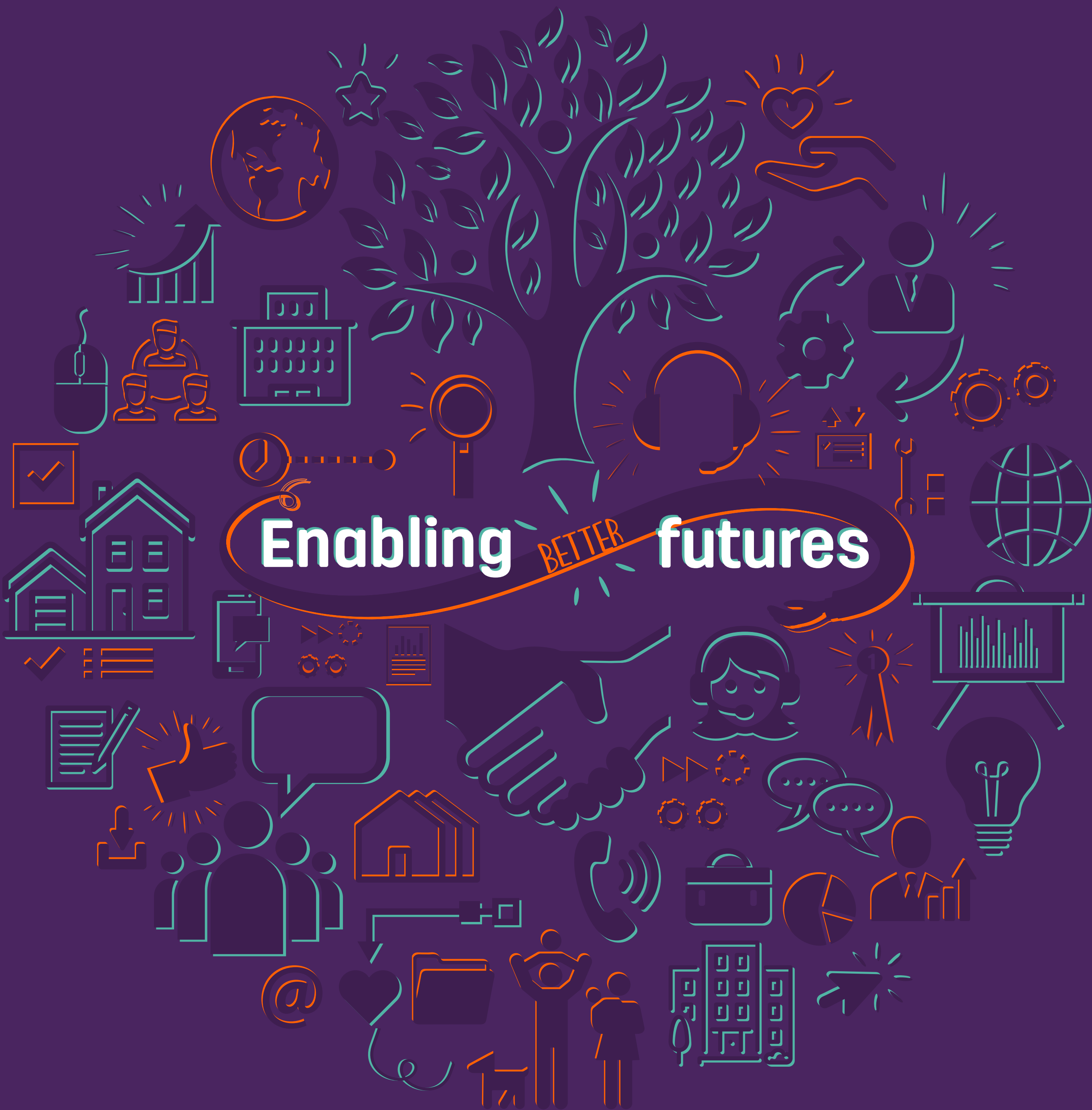
Enabling BETTER futures



Hollard.

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Hollard Specialist Life Limited and Hollard Specialist Insurance Company are wholly owned subsidiaries of Hollard Fundco (RF) (Proprietary) Limited

GO ON. YOU'RE COVERED

Who can you trust for the widest choice of innovative insurance solutions to provide financial security in these unpredictable times? Look no further than the Hollard Specialist Companies which:

- provide a wide range of motor insurance products;
- are among the top two commercial vehicle insurers in the country;
- provide innovative and affordable life assurance products; and
- offer specialist resources and expertise across a range of insurance markets.

THE HOLLARD SPECIALIST STORY

The Hollard Specialist Companies have become well-known specialists and market leaders in their chosen markets and an exceptional range of short-term insurance and life assurance products are available to you under one Hollard Specialist brand, offering you a one-stop-shop.

The annual financial statements have been audited and have been approved by the board of directors. The financial statements have been prepared by Monkie Leboea CA(SA) (Financial Accountant: Group Reporting) and Sabeeha Gani CA(SA) (Financial Account: Group Reporting), under the supervision of Chadd Bartlett CA(SA) (Senior Finance Manager: Group Reporting) and Deon Naidoo (Head: Short-Term Reporting).

01.

HOLLARD SPECIALIST GROUP

for the year ended 30 June 2019

HOLLARD SPECIALIST LIFE GROUP

	2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000
Statement of comprehensive income					
Gross written premium income	**718 472**	821 378	975 698	1 124 015	1 021 627
Investment income, including investment gains	**68 337**	101 816	92 135	82 989	113 592
Net claims and benefits incurred	**260 185**	266 954	331 526	359 260	333 868
Underwriting result	**318 982**	222 162	290 845	296 213	279 776
Profit before taxation	**387 319**	267 018	524 234	308 186	331 665
Statement of financial position					
Total assets	**1 236 063**	1 338 141	1 410 279	2 246 496	2 003 915
Total cash and cash equivalents, including short-term financial instruments	**432 481**	336 014	542 466	931 237	727 841
Total liabilities	**402 745**	620 661	646 366	1 284 273	1 249 074
Total equity	**833 318**	717 480	763 913	962 223	754 841

HOLLARD SPECIALIST INSURANCE GROUP

	2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000
Statement of comprehensive income					
Gross written premium income	**1 433 548**	1 395 861	1 623 908	1 866 644	1 905 718
Investment income, including investment gains	**147 293**	132 825	165 792	166 824	151 538
Net claims and benefits incurred	**586 000**	564 101	719 957	850 468	899 063
Underwriting result	**183 772**	230 959	169 531	206 739	199 625
Profit before taxation	**331 065**	359 239	450 351	352 843	329 521
Statement of financial position					
Total assets	**1 827 956**	1 907 050	1 834 355	2 837 713	2 697 455
Total cash and cash equivalents, including short-term financial instruments	**510 836**	382 171	925 103	998 226	825 553
Total liabilities	**907 614**	855 273	835 553	1 442 732	1 479 857
Total equity	**920 342**	1 051 777	998 802	1 394 981	1 217 598

02.

HOLLARD SPECIALIST LIFE GROUP

Directors’ approval and statement of responsibility

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 Specialist Life Group (Hollard Specialist Life Limited 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 coordinates audit coverage with the external auditor.

The external auditors are responsible for reporting on the group and company’s annual financial statements.

The group 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 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 16 to 62 have been approved by the board of the group and company and are signed on their behalf by:

ADT Enthoven
Chairman
24 October 2018

S Ntombela
Chief executive officer
24 October 2018

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) Limited (appointed 1 August 2019)
Company secretary
24 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; and
- 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.

for the year ended 30 June 2019

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.

MBower

Mark Bower
Chairperson of the audit committee

for the year ended 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.
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year (the Individual Life lapse rates at durations in excess of four years were reduced in line with experience).
- The risk-free interest rate curve and the inflation curve supplied by the Prudential Authority were used to determine the policyholder liabilities.
- Income tax was allowed for explicitly at the appropriate rates and capital gains tax was allowed for implicitly in the discount rate (unchanged).
- A contingency reserve to cover possible data problems of R20 million (2018: R20 million) was held as a discretionary reserve.
- Negative reserves were allowed for on the published reporting basis (unchanged).

