	-	261 377	-
Employee benefits	-	-	-	-	154 367	154 367	-
Trade and other payables	-	-	-	549 212	292 382	841 594	-
Total liabilities	-	400 200	400 200	11 413 298	446 749	12 260 247	400 200

	Designated at fair value through profit or loss R'000	Loans and receivables R'000	Total financial instruments R'000	Insurance contract assets and liabilities R'000	Other assets and liabilities R'000	Total per Statement of Financial Position R'000	Fair value of financial instruments R'000
COMPANY							
2019							
Assets							
Interest in subsidiaries	18 260	-	18 260	-	-	18 260	18 260
Investments in associates	73 600	-	73 600	-	-	73 600	73 600
Financial assets	17 524 942	341 483	17 866 425	-	-	17 866 425	17 866 425
Reinsurance assets	-	-	-	224 454	-	224 454	-
Insurance, loans and other receivables	-	299 202	299 202	351 818	181 122	832 142	299 202
Cash and cash equivalents	-	2 519 438	2 519 438	-	-	2 519 438	2 519 438
Total assets	17 616 802	3 160 123	20 776 925	576 272	181 122	21 534 319	20 776 925
Liabilities							
Long-term liabilities	-	400 302	400 302	-	-	400 302	400 302
Policyholder liabilities	-	-	-	17 481 388	-	17 481 388	-
Outstanding claims	-	-	-	449 109	-	449 109	-
Reinsurance liabilities	-	-	-	243 740	-	243 740	-
Employee benefits	-	-	-	-	154 367	154 367	-
Trade and other payables	-	-	-	691 344	599 166	1 290 510	-
Total liabilities	-	400 302	400 302	18 865 581	753 533	20 019 416	400 302
2018							
Assets							
Interest in subsidiaries	12 197	-	12 197	-	-	12 197	12 197
Investments in associates	70 534	-	70 534	-	-	70 534	70 534
Financial assets	10 998 545	-	10 998 545	-	-	10 998 545	10 998 545
Reinsurance assets	-	-	-	190 574	-	190 574	-
Insurance, loans and other receivables	-	277 482	277 482	318 966	204 508	800 956	277 482
Cash and cash equivalents	-	2 030 823	2 030 823	-	-	2 030 823	2 030 823
Total assets	11 081 276	2 308 305	13 389 581	509 540	204 508	14 103 629	13 389 581
Liabilities							
Long-term liabilities	-	400 200	400 200	-	-	400 200	400 200
Policyholder liabilities	-	-	-	10 211 542	-	10 211 542	-
Outstanding claims	-	-	-	391 167	-	391 167	-
Reinsurance liabilities	-	-	-	261 378	-	261 378	-
Employee benefits	-	-	-	-	155 101	155 101	-
Trade and other payables	-	-	-	549 212	284 823	834 035	-
Total liabilities	-	400 200	400 200	11 413 299	439 924	12 253 423	400 200

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

9. (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
GROUP				
2019				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	834 877	–	503 532	1 338 409
Listed debentures	8 607	–	–	8 607
Unlisted ordinary shares	23 756	–	3 702	27 458
Unlisted preference shares*	–	–	341 483	341 483
Unit trusts	–	9 713 073	–	9 713 073
Bonds	5 886 636	232 027	–	6 118 663
Hedge fund investments	–	56 998	–	56 998
Annuities	–	261 777	–	261 777
	6 753 877	10 263 875	507 235	17 524 985
2018				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	686 468	552 160	–	1 238 628
Listed debentures	15 499	–	–	15 499
Unlisted ordinary shares*	4 047	–	2 785	6 832
Unlisted preference shares*	–	–	346 860	346 860
Unit trusts	–	5 274 564	–	5 274 564
Bonds	2 650 449	1 207 174	–	3 857 624
Hedge fund investments	–	108 940	–	108 940
Annuities	–	149 598	–	149 598
	3 356 462	7 292 436	349 646	10 998 545
COMPANY				
2019				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	834 834	–	503 532	1 338 366
Listed debentures	8 607	–	–	8 607
Unlisted ordinary shares*	23 756	–	3 702	27 458
Unit trusts	–	9 713 073	–	9 713 073
Bonds	5 886 636	232 027	–	6 118 663
Hedge fund investments	–	56 998	–	56 998
Annuities	–	261 777	–	261 777
Investment in associate	–	–	73 600	73 600
Investment in subsidiary	–	–	18 260	18 260
	6 753 833	10 263 875	599 094	17 616 802
2018				
Financial assets carried at fair value through profit or loss				
Listed – ordinary	686 468	552 160	–	1 238 628
Listed debentures	15 499	–	–	15 499
Unlisted ordinary shares*	4 047	–	2 785	6 832
Unlisted preference shares*	–	–	346 860	346 860
Unit trusts	–	5 274 564	–	5 274 564
Bonds	2 650 449	1 207 174	–	3 857 624
Hedge fund investments	–	108 940	–	108 940
Annuities	–	149 598	–	149 598
Investment in associate	–	–	70 534	70 534
Investment in subsidiary	–	–	12 197	12 197
	3 356 462	7 292 436	432 378	11 081 276

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

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

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

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 Group and Company. Therefore, unobservable inputs reflect the Group's and Company's own assumptions about the inputs that market participants would use in pricing the asset and liability. These inputs are developed based on the best information available, which might include the Group's and Company's own data.