	2019 R'000	2018 R'000
Value of in-force business	**503 624**	548 674
Excess of assets over liabilities	**833 318**	717 480
Total embedded value	**1 336 942**	1 266 154

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

Independent auditor's report

to the shareholders of Hollard Specialist Life Group

Report on the Financial Statements

We have audited the consolidated and separate financial statements of Hollard Specialist Life Group set out on pages 16 to 62, which comprise the consolidated and separate statements of financial position as at 30 June 2019, the 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 Hollard Specialist Life Group and Hollard Specialist Life Limited as at 30 June 2019, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 Hollard Specialist Life Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). 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 IFRS 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 Hollard Specialist Life Group's and Hollard Specialist Life Limited'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 Hollard Specialist Life Group and/or Hollard Specialist Life Limited 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 Hollard Specialist Life Group's and Hollard Specialist Life Limited'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 Hollard Specialist Life Group's and Hollard Specialist Life Limited'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 Hollard Specialist Life Group or Hollard Specialist Life Limited 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 Hollard Specialist Life Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Hollard Specialist Life 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.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per H Kana
Partner

31 October 2019

Building 8, Deloitte Place
The Woodlands
Woodlands Drive
Sandton

National Executive:

*LL Bam (Chief Executive), *AE Swiegers (Chief Operating Officer), *GM Pinnock (Audit), DL Kennedy (Risk Advisory), *NB Kader (Tax), TP Pillay (Consulting), *K Black (Clients and Industries), *JK Mazzocco (Talent and Transformation), *MJ Jarvis (Finance), *M Jordan (Strategy), S Gwala (Managed Services), *TJ Brown (Chairman of the Board), *MJ Comber (Deputy Chairman of the Board).

A full list of partners and directors is available on request. *Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code.

Member of Deloitte Touche Tohmatsu Limited

Directors' report

for the year ended 30 June 2019

The directors of Hollard Specialist Life Group and Hollard Specialist Life Limited draw the attention of the users of these financial statements to the change of the company name from Regent Specialist Life Limited to Hollard Specialist Life Limited, effective August 2018. The directors present their annual report which forms part of the audited financial statements of the Hollard Specialist Life Group and Hollard Specialist Life Limited for the financial year ended 30 June 2019.

Nature of business

Hollard Specialist Life Group is incorporated in the Republic of South Africa and is involved predominately in the credit and individual life markets.

Group information

During the current financial year the holding company changed from Hollard Holdings Limited to Hollard Fundco (RF) (Pty) Ltd and the ultimate holding company is Pickent Investments Limited (formerly R Enthoven and Sons (Pty) Ltd). Both these companies are incorporated in the Republic of South Africa. Hollard Specialist Life Group holds 100% of Solethu (Pty) Ltd, which is a dormant company. It is currently in the process of being deregistered.

Dividends

Hollard Specialist Life Group declared and paid dividends of R161 million (2018 R252.6 million).

Capital contribution

During the 2019 financial year, preference share capital of R3.2 million (2018: R1.3 million) was contributed by one preference shareholder, this relates to the capitalisation of 3 cell captive arrangements that were insolvent.

Share capital

Details of share capital are provided in note 18 to the annual financial statements.

Special resolutions

The Hollard Specialist Life Group passed the following resolutions during the current financial year:

- Approved the fees in respect of the independent non-executive directors;
- Authorised the company to provide any direct, or indirect financial assistance to any related or inter-related company, subject to the provisions of the Companies Act;
- Proposed new rights and conditions attaching to the Preference Shares; and
- Adoption of a new Memorandum of Incorporation in its entirety.

None of the subsidiaries passed any special resolutions, which might be significant to members in their appreciation of the state of affairs of the Hollard Specialist Life Group.

The Company changed its name from Regent Life Assurance Company to Hollard Specialist Life Limited effective – August 2018

Events after the reporting period

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

Financial performance

In the year under review the Group achieved net profit attributable to the equity holders of the parent of R232 924 000 (2018: R151 298 000), which arose from the Group's operations as follows:

	2019 R'000	2018 R'000
Net premium income	**711 310**	761 351
Investment income	**68 337**	101 816
Other income	**49 658**	56 410
Total revenue	**829 305**	919 577
Net insurance benefits and claims	**(260 185)**	(266 954)
Other operating expenses	**(181 801)**	(385 605)
Total expenses	**(441 986)**	(652 559)
Results of operating activities	**387 319**	267 018
Profit before taxation	**387 319**	267 018
Taxation	**(113 566)**	(62 204)
Profit for the year	**273 753**	204 814
Non-controlling interest	**40 829**	53 516
Net profit attributable to the equity holder of the parent	**232 924**	151 298

for the year ended 30 June 2019

Board of directors

ADT Enthoven

Executive directors

S Ntombela
AL Mhlanga (appointed 1 November 2018)
WT Lategan (resigned 30 September 2018)
DJ Viljoen (appointed 1 October 2018)

Non-executive directors

NG Kohler
B Ngonyama
AS Nkosi
MR Bower
R Fihrer
SC Gilbert
BF Mohale
S Patel
NV Simamane

Company secretary

Corpstat Governance Services Proprietary Limited
(appointed 1 August 2019)

Business address

Hollard Villa Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Auditors

Deloitte & Touche will continue in office in accordance with section 90(2) of the Companies Act subject to the shareholder making such appointment.

Statements of financial position

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
ASSETS					
Property and equipment	3	**31**	84	**31**	84
Intangible assets	4	**10 500**	15 939	**10 500**	15 939
Investment property	5	**6 820**	6 820	**6 820**	6 820
Investment in associate	6	**–**	3 174	**–**	3 174
Reinsurers' share of policyholder liabilities under insurance contracts	7	**132 809**	138 732	**132 809**	138 732
Financial assets	8	**711 060**	862 602	**711 060**	862 602
Current taxation		**–**	26 081	**–**	26 081
Receivables including insurance receivables	9	**43 657**	54 695	**43 657**	54 695
Cash and cash equivalents	11	**331 186**	230 014	**331 186**	230 014
Total assets		**1 236 063**	1 338 141	**1 236 063**	1 338 141
EQUITY					
Share capital	18	**21**	21	**21**	21
Share premium	18	**94 667**	94 667	**94 667**	94 667
Retained earnings		**661 123**	502 047	**661 123**	502 047
Equity attributable to the equity holders of the parent		**755 811**	596 735	**755 811**	596 735
Non-controlling interests		**77 507**	120 745	**77 507**	120 745
Total equity		**833 318**	717 480	**833 318**	717 480
LIABILITIES					
Policyholders' liabilities		**(686)**	260 187	**(686)**	260 187
◆ Insurance contracts	12	**(121 704)**	47 191	**(121 704)**	47 191
◆ Investment contracts	13	**121 018**	212 996	**121 018**	212 996
Deferred taxation	14	**141 179**	159 407	**141 179**	159 407
Provisions	15	**25 843**	52 665	**25 843**	52 665
Current taxation		**26 580**	–	**26 580**	–
Due to group companies	10	**63 972**	767	**63 972**	767
Insurance and other payables	17	**145 857**	147 635	**145 857**	147 635
Total liabilities		**402 745**	620 661	**402 745**	620 661
Total equity and liabilities		**1 236 063**	1 338 141	**1 236 063**	1 338 141