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

The following table shows a reconciliation of the opening and closing recorded amounts of Level 3 financial instruments which are recorded at fair value:

	At 1 July 2018 R'000	Total gains/ (loss) in income statement R'000	Purchases R'000	Interest, dividends and management fee R'000	Sales/ Transfers R'000	At 30 June 2019 R'000	Total gains or losses for the period included in profit or loss for assets held at 30 June 2018 R'000
GROUP							
Financial assets carried at fair value through profit or loss							
Listed – ordinary	552 160	(48 627)	–	–	–	503 532	(48 627)
Unlisted ordinary shares	2 785	–	917	–	–	3 702	–
Total financial instruments	554 945	(48 627)	917	–	–	507 234	(48 627)
COMPANY							
Financial assets carried at fair value through profit or loss							
Listed – ordinary	552 160	(48 627)	–	–	–	503 532	(48 627)
Unlisted ordinary shares	2 785	–	917	–	–	3 702	–
Unlisted preference shares	346 860	16 313	–	43 573	(65 264)	341 483	16 313
Investment in associate	70 534	3 066	–	–	–	73 600	3 066
Investment in subsidiary	12 197	3 908	2 155	–	–	18 260	3 908
Total financial instruments	637 676	(41 653)	3 072	–	–	599 094	(41 653)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

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

Gains or losses (realised and unrealised) included in profit or loss for the year are presented in the income statement as follows:

	Realised gains R'000	2019 Unrealised gains and losses R'000	Total R'000
GROUP			
Total gains or losses included in profit or loss for the year	25 452	(77 702)	(52 251)
	25 452	(77 702)	(52 251)
COMPANY			
Total gains or losses included in profit or loss for the year	25 452	(70 836)	(45 384)
	25 452	(70 836)	(45 384)

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions.

The following table shows the sensitivity of the fair value of Level 3 instruments to changes in key assumptions, by class of instrument:

	2019			
	GROUP		COMPANY	
	Carrying amount R'000	Effect of reasonably possible alternative assumptions (+/-) R'000	Carrying amount R'000	Effect of reasonably possible alternative assumptions (+/-) R'000
Financial assets carried at fair value through profit or loss				
Unlisted ordinary shares	503 532	50 353	503 532	50 353
Unlisted preference shares	3 702	370	3 702	370
Investment in associate	-	-	73 600	7 360
Investment in subsidiary	-	-	18 260	1 826
Total financial instrument	507 235	50 723	599 094	59 909

For equities, the Group adjusted the following:

- 1) Average price earnings ratio – the adjustment made was to increase and decrease the assumed price earnings ratio by two, which is considered by the Group and Company to be within a range of reasonably possible alternatives based on price earnings ratios of companies with similar industry and risk profiles.
- 2) Net asset value – the adjustment made was to increase and decrease the net asset value by 10%.

10. Insurance, loans and other receivables

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Premium debtors	334 466	301 472	334 466	301 472
Other receivables	305 272	250 457	304 031	256 284
Total insurance and other receivables	639 738	551 929	638 497	557 756
Loans				
Secured interest and interest-free loans	177 718	130 663	177 718	130 663
– Loans to staff				
– Loans to other				
Unsecured interest-free loans	(3 371)	104 234	(3 548)	104 234
Total loans⁽¹⁾	174 347	234 897	174 170	234 897
Receivable from Group companies				
Receivable from Group companies	19 477	8 304	19 477	8 304
Total due from Group companies⁽²⁾	19 477	8 304	19 477	8 304
Total insurance, loans and other receivables	833 562	795 129	832 143	800 957
<i>(1) The interest rates charged on the secured and unsecured loans comprise:</i>				
Prime rate of interest	68 078	58 637	68 078	58 637
Prime plus 2%	20 774	7 518	20 774	7 518
Prime plus 5%	7 290	34 426	7 290	34 426
Prime less 1.36%	3 489	4 185	3 489	4 185
Prime less 5.15%	6 218	5 916	6 218	5 916
12.5% interest	51 031	–	51 031	–
South African Revenue Services Rate	10 731	10 382	10 731	10 382
Hollard Investments Money Market Fund rate	4 528	4 199	4 528	4 199
Johannesburg Inter-Bank Rate ("JIBAR") + 7%	5 579	5 400	5 579	5 400
Interest-free loans	(3 371)	104 234	(3 548)	104 234
Total loans	174 347	234 897	174 170	234 897
<i>(1) The repayments terms of the secured and unsecured loans comprise:</i>				
90 days after notice	10 731	10 382	10 731	10 382
Repaid quarterly	77 181	79 729	77 181	79 729
Specific date	73 674	131 989	73 674	131 989
No fixed terms of repayment	12 761	12 797	12 584	12 797
Total loans	174 347	234 897	174 170	234 897
<i>(2) The interest rates charged on the loans to Group companies comprise:</i>				
Prime less 3.8%	10 005	7 039	10 005	7 039
Interest-free loans	9 472	1 265	9 472	1 265
Total due from Group companies	19 477	8 304	19 477	8 304
<i>(2) The repayment terms of the loans to Group companies comprise:</i>				
Specific date	18 942	7 039	18 942	7 039
No terms of repayment	535	1 265	535	1 265
Total due from Group companies	19 477	8 304	19 477	8 304

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
11. Deferred taxation				
Deferred income tax assets				
Deferred income tax to be recovered after 12 months	-	15 452	-	15 452
Deferred income tax to be recovered within 12 months	21	14	-	-
Balance at end of year	21	15 466	-	15 452
Balance at beginning of year	15 466	168	15 452	-
Movements during the year attributable to:				
Acquisition of subsidiary	21	-	-	-
Unutilised tax losses	(15 466)	15 452	(15 452)	15 452
Provisions	-	(154)	-	-
Balance at end of year	21	15 466	-	15 452
Deferred income tax liabilities				
Deferred income tax to be recovered after 12 months	444 821	608 390	444 821	608 390
Deferred income tax to be recovered within 12 months				
Balance at end of year	444 821	608 390	444 821	608 390
Balance at beginning of year	608 390	529 139	608 390	529 139
Movements during the year attributable to:				
Unrealised gains on assets at fair value through profit or loss	(17 027)	56 299	(17 027)	56 299
Unutilised tax losses	-	3 713	-	3 713
Provisions	1 908	-	1 908	-
Policyholder liabilities change in valuation basis	(151 449)	(4 082)	(151 449)	(4 082)
Other releases to profit and loss	8 135	23 321	8 135	23 321
Prior year adjustment	(5 135)	-	(5 135)	-
Balance at end of year	444 821	608 390	444 821	608 390
Balance comprises:				
Policyholder liabilities change in valuation basis	332 615	484 063	332 615	484 063
Unutilised tax losses	-	(777)	-	(777)
Provisions	(390)	(4 432)	(390)	(4 432)
Unrealised gains on assets at fair value through profit or loss	112 597	129 536	112 597	129 536
Balance at end of year	444 821	608 390	444 821	608 390

In respect of the 2019 financial year, the determination of the value of liabilities has been amended according to the provisions of section 29A of the Income Tax Act (No. 58 of 1962), which provides that liabilities are determined net of re-insurance assets and negative liabilities.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
12. Cash and cash equivalents				
Cash and cash equivalents consist of cash on hand, current accounts and short-term deposits with maturity of less than 12 months.				
Cash on call	1 398 453	748 771	1 398 453	748 772
Cash at bank	251 934	357 994	237 118	342 307
Cash on deposit	883 931	939 729	883 859	939 729
Cash on hand	8	16	8	16
	2 534 326	2 046 510	2 519 438	2 030 823

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000

13. Share capital and premium

Authorised

100 000 000 ordinary shares of 1 cent each

1 000	1 000	1 000	1 000
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Issued and fully paid

2 000 000 ordinary shares of 1 cent each

Share premium

20	20	20	20
19 980	19 980	19 980	19 980

Issued Share Capital

20 000	20 000	20 000	20 000
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Dividends per share (cents)

344	332	344	332
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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.

14. Policyholder liabilities

Policyholder liabilities under investment contracts:

Balance at beginning of year	8 802 864	5 783 194	8 802 864	5 783 194
IFRS 9 adjustment	1 242	393	1 242	393
Movement for the year	8 225 057	3 019 277	8 225 057	3 019 277
Balance at end of year	17 029 164	8 802 864	17 029 164	8 802 864

Policyholder liabilities under insurance contracts:

Balance at beginning of year	1 408 678	2 083 894	1 408 678	2 083 894
IFRS 9 adjustment	(1 242)	(394)	(1 242)	(394)
Amounts expensed elsewhere in the income statement	(8 510)	(9 593)	(8 510)	(9 593)
Amount transferred to the income statement	(946 701)	(665 231)	(946 701)	(665 231)
Balance at end of year	452 224	1 408 678	452 224	1 408 678
	17 481 388	10 211 541	17 481 388	10 211 542

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

Increase in policyholder liabilities under investment contracts	8 226 300	3 019 670	8 226 300	3 019 670
Decrease in policyholder liabilities under insurance contracts	(956 455)	(675 218)	(956 455)	(675 218)
Total decrease in policyholder liabilities under investment and insurance contracts	7 269 845	2 344 452	7 269 845	2 344 452
Gross insurance liabilities	17 435 262	10 169 451	17 435 262	10 169 451
Total reinsurer's share of insurance liabilities	46 126	42 091	46 126	42 091
Net insurance liabilities	17 481 388	10 211 542	17 481 388	10 211 542

R296 million of the total policyholder liabilities relates to the deficit account balance of the FINRE agreement with Munich Re.