Statements of comprehensive income

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Gross written premiums		**718 472**	821 378	**718 472**	821 378
Outward reinsurance premium		**(7 162)**	(60 027)	**(7 162)**	(60 027)
Net written premiums	19	**711 310**	761 351	**711 310**	761 351
Investment income	20	**57 683**	55 808	**57 683**	54 882
Investment gains	21	**10 654**	46 008	**10 654**	46 823
Other operating income	22	**49 658**	56 410	**49 658**	50 093
Net income		**829 305**	919 577	**829 305**	913 149
Net claims and benefits incurred	23	**(260 185)**	(266 954)	**(260 185)**	(266 954)
Claims and benefits incurred		**(290 226)**	(308 520)	**(290 226)**	(308 520)
Claims handling costs		**(6 448)**	(9 810)	**(6 448)**	(9 810)
Reinsurers' share of claims and benefits incurred		**36 489**	51 376	**36 489**	51 376
Change in policyholder liabilities under insurance and investment contracts		**158 018**	(32 293)	**158 018**	(32 293)
Transfer from/(to) life fund – insurance contracts	12	**168 895**	(12 603)	**168 895**	(12 603)
Life fund – economic assumption	12	**–**	(674)	**–**	(674)
Reinsurers' share	7	**(5 923)**	5 384	**(5 923)**	5 384
Transfer to investment contracts		**(4 954)**	(24 400)	**(4 954)**	(24 400)
Finance cost		**–**	(103)	**–**	(103)
Commission and acquisition expenses		**(128 339)**	(212 184)	**(128 339)**	(212 184)
General marketing and administration expenses		**(211 480)**	(141 025)	**(211 480)**	(135 999)
Exceptional items		**–**	–	**–**	–
Loss from associate		**–**	–	**–**	–
Profit before taxation	24	**387 319**	267 018	**387 319**	265 616
Taxation	25	**(113 566)**	(62 204)	**(113 566)**	(61 727)
Profit after taxation		**273 753**	204 814	**273 753**	203 889
Total comprehensive income for the year		**273 753**	204 814	**273 753**	203 889
Profit attributable to:					
Equity owners of the company		**232 924**	151 298	**232 924**	150 373
Non-controlling interests		**40 829**	53 516	**40 829**	53 516
		273 753	204 814	**273 753**	203 889
Total comprehensive income attributable to:					
Equity owners of the company		**232 924**	151 298	**232 924**	150 373
Non-controlling interests		**40 829**	53 516	**40 829**	53 516
		273 753	204 814	**273 753**	203 889

Statements of changes in equity

for the year ended 30 June 2019

Group	Share capital* and share premium R'000	Share-based equity reserve R'000	Retained earnings R'000	Non-controlling interests R'000	Total R'000
Balance at 1 July 2017	144 688	21	471 932	147 272	763 913
Net profit for the year	–	–	151 298	53 516	204 814
Total comprehensive income for the year ended 30 June 2018	–	–	151 298	53 516	204 814
Share-based equity reserve transferred to retained earnings on vesting	–	(326)	326	–	–
Share-based equity	–	305	–	–	305
Dividends paid	(50 000)	–	(121 509)	(81 086)	(252 595)
Capital contribution	–	–	–	1 268	1 268
Unbundling of subsidiary	–	–	–	(225)	(225)
Balance at 30 June 2018	94 688	–	502 047	120 745	717 480
Impact of transition adjustment, net of taxation	**–**	**–**	**(148)**	**–**	**(148)**
Restated balance as at 30 June 2018	**94 688**	**–**	**501 899**	**120 745**	**717 332**
Net profit for the year	**–**	**–**	**232 924**	**40 829**	**273 753**
Total comprehensive income for the year ended 30 June 2019	**–**	**–**	**232 924**	**40 829**	**273 753**
Dividends paid	**–**	**–**	**(73 700)**	**(87 286)**	**(160 986)**
Capital contribution	**–**	**–**	**–**	**3 219**	**3 219**
Balance at 30 June 2019	**94 688**	**–**	**661 123**	**77 507**	**833 318**
Company					
Balance at 1 July 2017	144 688	21	439 133	147 047	730 889
Net profit for the year	–	–	150 373	53 516	203 889
Total comprehensive income for the year ended 30 June 2018	–	–	150 373	53 516	203 889
Share-based equity reserve transferred to retained earnings on vesting	–	(326)	326	–	–
Share-based equity	–	305	–	–	305
Dividends paid	(50 000)	–	(87 785)	(81 086)	(218 871)
Capital contribution	–	–	–	1 268	1 268
Balance at 30 June 2018	**94 688**	–	**502 047**	**120 745**	**717 480**
Impact of transition adjustment, net of taxation	**–**	**–**	**(148)**	**–**	**(148)**
Restated balance as at 30 June 2018	**94 688**	**–**	**501 899**	**120 745**	**717 332**
Net profit for the year	**–**	**–**	**232 924**	**40 829**	**273 753**
Total comprehensive income for the year ended 30 June 2019	**–**	**–**	**232 924**	**40 829**	**273 753**
Dividends paid	**–**	**–**	**(73 700)**	**(87 286)**	**(160 986)**
Capital contribution	**–**	**–**	**–**	**3 219**	**3 219**
Balance at 30 June 2019	**94 688**	**–**	**661 123**	**77 507**	**833 318**

** Included in share capital and share premium are eight preference shares issued at a value of R0.01.*

for the year ended 30 June 2019

	Notes	**Group 2019 R'000**	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
Cash flow from operating activities					
Cash generated from operations	26.1	**206 145**	196 949	**206 145**	197 668
Interest received	26.2	**51 454**	48 465	**51 454**	47 634
Interest paid		**–**	(103)	**–**	(103)
Share-based equity movement		**–**	393	**–**	393
Taxation paid	26.3	**(79 131)**	(79 611)	**(79 131)**	(76 920)
Movement in investment contracts		**(96 932)**	(62 703)	**(96 932)**	(62 703)
Net cash inflow from operating activities		**81 536**	103 390	**81 536**	105 969
Cash flow from investing activities					
Proceeds on disposal of property and equipment		**5**	–	**5**	–
Proceeds on sale of investments		**888 987**	854 485	**888 987**	854 975
Acquisition of investments		**(721 234)**	(919 273)	**(721 234)**	(919 273)
Net cash outflow on disposal of subsidiaries	26.5	**–**	(31 460)	**–**	–
Dividends received	26.2	**9 645**	9 516	**9 645**	9 421
Net cash inflow/(outflow) from investing activities		**177 403**	(86 732)	**177 403**	(54 877)
Cash flow from financing activities					
Dividends paid	26.4	**(160 986)**	(201 878)	**(160 986)**	(201 878)
Non-controlling interest capital contribution	26.6	**3 219**	1 268	**3 219**	1 268
Net cash outflow from financing activities		**(157 767)**	(200 610)	**(157 767)**	(200 610)
Net increase in cash and cash equivalents		**101 172**	(183 952)	**101 172**	(149 518)
Cash and cash equivalents at the beginning of the year		**230 014**	413 966	**230 014**	379 532
Cash and cash equivalents at the end of the year		**331 186**	230 014	**331 186**	230 014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated and separate annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations, adopted by the International Accounting Standards Board (IASB), in issue and effective for the group at 30 June 2019 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

Accounting policies

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

1.1 Basis of preparation

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

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

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

Carried at fair value:

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

Carried at different measurement basis:

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

Adoption of new and revised standards

The 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 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 R150 thousand 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 at amortised cost	Transition adjustment	As classified under IFRS 9 at amortised cost
Preference shares*	49 914	(148)	49 766
Gross transition adjustment	49 914	(148)	49 766

** ECL charge on transition*

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.

1.1 **Basis of preparation** *continued*

Standards, interpretations and amendments to published standards that are not yet effective as at June 2019

The following are some amendments to IFRS that could have an impact on the Hollard Specialist Life Group's future financial statements:

- **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.

1.2 **Property and equipment**

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

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

Office equipment	20%
Computer equipment	20%
Furniture and fittings	10%

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

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

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

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

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

for the year ended 30 June 2019

1.3 *Intangible assets*

Computer software

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

Amortisation of intangibles

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

- Computer software development 3 – 5 years

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

1.4 *Investment properties*

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

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

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

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

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

1.5 Leases

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

Operating leases

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

1.6 Acquisition costs associated with insurance contracts

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

1.7 Operating and administrative expenditure

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

1.8 Impairment of tangible and intangible assets

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

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

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

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

1.9 *Financial assets*

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

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

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

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

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

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit and loss, as the Hollard Specialist Life Group's strategy is to manage financial investments acquired to cover its insurance and investment contract liabilities. In addition shareholders' capital is invested under a formal capital management strategy that actively measures the performance on a fair value basis. The held to maturity classification is no longer applicable under IFRS 9. Any assets previously classified as held to maturity, provided they satisfy the business model of "hold to collect" and Solely Payments of Principle and Interest test, would now be classified as carried at amortised cost.

Financial instrument purchases and disposals are initially measured at cost and are recognised using trade date accounting. The trade date is the date on which the 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 assets at fair value through profit or loss have two sub-categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- The assets or liabilities are part of a Hollard Specialist Life Group's group of financial assets, financial liabilities or both which are managed

1.9 Financial assets *continued*

and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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

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

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

1.10 Impairment of financial assets

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1.10 *Impairment of financial assets* *continued*

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

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

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

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.

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

1.11 *Derecognition of financial assets*

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

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

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

When continuing involvement takes the form of a written and/or purchased option (including cash-settled option or similar provision) on the transferred asset, the extent of the Hollard Specialist Life Group's continuing involvement is the amount of the transferred asset that the Hollard Specialist Life Group may repurchase,

1.11 Derecognition of financial assets *continued*

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

1.12 Insurance receivables

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

1.13 Reinsurance contracts

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

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

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

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

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

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

1.14 Cash and cash equivalents

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

1.15 Share capital

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

1.16 Classification of contracts

Insurance contracts are those contracts where the Hollard Specialist Life Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Hollard Specialist Life Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

1.16 *Classification of contracts* continued

Investment contracts are those contracts that transfer significant financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, a credit rating or credit index or other variables.

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

1.17 *Income recognition*

Revenue

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

Insurance contracts

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

Reinsurance contracts

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

Investment contracts

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

Investment income

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

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

Policy fee income

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

1.18 *Benefits and claims recognition*

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

Insurance contracts

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

1.18 ***Benefits and claims recognition*** *continued*

Insurance contracts *continued*

insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Investment contracts

Claims incurred are recorded as deductions from investment contract liabilities.

Reinsurance contracts

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

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

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

1.19 ***Policyholder insurance and investment contracts***

SAPs issued by the ASSA

In terms of IFRS 4, defined insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4. The Hollard Specialist Life Group has, prior to the adoption of IFRS 4, adopted the SAPs to determine the liability in respect of insurance contracts issued in South Africa.

The SAPs are available on the ASSA website (www.assa.org.za).

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

Insurance and investment contract valuation

The Hollard Specialist Life Group issues contracts that transfer insurance risk or financial risk or, in some cases, both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts are classified into individual credit life contracts, individual life contracts, group funeral, group life and group credit life contracts.

All policyholder contracts that transfer significant insurance risk are classified as insurance contracts. Insurance contracts are valued in terms of the FSV basis contained in SAP 104 issued by the ASSA and are reflected as "Policyholder liabilities under insurance contracts" on the statement of financial position.

The Hollard Specialist Life Group's statutory actuary calculates the Hollard Specialist Life Group's liabilities under insurance contracts and investment contracts annually at the statement of financial position date in accordance with prevailing legislation and IFRS as appropriate. The transfers to or from policyholder liabilities reflected in the notes to the financial statements represent the increase or decrease in liabilities, including provisions for policyholders' bonuses, net adjustments to policyholders' bonus stabilisation reserves, and net adjustments to margins held within the policyholder liabilities.

Fair value adjustments to policyholder liabilities under investment

The operating profits or losses are determined in accordance with the guidance note on FSVs and SAP 104 issued by the Actuarial Society of South Africa. The profits or losses are arrived at after taking into account the changes over the period in values of actuarial liabilities under unmatured policies, corresponding assets, provisions for policyholder bonuses and adjustments to other margins within policyholder liabilities.

1.19 Policyholder insurance and investment contracts *continued*

IBNR – Insurance contracts

Provision is made in the policyholders liabilities under insurance contracts for the estimated cost at the end of the year for claims IBNR at that date. IBNR provisions are calculated as a multiple, based on the average historical reporting delay of the claims reported in the three weeks following the valuation date but where the claims event occurred prior to valuation date. These liabilities are not discounted due to the short-term nature of outstanding claims.

Liability adequacy test – Insurance contracts

At each reporting date the adequacy of the insurance liabilities is assessed, using current estimates of future cash flows under the insurance contracts. If that assessment shows that the carrying amount of the insurance liabilities (less related deferred acquisition costs) is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss.

1.20 Financial liabilities

Financial liabilities comprise policyholders' liabilities under investment contracts.

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

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

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

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

Trade and other payables

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

1.21 Provisions

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

Leave pay provision

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

Employee bonus provision

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

1.22 Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

Current taxation

The charge for current tax is based on the results for the year as adjusted for items that are non-taxable or are disallowed. It is calculated using the tax rates that have been enacted or substantively enacted on the statement of financial position date, in each particular jurisdiction in which the Hollard Specialist Life Group operates.

Deferred taxation

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Dividends tax

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

1.23 Employee retirement benefits

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

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

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

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

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

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

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

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

1.29 *Key assumptions in applying accounting policies*
Key assumptions are those used to derive estimates, which require management's judgement.

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

- Policyholders' liabilities under insurance contracts are derived from estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received (net of expected service costs).
- The Hollard Specialist Life Group holds a number of financial assets that are designated at fair value through profit or loss. These are valued at quoted market prices as far as possible. However, if such prices are unavailable, fair value is based either on internal valuations or management's best estimates of realisable amounts.
- Impairment tests are conducted on all assets included in the statement of financial position. In determining the value in use, various estimates are used by management including deriving future cash flows and applicable discount rates. These estimates are most applicable to the impairment tests on reinsurance assets, intangible assets (including goodwill), deferred acquisition costs and receivables. Further details are contained in note 1.8 and 1.10 of the accounting policies.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. In terms of IAS 8 *Accounting policies, changes in accounting estimates and errors*, changes in accounting estimates do not necessitate a prior period adjustment.

Financial performance

The underwriting results increased by R97 million compared to the previous financial year, mainly to a decrease in commission and acquisition costs. Operating profit before taxation increased by R120 million over the same period.

for the year ended 30 June 2019

	Notes	Property R'000	Computer and office equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
3. PROPERTY AND EQUIPMENT						
Group						
2019						
Balance at the beginning of the year		**–**	**6**	**78**	**–**	**84**
Depreciation charge for the year	24	**–**	**(5)**	**(48)**	**–**	**(53)**
Balance at the end of the year		**–**	**1**	**30**	**–**	**31**
Cost		**–**	**38**	**288**	**–**	**326**
Accumulated depreciation		**–**	**(37)**	**(258)**	**–**	**(295)**
Balance at the end of the year		**–**	**1**	**30**	**–**	**31**
2018						
Balance at the beginning of the year		2 365	363	1 445	206	4 379
Disposals		(2 718)	(4 083)	–	(217)	(7 018)
Depreciation charge for the year	24	(59)	(23)	(76)	(4)	(162)
Accumulated depreciation on disposals		2 718	4 081	–	217	7 016
Net movement on disposal of subsidiaries		(2 306)	(332)	(1 291)	(202)	(4 131)
Balance at the end of the year		–	6	78	–	84
Cost		–	38	288	–	326
Accumulated depreciation		–	(32)	(210)	–	(242)
Balance at the end of the year		–	6	78	–	84

3. PROPERTY AND EQUIPMENT *continued*

	Notes	Computer and office equipment R'000	Furniture and fittings R'000	Total R'000
Company				
2019				
Balance at the beginning of the year		**6**	**78**	**84**
Disposal		**–**	**–**	**–**
Depreciation charge for the year	24	**(5)**	**(48)**	**(53)**
Accumulated depreciation on disposals		**–**	**–**	**–**
Balance at the end of the year		**1**	**30**	**31**
Cost		**38**	**288**	**326**
Accumulated depreciation		**(37)**	**(258)**	**(295)**
Balance at the end of the year		**1**	**30**	**31**
2018				
Balance at the beginning of the year		16	126	142
Disposal		(4 083)	–	(4 083)
Depreciation charge for the year		(8)	(48)	(56)
Accumulated depreciation on disposals		4 081	–	4 081
Balance at the end of the year		6	78	84
Cost		38	288	326
Accumulated depreciation		(32)	(210)	(242)
Balance at the end of the year		6	78	84

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
4. INTANGIBLE ASSETS					
Application software					
Balance at the beginning of the year		**15 939**	24 768	**15 939**	21 378
Disposals		**–**	(33 982)	**–**	(33 982)
Accumulated depreciation on disposals		**–**	33 982	**–**	33 982
Amortisation charge for the year	24	**(5 439)**	(5 462)	**(5 439)**	(5 439)
Net movement on disposal of subsidiaries		**–**	(3 367)	**–**	–
Balance at the end of the year		**10 500**	15 939	**10 500**	15 939
Cost		**27 195**	27 194	**27 195**	27 194
Accumulated amortisation		**(16 695)**	(11 255)	**(16 695)**	(11 255)
Balance at the end of the year		**10 500**	15 939	**10 500**	15 939
5. INVESTMENT PROPERTY					
Balance at the beginning of the year		**6 820**	6 820	**6 820**	6 820
Fair value adjustment		**–**	–	**–**	–
		6 820	6 820	**6 820**	6 820

Property comprises the following:

Property comprises an investment property situated on Erf 35326 and 35327 in Bellville, Cape Town. The cost of the property is R5.6 million (2018: R5.6 million) and market value of R6.8 million (2018: R6.8 million). All valuations were performed by independent valuators.