15. Employee benefits

Balance at beginning of year	155 151	166 555	155 101	165 919
Charged to profit and loss	(509)	(11 404)	(733)	(10 817)
– Additional provisions raised during the year	240 978	159 985	240 846	159 985
– Used during the year	(239 080)	(170 803)	(239 080)	(170 803)
– Disposal of subsidiary	–	(636)	–	–
– Reclassification	(2 500)	–	(2 500)	–
– Acquisition of subsidiary	93	50	–	–
Balance at end of year	154 642	155 151	154 363	155 101
Analysis of total provisions				
– Current	154 642	155 151	154 363	155 101

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

15. Employee benefits (continued)

Leave pay

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

The Group's and Company's provision for leave pay amounted to R29 061 037 and R28 782 382 respectively at the statement of financial position date (2018: R29 117 842 and R29 068 242 respectively).

Incentive scheme

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

The Group's and Company's provision for staff incentives amounted to R125 581 028 and R125 581 028 respectively at the statement of financial position date (2018: R123 532 856 and R123 532 856 respectively).

Restructuring

The Group's and Company's provision for staff restructuring amounted to Rnil and Rnil respectively at the statement of financial position date (2018: Rnil and Rnil respectively).

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
16. Trade and other payables				
Trade and other creditors	131 431	68 321	123 655	60 399
Other liabilities	1 167 420	773 273	1 166 854	773 636
	1 303 086	841 594	1 290 509	834 035

Other liabilities

Included in other liabilities are life assurance premiums amounting to R80 860 599 in respect of policies that inception after the statement of financial position date (2018: R15 603 628).

All balances are current.

17. Long-term borrowings

Interest-bearing loan	400 302	400 200	400 302	400 200
	400 302	400 200	400 302	400 200

The loan bears interest at the 3 month JIBAR + 215bps and is serviced quarterly. The loan is repayable on the tenth anniversary of the advance date (12 August 2016). The loan is unsecured.

18. Net premium income

Individual and group

Single premiums	68	–	68	–
Recurring premiums	6 584 080	6 354 440	6 584 080	6 354 440
Reinsurance premiums inwards	145 000	143 395	145 000	143 395
Gross premium income	6 729 148	6 497 835	6 729 148	6 497 835
Reinsurance premiums outwards	(1 704 257)	(1 507 077)	(1 704 257)	(1 507 077)
Net premium income	5 024 891	4 990 758	5 024 891	4 990 758

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 125 for details of the movement in policyholder liabilities under investment contracts.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
19. Realised profit/(loss) on disposal of investments				
Listed investments	17 733	(1 367)	17 733	(1 367)
Unlisted investments	7 719	14 457	7 719	15 459
	25 452	13 090	25 452	14 092

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
20. Unrealised profit/(loss) on revaluation of investments				
Listed investments	(72 354)	111 982	(72 347)	111 982
Unlisted investments	(5 348)	29 711	1 512	30 808
	(77 702)	141 693	(70 836)	142 790
21. Other income				
Experience refund	261 495	365 440	261 495	365 440
Investment Fees	86 492	–	86 492	–
Other	96 517	98 608	78 776	95 010
	444 504	464 048	426 763	460 450

R261m (2018: R365m) of the total other income relates to the experience refund within the FINRE agreement entered into with Munich Re.

	2019			2018		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
22. Profit before taxation						
Profit before taxation is determined after charging:						
Directors' and prescribed officers' emoluments						
Executive Directors						
<i>Director A</i>						
Basic salary	–	–	–	634	634	1 268
Bonus and performance-related payments	–	–	–	7 884	7 884	15 768
Estimated monetary value of other benefits	–	–	–	144	144	288
Pension/provident fund contributions	–	–	–	73	73	146
	–	–	–	8 735	8 735	17 470
<i>Director B</i>						
Basic salary	1 463	4 389	5 852	1 224	2 448	3 672
Bonus and performance-related payments	1 853	5 559	7 412	1 617	3 233	4 850
Estimated monetary value of other benefits	20	60	80	49	97	146
Pension/provident fund contributions	164	492	656	137	275	412
	3 500	10 500	14 000	3 027	6 053	9 080
<i>Director C</i>						
Basic salary	–	–	–	1 307	2 613	3 920
Bonus and performance-related payments	–	–	–	4 057	8 113	12 170
Estimated monetary value of other benefits	–	–	–	105	209	314
Pension/provident fund contributions	–	–	–	151	303	454
	–	–	–	5 620	11 238	16 858
<i>Director D</i>						
Basic salary	646	1 938	2 584	–	–	–
Bonus and performance-related payments	168	504	672	–	–	–
Estimated monetary value of other benefits	27	81	108	–	–	–
Pension/provident fund contributions	75	225	300	–	–	–
	916	2 748	3 664	–	–	–
<i>Director E</i>						
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	–	–	–
<i>Director F</i>						
Basic salary	2 081	–	2 081	–	–	–
Bonus and performance-related payments	2 727	–	2 727	–	–	–
Estimated monetary value of other benefits	99	–	99	–	–	–
Pension/provident fund contributions	247	–	247	–	–	–
	5 154	–	5 154	–	–	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	Company R'000	2019 Rest of Group R'000	Total R'000	Company R'000	2018 Rest of Group R'000	Total R'000
22. Profit before taxation (continued)						
Non-executive Directors						
Directors' fees						
Director A	178	534	712	143	429	572
Director B	157	472	629	143	427	570
Director C	221	665	886	202	606	808
Director D	226	680	906	305	915	1 220
Director E	153	460	613	135	405	540
Director F	194	582	776	208	622	830
Director G	304	912	1 216	286	858	1 144
Director H	130	391	521	127	379	506
	1 563	4 696	6 259	1 549	4 641	5 620
Prescribed officers						
<i>Prescribed officer A</i>						
Basic salary	322	966	1 288	520	1 560	2 080
Bonus and performance-related payments	791	2 373	3 164	697	2 092	2 790
Estimated monetary value of other benefits	8	24	32	11	33	44
Pension/provident fund contributions	36	108	144	58	175	233
	1 157	3 471	4 628	1 287	3 860	5 147
<i>Prescribed officer B</i>						
Basic salary	727	2 181	2 908	686	2 057	2 743
Bonus and performance-related payments	1 272	3 816	5 088	1 764	5 291	7 055
Estimated monetary value of other benefits	31	93	124	30	90	120
Pension/provident fund contributions	83	249	332	79	236	314
	2 113	6 339	8 452	2 558	7 673	10 231
<i>Prescribed officer C</i>						
Basic salary	645	1 935	2 580	609	1 826	2 435
Bonus and performance-related payments	822	2 466	3 288	1 132	3 395	4 527
Estimated monetary value of other benefits	12	36	48	12	37	49
Pension/provident fund contributions	72	216	288	68	205	273
	1 551	4 653	6 204	1 821	5 463	7 284
<i>Prescribed officer D</i>						
Basic salary	553	1 659	2 212	523	1 569	2 091
Bonus and performance-related payments	587	1 761	2 348	808	2 425	3 233
Estimated monetary value of other benefits	70	210	280	65	194	259
Pension/provident fund contributions	68	204	272	65	194	258
	1 278	3 834	5 112	1 461	4 382	5 842
<i>Prescribed officer E</i>						
Basic salary	757	2 271	3 028	592	1 776	2 368
Bonus and performance-related payments	928	2 784	3 712	672	2 015	2 686
Estimated monetary value of other benefits	6	18	24	5	14	19
Pension/provident fund contributions	85	255	340	66	199	265
	1 776	5 328	7 104	1 335	4 004	5 339
Total Directors' and prescribed officers' emoluments	20 633	46 444	67 077	27 248	56 049	83 441