6. INVESTMENT IN ASSOCIATE

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Balance at the beginning of the year	**3 174**	3 174	**3 174**	3 174
Disposal	**(3 174)**	–	**(3 174)**	–
Balance at the end of the year	**–**	3 174	**–**	3 174

In the current financial year, Hollard Specialist Life Limited disposed of its shareholding in Jenzoweb (Proprietary) Limited, the value of the associate was R3.17 million at date of disposal.

Details of the Hollard Specialist Life Group's disposal of the group's investments in associates

	Percentage holding	Proceeds on disposal	Carrying value	Loss on sale of investment
Jenzoweb (Proprietary) Limited	30	–	3 174	3 174

The directors' value of the associate approximates its carrying value.

The summarised financial information in respect of the Hollard Specialist Life Group's shares in the associate is set out below:

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Total assets attributable	**–**	3 102	**–**	3 102
Total liabilities attributable	**–**	4 298	**–**	4 298
Net assets attributable	**–**	(1 196)	**–**	(1 196)
Revenue attributable	**–**	3 139	**–**	3 139

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
7. REINSURER'S SHARE OF POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS					
Movements in the reinsurers' share of insurance contract liabilities for the year were as follows:					
Balance at the beginning of the year		**138 732**	133 348	**138 732**	133 348
Transfer from statement of comprehensive income		**(5 923)**	5 384	**(5 923)**	5 384
Balance at the end of the year		**132 809**	138 732	**132 809**	138 732
8. FINANCIAL ASSETS					
The Hollard Specialist Life Group's financial assets designated at fair value through profit or loss					
Fixed interest debt securities:		**22 926**	117 119	**22 926**	117 119
◆ Government bonds		**–**	42 961	**–**	42 961
◆ Corporate bonds: listed		**22 926**	74 158	**22 926**	74 158
Equity securities: listed		**–**	158 990	**–**	158 990
Preference shares: listed		**19 394**	17 777	**19 394**	17 777
Collective investment schemes		**518 756**	413 871	**518 756**	413 871
Short-term cash deposits more than one year		**20 173**	100 000	**20 173**	100 000
Short-term cash deposits less than one year		**81 122**	6 000	**81 122**	6 000
The Hollard Specialist Life Group's financial assets designated at amortised cost					
Preference shares: unlisted		**48 689**	48 845	**48 689**	48 845
Total		**711 060**	862 602	**711 060**	862 602
8.1 Total financial assets					
Balance at the beginning of the year		**862 602**	758 259	**862 602**	751 473
Additions		**721 234**	919 273	**721 234**	919 273
Disposals		**(888 987)**	(854 485)	**(888 987)**	(854 975)
Fair value adjustment	21	**16 211**	46 016	**16 211**	46 831
Net movement on disposal of subsidiaries		**–**	(6 461)	**–**	–
Balance at the end of the year		**711 060**	862 602	**711 060**	862 602

The collective investment schemes comprises balanced equity portfolios on behalf of policyholders and yield-enhanced money market funds.

8. FINANCIAL ASSETS *continued*

8.2 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	**148**	**–**	**148**	**–**	**148**	**–**	**148**	**–**
Originations, purchases and interest accruals	**8**	**–**	**8**	**–**	**8**	**–**	**8**	**–**
Balance at end of the year	**156**	**–**	**156**	**–**	**156**	**–**	**156**	**–**

During the current year the provision for ECL increased due to an increase in preference shares interest accruals 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. 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 on a case-by-case basis.

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
9. RECEIVABLES INCLUDING INSURANCE RECEIVABLES				
Premium debtors – insurance contracts	**46 410**	44 320	**46 410**	44 320
Accrued interest	**3 157**	4 331	**3 157**	4 331
Other receivables	**12 536**	27 896	**12 536**	27 896
Reinsurance recoveries on intimated claims	**5 187**	1 733	**5 187**	1 733
	67 290	78 280	**67 290**	78 280
Less provision for impairment of receivables	**(23 633)**	(23 585)	**(23 633)**	(23 585)
Total	**43 657**	54 695	**43 657**	54 695

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

9. RECEIVABLES INCLUDING INSURANCE RECEIVABLES *continued*

Insurance premium receivables

Insurance premium receivables are aged according to the terms and conditions of the underlying agreements. Past due policies are reviewed for recoverability and either lapsed or provided for where necessary. No interest is charged on the outstanding insurance premium receivables. If a claim is payable, the outstanding amount receivable will be recovered from the amount payable to the client.

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
Movement in the provision for impairment of receivables				
Balance at the beginning of the year	**23 585**	29 905	**23 585**	29 905
Increase/(decrease) in allowance recognised in profit or loss	**954**	(5 005)	**954**	(5 005)
Amounts written off during the year	**(906)**	(1 315)	**(906)**	(1 315)
Balance at the end of the year	**23 633**	23 585	**23 633**	23 585

In determining the recoverability of a receivable, the Hollard Specialist Life Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

9.1 Age analysis

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
Ageing of total loans and other receivables				
Not past due	**44 519**	53 435	**44 519**	53 435
Past due 31 – 90 days	**10 941**	11 439	**10 941**	11 439
Past due 91 – 360 days	**12 262**	13 089	**12 262**	13 089
Past due more than one year	**(432)**	317	**(432)**	317
Total	**67 290**	78 280	**67 290**	78 280

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
10. DUE TO GROUP COMPANIES				
Due to fellow subsidiary	**(63 972)**	(767)	**(63 972)**	(767)
Due to group companies	**(63 972)**	(767)	**(63 972)**	(767)
These are call loans payable on demand.				
11. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	**331 186**	230 014	**331 186**	230 014
Total	**331 186**	230 014	**331 186**	230 014

** Call and cash deposits maturing within three months or less.*

The average call rate on short-term bank deposits was 7.69% (2018: 6.23%)

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
12. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS				
Movements in the insurance contract liabilities for the year were as follows:				
Balance at the beginning of the year	**47 191**	33 914	**47 191**	33 914
Transfer (to)/from the statement of comprehensive income	**(168 895)**	12 603	**(168 895)**	12 603
Life fund – economic assumption*	**–**	674	**–**	674
Net movement on disposal of subsidiaries	**–**	–	**–**	–
Balance at the end of the year	**(121 704)**	47 191	**(121 704)**	47 191

** This is the impact on the policyholders' liabilities as a result of changes in the economic assumptions such as the inflation rate, interest rate and loan interest rate as well as any derivation methodology changes.*

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
13. FINANCIAL LIABILITIES UNDER INVESTMENT CONTRACTS – LONG-TERM OPERATIONS					
Balance at the beginning of the year		**212 996**	250 627	**212 996**	250 627
Deposits		**3 002**	4 810	**3 002**	4 810
Payments		**(10 295)**	(15 075)	**(10 295)**	(15 075)
Transfer from fund		**(89 639)**	(52 438)	**(89 639)**	(52 438)
Fair value adjustment		**4 954**	25 072	**4 954**	25 072
Balance at the end of the year		**121 018**	212 996	**121 018**	212 996

** Hollard Specialist Life Company disposed of an annuity book of business during the current financial year.*

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
14. DEFERRED TAXATION					
Balance at the beginning of the year		**(159 407)**	(145 458)	**(159 407)**	(146 328)
IFRS reserves and provisions	25	**9 350**	(21 461)	**9 350**	(20 591)
CGT deferred asset	25	**(2 380)**	184	**(2 380)**	184
Prior year overprovision	25	**11 258**	7 328	**11 258**	7 328
Balance at the end of the year		**(141 179)**	(159 407)	**(141 179)**	(159 407)
The deferred tax comprises:					
Provisions – current year		**3 443**	7 625	**3 443**	7 625
CGT deferred liability		**923**	3 302	**923**	3 302
Return transfers tax credits		**11 643**	533	**11 643**	533
IFRS reserves and statutory reserves		**(157 188)**	(170 867)	**(157 188)**	(170 867)
Balance at the end of the year		**(141 179)**	(159 407)	**(141 179)**	(159 407)
Deferred taxation asset		**–**	–	**–**	–
Deferred taxation liability		**(141 179)**	(159 407)	**(141 179)**	(159 407)
Balance at the end of the year		**(141 179)**	(159 407)	**(141 179)**	(159 407)