During the current financial year the following changes were made to the directors' and prescribed officers emoluments:

The directors emoluments splits between company and the rest of the group were re-stated for the prior financial year to accurately reflect the provision of services.

The prescribed officers emoluments were adjusted for the prior financial year to accurately reflect the composition of prescribed officers.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Auditors' remuneration				
- Audit fees	6 068	3 690	5 963	3 628
- Prior year under provision	-	222	-	222
- Other services	-	1 039	-	1 039
	6 068	4 951	5 963	4 889
Depreciation				
- Office equipment	9 173	8 776	9 128	8 775
- Motor vehicles	96	54	96	54
- Furniture and fittings	21	-	-	-
- Leasehold improvements	23 743	21 795	23 743	21 795
	33 034	30 624	32 968	30 624
Amortisation				
Computer software	7 203	5 910	7 203	5 910
Other expenditure				
Administration fees paid	159 666	163 947	159 666	163 947
Impairment losses	1 177	-	1 177	-
Operating leases – building	79 917	101 365	79 917	101 365
Professional fees	130 591	119 740	129 298	118 880
Professional fees	104 042	97 883	104 042	97 883
Professional fees – Other	26 549	21 857	25 256	20 997
Research and development	71	734	71	734

23. Taxation

South African normal taxation – current year	319 856	251 160	319 501	250 695
South African normal taxation – prior year	4 493	-	4 493	-
Deferred taxation	(148 115)	63 800	(148 115)	63 800
Other indirect taxation	413	715	413	715
Dividend Withholding Tax	3 235	1 858	3 235	1 858
	179 881	317 536	179 526	317 068

All taxation is payable in respect of continuing operations.

Tax rate reconciliation	%	%	%	%
Tax calculated at standard rate of South African tax on earnings	28.0	28.0	28.0	28.0
Prior year taxation	(2.8)	3.8	(2.8)	3.8
Unrealised gains not taxable	(1.9)	(0.4)	(1.9)	(0.4)
Realised gains not taxable	4.5	(0.1)	4.5	(0.1)
Other indirect taxation	(0.0)	0.7	(0.0)	0.7
Other	0.1	0.6	(0.1)	0.7
Dividend Withholding Tax	(0.1)	0.3	(0.1)	0.3
Non-taxable items and losses	(3.6)	(1.3)	(3.6)	(1.3)
Effective rate	24.1	31.6	24.0	31.7

24. Policyholder benefits

Individual and group				
- Death and disability	2 854 258	2 670 829	2 854 258	2 670 829
- Maturity	1 156 365	870 616	1 156 365	870 616
- Policy surrenders	31 706	42 827	31 706	42 827
- Annuities	18 807	45 535	18 807	45 535
- Other	54 563	72 039	54 563	72 039
Gross policyholder benefits	4 115 700	3 701 847	4 115 700	3 701 847
Less: Reinsurance recoveries	(1 079 041)	(992 854)	(1 079 041)	(992 854)
- Death and disability	(1 079 041)	(992 854)	(1 079 041)	(992 854)
Net policyholder benefits	3 036 658	2 708 992	3 036 658	2 708 993

Policyholder benefits represent payments under insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 14 on page 125 of these financial statements for the movement in policyholder liabilities under investment contracts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

	Notes	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
25. Reconciliation of profit before taxation to cash generated/(utilised) by operations					
Profit before tax attributable to equity holders of the parent		745 138	1 003 810	748 819	1 000 241
Adjustments for:					
Depreciation	4	33 034	30 624	32 968	30 624
Intangible assets amortisation		12 325	5 910	12 325	5 910
Transfer to policyholder liabilities under insurance contracts	14	(956 454)	(675 217)	(956 454)	(675 217)
Transfer to policyholder liabilities under investment contracts	14	8 226 300	3 019 670	8 226 300	3 019 670
Investment income		(303 071)	(332 772)	(312 086)	(345 872)
Realised profit on assets underlying investment contracts		(43 487)	28 598	(43 487)	28 598
Other income		(444 504)	(464 046)	(426 763)	(460 450)
Rental income		(12 961)	(8 758)	(12 926)	(8 758)
Share of profit in associates		(13 633)	(18 727)	-	-
Unrealised (profit)/loss on revaluation of investments	20	77 702	(141 693)	70 836	(142 790)
Unrealised loss on investment contracts		(172 625)	(182 214)	(172 625)	(182 214)
Interest paid		69 290	66 896	69 265	66 896
Increase/(decrease) in employee benefits		(509)	(11 404)	(737)	(10 818)
Net (increase)/decrease in accrued interest and dividends		7 641	(2 665)	7 641	(2 665)
Asset transfers		13 165	108 110	13 165	108 110
Operating cash flows before working capital changes		7 237 351	2 426 121	7 256 241	2 431 265
Working capital changes		318 259	428 098	319 537	418 595
(Increase)/decrease in insurance, loans and other receivables		(16 909)	(123 161)	(9 661)	(125 004)
Impact of IFRS 9 transition adjustment		(133 630)	-	(133 630)	-
Increase in reinsurance assets		(33 880)	184 800	(33 880)	184 800
Decrease in outstanding claims		57 942	78 902	57 942	78 902
Increase in reinsurance liabilities and trade and other payables		443 855	287 557	438 766	279 897
Cash generated/(utilised) by operations		7 555 610	2 854 219	7 575 778	2 849 860
26. Dividends paid					
Amounts due at beginning of year		-	-	-	-
Amounts charged to statement of changes in equity		(688 660)	(663 886)	(688 660)	(663 886)
Amounts due at end of year		-	-	-	-
Cash amounts paid		(688 660)	(663 886)	(688 660)	(663 886)
27. Dividends received					
Amounts due at beginning of year		7 709	10 374	7 709	10 374
Dividends received per income statement		71 828	70 543	82 103	83 393
Amounts due at end of year		(15 350)	(7 709)	(15 350)	(7 709)
Cash amounts received		64 187	73 208	74 462	86 058
28. Taxation paid					
Amounts due at beginning of year		(532 467)	(480 099)	(532 431)	(479 678)
Amounts charged to income statement		(179 881)	(317 536)	(179 526)	(317 068)
Amounts due at end of year		465 439	532 467	465 464	532 431
Cash amounts paid		(246 909)	(265 168)	(246 493)	(264 315)
Amounts due at end of year comprised as follows:					
Deferred income tax asset		(21)	(15 466)	-	(15 452)
Deferred income tax liability		444 821	608 390	444 821	608 390
Taxation		20 639	(60 456)	20 643	(60 507)
		465 439	532 467	465 464	532 431

29. Business combinations

29.1 Summary of Business Combinations – 2019

The Group acquired an interest in Richton Employee Benefits (Pty) Ltd on 1 July 2018. Details of acquisition is noted below:

29.1.1 Acquisition of 100% shareholding in Richton Employee Benefits (Pty) Ltd:

On 1 July 2018, the Company acquired a 100% shareholding in Richton Employee Benefits (Pty) Ltd for a consideration payment of R2 083 000 for the year under review. This transaction was accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the change in ownership arising on acquisition, were as follows:

	Acquisition of investment in subsidiary R'000
Net assets acquired in the transaction were as follows:	
Fair value at date of acquisition	906
Goodwill on purchase (subsequently impaired)	1 177
Total consideration	2 083
Net cashflow arising on acquisition:	
– Cash consideration paid	(2 083)
– Cash and cash equivalents acquired	1 161
Net cash and cash equivalents acquired	(922)

29.2 Summary of Business Combinations – 2018

The Group acquired an interest in NMG Pooling Administrators (Pty) Ltd on 1 March 2018 and disposed of an investment in The Best Funeral Society (Pty) Ltd on the 1 October 2017. Details of acquisitions and disposals are noted below:

29.2.1 Acquisition of 100% shareholding in NMG Pooling Administrators (Pty) Ltd:

On 1 March 2018, the Company acquired a 100% shareholding in NMG Pooling Administrators (Pty) Ltd for a consideration payment of R2 000 000 for the year under review. This transaction was accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the change in ownership arising on acquisition, were as follows:

	Acquisition of investment in subsidiary R'000
Net assets acquired in the transaction were as follows:	
Fair value at date of acquisition	176
Goodwill on purchase (subsequently impaired)	1 824
Total consideration	2 000
Net cashflow arising on acquisition:	
– Cash consideration paid	(2 000)
– Cash and cash equivalents acquired	9 511
Net cash and cash equivalents acquired	7 511

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

29. Business combinations (continued)

29.2 Summary of Business Combinations – 2018 (continued)

29.2.2 Disposal of subsidiaries:

On 1 October 2017, the Company disposed of its 55% shareholding in The Best Funeral Society (Pty) Ltd for a consideration of R1 128 901. At the date of disposal, the fair value of the investment in the Company was R1 128 901 and the net asset value was R3 262 465. The Company and Group generated a loss of R116 145 and R665 455 respectively.

The net assets disposed of in the transaction, were as follows:

	Disposal of investment in subsidiary R'000
Property and Equipment	1 171
Financial Assets	1 354
Trade and other receivables	1 830
Cash and cash equivalents	6 658
Trade and other payables	(7 263)
Current tax liability	(488)
Minority interest	(1 468)
Loss generated on disposal of subsidiary	(665)
Proceeds on disposal of subsidiary	1 129
Net cashflow arising on disposal:	
– Cash and Cash equivalents	(6 658)
Net cash and cash equivalents disposed of	(6 658)

30. Investments in associates

The Group disposed of the investments in associates in the 2018 financial year. There were no acquisitions or disposals of investments in associates in the 2019 financial year. Refer details below:

30.1 Summary of acquisitions and disposals of the Group's investments in associates – 2019

30.1.1 Disposals of investments in associates – 2019

No disposals noted for the 2019 financial year.

30.2 Summary of acquisitions and disposals of the Group's investments in associates – 2018

30.2.1 Disposals of investments in associates – 2018

	% of shareholding disposed	Proceeds on disposal R'000	Carrying value R'000	Loss on sale of investments R'000
Prorisk Pooling Administrators (Pty) Ltd	40%	–	453	453

31. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund, with 247 (2018: 205) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year were R13 813 922 (2018: R13 002 631).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund, with 811 (2018: 685) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R77 271 248 (2018: R43 364 411).

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

32. Operating lease arrangements

The company entered into a lease agreement with Taropark Properties (Pty) Ltd to lease the Arcadia premises with effect from 1 July 2016. The lease ends on 30 June 2026.

The company entered into a lease agreement with Renvest Properties (Pty) Ltd to lease the City Campus premises with effect from 1 August 2017. The lease ends on 30 June 2027.

The total amount of the lease payments over the remaining period of the leases will be R794 907 000.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
The future minimum lease payments under operating lease agreements are as follows:				
Not later than one year	86 310	81 887	86 310	81 887
Later than one year and not later than five years	420 039	322 624	420 039	322 624
Later than five years	288 558	509 541	288 558	509 541
	794 907	914 052	794 907	914 052
Payments recognised as an expense:				
Minimum lease payments	79 917	101 365	79 917	101 365
	79 917	101 365	79 917	101 365

The lease payments are recognised as an expense on a straight-line basis over the term of the lease in accordance with International Accounting Standard IAS 17: Leases.

33. Related party transactions

Transactions between Group companies

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

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

Details of subsidiary, associate and joint venture companies are provided in note 36 on page 60 of the financial statements.

	COMPANY	
	2019 R'000	2018 R'000
Loans to related parties		
Loans to Hollard Holdings (Pty) Ltd	10 005	10 003
Loans to Pico Ruivo Investments (Pty) Ltd	535	1 265
Loans from related parties		
Loan from Fundco (RF) (Pty) Ltd	400 302	400 200
Loans to directors and prescribed officers		
Details of individual loans to directors and prescribed officers:		
M Shezi	3 190	2 956
NG Kohler	3 489	4 185
B Wyborn	7 541	7 426

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2019

33. Related party transactions (continued)

Transactions between Group companies (continued)

No new advance was made during the year (2018: Rnil).

The following repayments were made during the year:

- M Shezi Rnil (2018: R211 000)
- NG Kohler R1 000 000 (2018: R1 500 000)
- B Wyborn R450 000 (2018: R2 400 000)

The loans are given on commercial terms and conditions. The related interest income in 2019 was R1 103 365 (2018: R1 215 961).

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

Interest on loans to M Shezi and B Wyborn is charged at the SARS rate and as at 30 June 2019, the rate was 7.75%.

Interest on loans to NG Kohler is charged at prime less 1.36% and at 30 June 2019, the prime rate was 10.25%.