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

15. PROVISIONS

15.1 Leave pay

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

15.2 Bonus

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

15.3 Other

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

	Leave pay R'000	Bonus R'000	Other R'000	Total R'000
Group				
2019				
Balance at the beginning of the year	**3 904**	**28 661**	**20 100**	**52 665**
Charge to statement of comprehensive income	**(412)**	**3 137**	**14 207**	**16 932**
Provisions utilised	**(588)**	**(32 277)**	**(11 368)**	**(44 233)**
Net movement on disposal of subsidiaries	**–**	**479**	**–**	**479**
Balance at the end of the year	**2 904**	**–**	**22 939**	**25 843**
2018				
Balance at the beginning of the year	5 520	12 386	19 599	37 505
Charge to statement of comprehensive income	1 200	28 826	14 207	44 233
Provisions utilised	(1 524)	(8 807)	(13 706)	(24 037)
Net movement on disposal of subsidiaries	(1 292)	(3 744)	–	(5 036)
Balance at the end of the year	3 904	28 661	20 100	52 665
Company				
2019				
Balance at the beginning of the year	**3 904**	**28 661**	**20 100**	**52 665**
Charge to statement of comprehensive income	**(412)**	**3 137**	**14 207**	**16 932**
Provisions utilised	**(588)**	**(31 798)**	**(11 368)**	**(43 754)**
Balance at the end of the year	**2 904**	**–**	**22 939**	**25 843**
2018				
Balance at the beginning of the year	4 617	8 204	19 599	32 420
Charge to statement of comprehensive income	811	28 785	14 207	43 803
Provisions utilised	(1 524)	(8 328)	(13 706)	(23 558)
Balance at the end of the year	3 904	28 661	20 100	52 665

for the year ended 30 June 2019

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
16. COMMITMENTS				
Operating leases				
The Hollard Life Group leases various offices and vehicles under non-cancellable operating lease agreements.				
The leases have varying terms, escalation clauses and renewal rights.				
The future minimum lease payments are as follows:				
Not later than one year	**2 067**	2 314	**2 067**	2 314
Later than one year and not later than five years	**3 336**	4 668	**3 336**	4 668
Balanced at the end of the year	**5 403**	6 982	**5 403**	6 982

The above mentioned commitments will be funded from cash generated by operations.

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
17. INSURANCE AND OTHER PAYABLES				
Accrued benefit payments on insurance contracts	**23 018**	25 429	**23 018**	25 429
Trade payables	**122 839**	122 206	**122 839**	122 206
Balanced at the end of the year	**145 857**	147 635	**145 857**	147 635

All trade and other payables are current liabilities. The carrying amounts approximate the fair value given the demand feature of the financial instruments.

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
18. SHARE CAPITAL AND SHARE PREMIUM				
Authorised share capital				
3 000 000 ordinary shares of 1 cent each	**30**	30	**30**	30
1 000 preference shares of 1 cent each	**–***	–*	**–***	–*
Issued share capital				
2 125 000 ordinary shares of 1 cent each	**21**	21	**21**	21
8 preference shares of 1 cent each	**–***	–*	**–***	–*
Share premium	**94 667**	94 667	**94 667**	94 667

** Denotes an amount less than R1 000.*

The directors are authorised, until the forthcoming annual general meeting, to issue the unissued shares for any purpose and upon such terms and conditions as they deem fit but subject to the provisions of the Companies Act of 2008 and the company's memorandum of incorporation.

	Notes	**Group 2019 R'000**	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
19. NET WRITTEN PREMIUMS					
Individual and credit life premium income					
◆ Recurring premiums		**699 391**	679 602	**699 391**	679 602
◆ Reinsurance		**(2 231)**	(14 301)	**(2 231)**	(14 301)
		697 160	665 301	**697 160**	665 301
Group life premium income					
◆ Recurring premiums		**19 081**	141 776	**19 081**	141 776
◆ Reinsurance		**(4 931)**	(45 726)	**(4 931)**	(45 726)
		14 150	96 050	**14 150**	96 050
Total		**711 310**	761 351	**711 310**	761 351
20. INVESTMENT INCOME					
Dividend income – other		**9 645**	9 516	**9 645**	9 421
Interest income from investments designated at fair value through profit or loss		**50 279**	49 790	**50 279**	48 959
Investment management expenses		**(2 241)**	(3 498)	**(2 241)**	(3 498)
Total		**57 683**	55 808	**57 683**	54 882
21. INVESTMENT GAINS					
Realised gains/(losses) – listed instruments		**98 798**	18 217	**98 798**	18 217
Unrealised gains – listed instruments		**(84 931)**	27 799	**(84 931)**	28 614
	8.1	**13 867**	46 016	**13 867**	46 831
Other investment gains/(losses)		**(3 213)**	(8)	**(3 213)**	(8)
Total		**10 654**	46 008	**10 654**	46 823
22. OTHER OPERATING INCOME					
Administration fees		**49 032**	55 613	**49 032**	49 296
Net rent received		**582**	542	**582**	542
Sundry income		**44**	255	**44**	255
Total		**49 658**	56 410	**49 658**	50 093

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
23. NET CLAIMS AND BENEFITS INCURRED					
Individual life benefits:					
◆ Death and disability benefits		**112 499**	99 738	**112 499**	99 738
◆ Hospitalisation, dread disease, monthly assistance		**3 416**	12 867	**3 416**	12 867
◆ Retrenchment and surrenders		**74 110**	66 542	**74 110**	66 542
◆ Maturities and endowments		**33 058**	30 688	**33 058**	30 688
◆ Other claims		**41 064**	–	**41 064**	–
◆ Reinsurance recoveries		**(3 978)**	(9 760)	**(3 978)**	(9 760)
		260 169	200 075	**260 169**	200 075
Group benefits:					
◆ Death, disability and retrenchment benefits		**17 503**	62 078	**17 503**	62 078
◆ Hospitalisation, dread disease, monthly assistance		**8 576**	36 607	**8 576**	36 607
◆ Reinsurance recoveries		**(32 511)**	(41 616)	**(32 511)**	(41 616)
		(6 432)	57 069	**(6 432)**	57 069
Other:					
Claims handling costs		**6 448**	9 810	**6 448**	9 810
Total		**260 185**	266 954	**260 185**	266 954
24. PROFIT BEFORE TAXATION					
Profit before taxation is determined after taking the following into account:					
Property and equipment – depreciation	3, 26.1	**53**	162	**53**	56
◆ Computer and office equipment		**5**	23	**5**	8
◆ Furniture and fittings		**48**	76	**48**	48
◆ Motor vehicles		**–**	4	**–**	–
◆ Leasehold improvements		**–**	59	**–**	–
Impairment losses on financial assets		**954**	(5 005)	**954**	(5 005)
Amortisation of intangible assets – computer software	4, 26.1	**5 439**	5 462	**5 439**	5 439
Rentals under operating leases		**3 908**	6 477	**3 908**	6 249
Foreign exchange losses		**–**	(8)	**–**	(8)
Auditors' remuneration		**3 150**	3 021	**3 150**	2 987
Consultancy fees		**714**	1 189	**714**	1 157
Actuarial		**150**	(162)	**150**	(162)
Other		**564**	1 351	**564**	1 319
Legal fees		**94**	1 144	**94**	782
Staff costs		**42 449**	93 833	**42 449**	91 098
◆ Pension contributions*		**64**	5 993	**64**	5 704
◆ Share-based payments		**–**	393	**–**	393
◆ Salaries and wages		**42 385**	87 447	**42 385**	85 001
(Loss)/profit on disposal of property and equipment	26.1	**5**	(2)	**5**	(2)
Number of employees		**110**	125	**110**	125

** Post-employment benefits.*

The Hollard Specialist Life Group provides retirement benefits through independent funds under the control of trustees and all contributions to those funds are charged to the statement of comprehensive income. The large majority of employees are members of the Hollard Employees Pension Fund and the Hollard Employees Provident Fund which are governed by the Pensions Funds Act, 1956.