	COMPANY	
	2019 R'000	2018 R'000
Endowment policies		
Endowment policies have been taken up by directors and key management. All policies are issued in the names of the individuals concerned on standard commercial terms. The value of policies in-force at the reporting date is as follows:		
Directors and their family members	4 228	3 453
Key management compensation		
Salaries, bonuses and other short-term employee benefits	67 077	50 870
Key management refers to Executive Committee members excluding Directors.		
The remuneration of key management is determined by the Remuneration Committee having regard to both the performance of the individuals concerned and their related market compensation benchmarks.		
Management fees		
Paid by The Hollard Insurance Company Limited	208 965	260 653
Paid by Hollard Specialist Insurance Limited	12 301	–
Paid by Hollard Specialist Life Limited	42 739	–
Administration fees		
Administration fees are paid to a number of companies in which the Group holds an interest. All fees are paid on standard commercial terms.		
Rent paid		
Taropark	66 531	82 631
Renvest Properties	13 386	18 734
Investment Policy with		
The Hollard Insurance Company Limited	1 090 854	995 708

Refer to notes 6, 7 and 10 of these annual financial statements for details of loans with Group companies and other related parties.

34. Commitments for expenditure

The Group's and Company's principal expenditure commitment is to its policyholders, the nature and quantum of which is governed by the terms of the specific insurance contracts that are issued to them. The Group and Company do not expect to incur significant non-insurance related expenditure during the financial year ended 30 June 2019 and hence have not provided for a capital expenditure budget for this period (2018: Rnil). Any unanticipated capital or operating expenditure will be funded from internal sources.

35. Contingent liabilities

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

As at 30 June 2019 a case pertaining to arbitration has been instituted against Hollard Life Assurance as a result of the termination of a business relationship agreement. The claimant has claimed R89m plus interest and costs. It is our legal team's view that there is a fair prospect of success in defending the claims. We note that the claimant has subsequently indicated their intention to amend its statement of claim.

The outcome at present cannot be foreseen or quantified. Therefore, no liability has been recognised for these potential claims in the financial statements in accordance with the requirements of IAS 37.

36. Subsidiaries, associates and joint ventures

	Nature of business	Place of business	Issued share capital (Rands)	2019 Proportion held %	2018 Proportion held %	Carrying value of interest in subsidiaries, associates and joint ventures			
						2019 Shares R'000	2019 Indebtedness R'000	2018 Shares R'000	2018 Indebtedness R'000
Directly held subsidiaries									
Hollard Life Properties (Pty) Ltd	A	RSA	2	100.00	100.00	-	-	47	-
Hollard Wealth Management Services (Pty) Ltd	C	RSA	1	100.00	100.00	427	-	411	-
Hollard Management Company (Pty) Ltd	D	RSA	1	100.00	100.00	-	-	-	-
Altrisk (Pty) Ltd	E	RSA	1 075	100.00	100.00	-	-	-	-
Hollard Investment Managers (Pty) Ltd	D	RSA	2	100.00	100.00	15 213	-	9 738	-
Finningley (Pty) Ltd	E	RSA	100	100.00	100.00	-	-	-	-
Richton Employee Benefit (Pty) Ltd	E	RSA	100	100.00	100.00	936	-	-	-
NMG Pooling Administrators (Pty) Ltd	E	RSA	100	100.00	100.00	1 684	-	2 000	-
						18 260	-	12 197	-
Directly held associates									
Amserve Consultants Private Ltd	F	India	100 652	49.99	49.99	-	-	-	-
Amsure Insurance Agency Ltd	E	India	301 956	49.99	49.99	-	-	-	-
Ooba Investment Holdings (Pty) Ltd	E	RSA	160	25.00	25.00	73 600	-	70 534	-
IFANet Independent Distribution Services (Pty) Ltd	C	RSA	100	24.00	24.00	-	-	-	-
						73 600	-	70 534	-

Nature of business

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

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

37. Subsequent events

Hollard Life is in the process of modifying its direct distribution model from a purely outsourced model to a hybrid model incorporating both insourced and franchised branches. As at 1 September 2019, branches in respect of two previously outsourced partners have been taken under Hollard management. There may be more branches insourced in this financial period.

38. Going concern

The Board believes that the Company and Group will continue to be a going concern in the foreseeable future. For this reason, the Directors have adopted the going-concern basis in preparing the financial statements.

DIRECTORATE AND ADMINISTRATION

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

Non-Executive Chairman	ADH Enthoven
Group Chief Executive Officer	S Ntombela
Group Chief Financial Officer	WT Lategan (resigned 30 September 2018)
Group Chief Financial Officer	DJ Viljoen (appointed 1 October 2018)
Executive Director	B Ruele (appointed 1 November 2018)
Non-Executive Director	NG Kohler
Lead Independent Non-Executive Director	BF Mohale
Independent Non-Executive Director	MR Bower (appointed 1 January 2018)
Independent Non-Executive Director	NV Simamane
Independent Non-Executive Director	SC Gilbert
Independent Non-Executive Director	R Fihrer
Independent Non-Executive Director	B Ngonyama
Independent Non-Executive Director	S Patel
Independent Non-Executive Director	AS Nkosi

Company Secretary

G Tyusha (resigned 30 June 2019)
CorpStat Governance Services (Pty) Ltd (appointed 1 August 2019)

Public Officer

U Murphy

Compliance officer

Wikus Luus

Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P/O Box 87428
Houghton
2041

Website

www.hollard.co.za

Nature of business

The Company transacts long-term assurance business.

Auditors

Deloitte & Touche
Building 8
The Woodlands
Woodlands Drive
Woodmead
Sandton

Registration number

1993/001405/06