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
25. TAXATION					
Current taxation*					
◆ Current year		**120 173**	50 215	**120 173**	50 608
◆ CGT on financial instruments		**–**	102	**–**	102
◆ Prior year underprovision		**11 474**	(2 457)	**11 474**	(2 457)
◆ Withholding taxation		**146**	395	**146**	395
		131 793	48 255	**131 793**	48 648
Deferred taxation**					
◆ Statutory reserves and provisions	14	**(9 350)**	21 461	**(9 350)**	20 591
◆ CGT	14	**2 381**	(184)	**2 381**	(184)
◆ Prior year underprovision	14	**(11 258)**	(7 328)	**(11 258)**	(7 328)
		(18 227)	13 949	**(18 227)**	13 079
		113 566	62 204	**113 566**	61 727

	Group 2019 %	Group 2018 %	Company 2019 %	Company 2018 %
Taxation rate reconciliation				
South African normal taxation rate	**28.00**	28.00	**28.00**	28.00
Non-allowable expenditure and exempt income	**0.75**	(1.24)	**0.75**	(1.23)
Capital gains taxation	**0.51**	(0.02)	**0.51**	(0.02)
Withholding taxation	**–**	0.18	**–**	0.17
Prior year (over)/underprovision	**0.06**	(3.62)	**0.06**	(3.68)
Taxation charge in statement of comprehensive income	**29.32**	23.30	**29.32**	23.24

**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 reinsurance assets and negative liabilities. In determining the transfer tax applicable for policyholder tax funds, negative liabilities are effectively taxed, however, limited to Rnil where the overall policyholder tax fund is a negative liability.*

***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 reinsurance assets and negative liabilities. During 2019, the negative reserves balance of R608 million has been reduced to R391 million in accordance to the provisions of section 29A, whilst a deferred tax liability has been raised where a policyholder tax fund is in a net negative.*

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
26. NOTES TO THE CASH FLOW STATEMENT					
26.1 Cash generated from operations					
Profit before taxation		**387 319**	267 018	**387 319**	265 616
Adjustments made for:					
Depreciation	3, 24	**53**	162	**53**	56
Amortisation of intangible assets – computer software	4, 24	**5 439**	5 462	**5 439**	5 439
Fair value adjustments	21	**(10 654)**	(46 008)	**(10 654)**	(46 823)
Change in policyholder liabilities under insurance contracts		**(158 018)**	32 293	**(158 018)**	32 293
Profit on disposal of property and equipment	24	**(5)**	2	**(5)**	2
Interest income		**(50 279)**	(49 790)	**(50 279)**	(48 959)
Interest expense		**–**	103	**–**	103
Dividends received		**(9 645)**	(9 516)	**(9 645)**	(9 421)
Profit on sale of subsidiaries		**–**	–	**–**	–
Share of loss from associate		**–**	–	**–**	–
		164 210	199 726	**164 210**	198 306
Changes in working capital					
Decrease in trade and other receivables		**9 864**	8 881	**9 864**	46
(Decrease)/increase in trade and other payables		**61 336**	(26 818)	**61 336**	(20 929)
Increase/(decrease) in provisions		**(29 264)**	15 160	**(29 264)**	20 245
		41 936	(2 777)	**41 936**	(638)
Cash generated from operations		**206 145**	196 949	**206 145**	197 668
26.2 Investment income					
Dividend received					
Dividend received per statement of comprehensive income		**9 645**	9 516	**9 645**	9 421
Dividend received		**9 645**	9 516	**9 645**	9 421
Interest received					
Accrued interest income at the beginning of the year		**4 331**	3 006	**4 331**	3 006
Interest income per the statement of the comprehensive income		**50 279**	49 790	**50 279**	48 959
Non-cash interest income		**–**	–	**–**	–
Accrued interest income at the end of the year		**(3 157)**	(4 331)	**(3 157)**	(4 331)
Interest received		**51 454**	48 465	**51 454**	47 634
26.3 Taxation paid					
Amount receivable/(payable) at the beginning of the year		**26 081**	341	**26 081**	(2 103)
Amount charged to the statement of comprehensive income		**(150 020)**	(62 204)	**(150 020)**	(61 727)
Movement on share-based equity reserve		**–**	(88)	**–**	(88)
Movement on disposal of subsidiaries		**–**	(5 528)	**–**	–
Movement in deferred tax		**18 228**	13 949	**18 228**	13 079
		(105 711)	(53 530)	**(105 711)**	(50 839)
Amount (receivable)/payable at the end of the year		**26 580**	(26 081)	**26 580**	(26 081)
Taxation paid		**(79 131)**	(79 611)	**(79 131)**	(76 920)

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000

26. NOTES TO THE CASH FLOW STATEMENT *continued*

26.4 Dividends paid

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Dividends per statement of changes in equity	**(160 986)**	(252 595)	**(160 986)**	(218 871)
Dividend paid non-cash	**–**	50 717	**–**	16 993
Dividends paid cash	**(160 986)**	(201 878)	**(160 986)**	(201 878)

26.5 Disposal of subsidiaries

In the last financial year Hollard Specialist Life Group unbundled its 100% shareholding in Cedar Employee Benefits (Proprietary) Limited and during the prior financial year sold its 100% shareholding in Regent Life Botswana Limited and 76% shareholding in Lesotho National Life Assurance Company Limited.

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Receivables including insurance receivables	**–**	(6 154)	**–**	–
Due from group companies	**–**	–	**–**	–
Insurance and other payables	**–**	6 995	**–**	–
Due to group companies	**–**	–	**–**	–
Provisions	**–**	5 034	**–**	–
Bank balances and cash in subsidiaries disposed	**–**	(37 335)	**–**	–
Proceeds on disposal of subsidiaries	**–**	–	**–**	–
Net cash (outflow)/inflow	**–**	(31 460)	**–**	–

26.6 Non-controlling interest capital contribution

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Capital contribution per statement of changes in equity	**3 219**	1 268	**3 219**	1 268
Capital contribution received in cash	**3 219**	1 268	**3 219**	1 268

27. RELATED PARTY TRANSACTIONS

27.1 Identity of related parties

The Hollard Specialist Life Limited has a related party relationship with its holding company, subsidiary and fellow subsidiaries and with its directors and key management personnel.

27.2 Other related party transactions and balances

The company has balances receivable with subsidiary companies. These balances are disclosed below in note 27.2.2. Transactions between the Hollard Specialist Life Limited and its subsidiary, which are related parties, have been eliminated on consolidation.

27.2.2 Year-end balances with related parties

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Payable to related parties	**63 972**	767	**63 972**	767
Hollard Life Assurance Company Limited	**62 268**	674	**62 268**	674
Hollard Specialist Insurance Limited	**1 294**	93	**1 294**	93
The Hollard Insurance Company	**410**	–	**410**	–

28. DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

28.1 Executive directors

	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000
Director A						
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	3 638	4 851
Estimated monetary value of other benefits	**20**	**60**	**80**	37	110	147
Pension/provident fund contributions	**164**	**492**	**656**	103	309	412
	3 500	**10 500**	**14 000**	2 271	6 811	9 082
Director B						
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**	–	–	–
Director C						
Basic salary	**263**	**789**	**1 052**	980	2 940	3 920
Bonus and performance-related payments	**1 321**	**3 963**	**5 284**	3 043	9 128	12 171
Estimated monetary value of other benefits	**11**	**33**	**44**	79	236	315
Pension/provident fund contributions	**30**	**90**	**120**	114	341	455
	1 625	**4 875**	**6 500**	4 216	12 645	16 861
Director D						
Basic salary	**1 142**	**1 142**	**2 284**	–	–	–
Bonus and performance-related payments	**145**	**145**	**290**	–	–	–
Estimated monetary value of other benefits	**49**	**49**	**98**	–	–	–
Pension/provident fund contributions	**131**	**131**	**262**	–	–	–
	1 467	**1 467**	**2 934**	–	–	–

28. DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS *continued*

28.1 Executive directors *continued*

	2019			2018		
	Company R'000	**Rest of Group R'000**	**Total R'000**	Company R'000	Rest of Group R'000	Total R'000
Non-executive directors						
Director A	**178**	**534**	**712**	143	429	572
Director B	**157**	**472**	**629**	143	428	571
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	623	831
Director G	**304**	**912**	**1 216**	286	858	1 144
Director H	**130**	**391**	**521**	127	380	507
	1 563	**4 696**	**6 259**	1 549	4 644	6 193
Prescribed officers						
Prescribed officer A						
Basic salary	**322**	**966**	**1 288**	520	1 560	2 080
Bonus and performance-related payments	**791**	**2 373**	**3 164**	697	2 092	2 789
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**	1 286	3 860	5 146
Prescribed officer B						
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	315
	2 113	**6 339**	**8 452**	2 559	7 674	10 233
Prescribed officer C						
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

28. DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS *continued*

28.1 Executive directors *continued*

Prescribed officers *continued*

	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000
Prescribed officer D						
Basic salary	**553**	**1 659**	**2 212**	523	1 569	2 092
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	259
	1 278	**3 834**	**5 112**	1 461	4 382	5 843
Prescribed officer E						
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	2 687
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	**16 946**	**47 911**	**64 857**	16 498	49 483	65 981

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.

29. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

29.1 The ultimate liability arising from claims under insurance contracts

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

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

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

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

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

Where future premiums are payable they have also been valued based on the current premium being paid. Future premiums are projected over the lifetime of each policy on a policy-by-policy basis. The value of the premiums takes into account the possibility that the policy may terminate due to early cancellation through lapsing or surrender. The interest rate used to discount the premiums reflects current economic conditions, the asset mix of the Hollard Specialist Life Group and allows for mismatching risk.

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

29.3 Fair value of investment contracts

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

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

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

30.1 Capital risk

The Hollard Specialist Life Group manages capital risk to ensure that entities in the Hollard Specialist Life Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Hollard Specialist Life Group's overall strategy remains unchanged.

The capital structure of the Hollard Specialist Life Group consisted of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

30.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies.

30.3 Financial risk management objectives

The Hollard Specialist Life Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. An investment committee sets policies and receives monthly and quarterly reports on compliance with investment policies.

The Hollard Specialist Life Group manages these positions within an asset and liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principle technique of the Hollard Specialist Life Group'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.

The Hollard Specialist Life Group's activities expose it primarily to the financial risks of changes in equity prices, interest rates and foreign currency rates. There has been no change to the Hollard Specialist Life Group's exposure to market risks or the manner in which it manages and measures the risk.

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.3 Financial risk management objectives

30.3.1 Market risk

This can be described as the risk of a change in fair value or future cash flows of a financial instrument brought about by changes in interest rates, equity prices or foreign exchange rates.

Equity market risk

The Hollard Specialist Life Group invests in equity investments on behalf of policyholders and shareholders. The investments in equities are reflected in the statement of financial position at fair values, which are susceptible to fluctuations in value. Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets. Equity investments are held for long-term investment rather than trading purposes. The Hollard Specialist Life Group does not actively trade these investments.

Equity market price sensitivity analysis

At 30 June 2019 the Hollard Specialist Life Group was exposed to equities through listed instruments and collective investment schemes to the value of R519 million (2018: R573 million) at fair value. Assuming this exposure throughout the financial year, a hypothetical 1% decrease in the share index, based on similar sensitivities used in the industry and on market conditions, would result in an estimated reduction in profit before tax of R5.19 million (2018: R5.7 million).

Fair value hierarchy disclosures

The table below shows the Hollard Specialist Life Group's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification is based on the lowest level input that is significant to the fair value measurement in its entirety.

	Valuations with reference to quoted prices in an active market Level 1 R'000	Valuations based on observable inputs Level 2 R'000	Total carried at fair value R'000
Financial assets held at fair value through profit or loss			
2019			
Group			
Listed preference shares	**19 394**	**–**	**19 394**
Unlisted preference shares	**–**	**48 689**	**48 689**
Short-term deposits more than one year	**20 173**	**–**	**20 173**
Short-term deposits less than one year	**81 122**	**–**	**81 122**
Corporate bonds	**22 926**	**–**	**22 926**
Collective investment schemes	**518 756**	**–**	**518 756**
Total financial assets	**662 371**	**48 689**	**711 060**
Company			
Listed preference shares	**19 394**	**–**	**19 394**
Unlisted preference shares	**–**	**48 689**	**48 689**
Short-term deposits more than one year	**20 173**	**–**	**20 173**
Short-term deposits less than one year	**81 122**	**–**	**81 122**
Corporate bonds	**22 926**	**–**	**22 926**
Collective investment schemes	**518 756**	**–**	**518 756**
Total financial assets	**662 371**	**48 689**	**711 060**

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.3 Financial risk management objectives *continued*

30.3.1 Market risk *continued*

***Fair value hierarchy disclosures** continued*

	Valuations with reference to quoted prices in an active market Level 1 R'000	Valuations based on observable inputs Level 2 R'000	Total carried at fair value R'000
2018			
Group			
Listed preference shares	17 777	–	17 777
Unlisted preference shares	–	48 845	48 845
Short-term deposits more than one year	100 000	–	100 000
Short-term deposits less than one year	6 000	–	6 000
Government bonds	42 961	–	42 961
Corporate bonds	74 158	–	74 158
Listed equities	158 990	–	158 990
Collective investment schemes	413 871	–	413 871
Total financial assets	813 757	48 845	862 602
Company			
Listed preference shares	17 777	–	17 777
Unlisted preference shares	–	48 845	48 845
Short-term deposits more than one year	100 000	–	100 000
Short-term deposits less than one year	6 000	–	6 000
Government bonds	42 961	–	42 961
Corporate bonds	74 158	–	74 158
Listed equities	158 990	–	158 990
Collective investment schemes	413 871	–	413 871
Total financial assets	813 757	48 845	862 602

Level 1 financial assets include assets where fair value is determined using quoted prices in an active market. For quoted prices in an active market to exist there should be actual and regular occurring market transactions and the prices of those transactions should be readily available.

Fair value for level 2 assets is determined by way of valuation techniques and the inputs into the valuation model are based on observable market inputs other than quoted prices included within level 1. An input is observable if it can be observed as a market price or can be derived from an observed market price.

If fair value is determined by way of valuation techniques and the inputs into the valuation model are not based on observable market data or the observable market data has been significantly altered then those instruments are classified as level 3.

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.3 Financial risk management objectives *continued*

30.3.2 Interest rate risk

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to a change in market interest rates. The following investments which are held at fair value, will be directly impacted by changes in market interest rates: Accounts receivable and accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of these underlying cash flows. The Hollard Specialist Life Group does not have any interest-bearing borrowings. Interest rate risk is therefore limited to the Hollard Specialist Life Group's investment in variable rate investments, such as gilts and bonds.

The table below summarises the effective interest rates at the statement of financial position date:

	Group 2019 %	Group 2018 %	**Company 2019 %**	Company 2018 %
Debt securities – fixed interest rate:				
◆ Government bonds	**0.00**	9.04	**0.00**	9.04
◆ Listed bonds	**12.21**	8.53	**12.21**	8.53
Cash at bank	**6.40**	6.23	**6.40**	6.23

Investment decisions are delegated by the board to the investment committee, which has responsibility for the investment portfolio's risk profile and related decisions. To this end, the committee is supported by a well-developed research function utilising portfolio managers.

Interest rate sensitivity analysis

The sensitivity analysis above has been determined based on the exposure to interest rates for non-derivative instruments at statement of financial position date. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 1% higher/lower and all other variables were held constant, the Hollard Specialist Life Group's profit for the financial year ended 30 June 2019 would decrease/increase by R4.5 million (2018: R4.5 million) assuming the interest-bearing exposure was constant throughout the financial year.

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.3 Financial risk management objectives *continued*

30.3.3 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Hollard Specialist Life Group to incur a financial loss.

Fair values of financial assets may be affected by the credit worthiness of the issuer. Limits of exposure are set by the investment committee and are continuously monitored. The concentrations of credit risk are throughout South Africa, with the most significant portion in the Gauteng area. The Hollard Specialist Life Group has policies that limit the credit exposure to any institution and reputable reinsurers are used for the Hollard Specialist Life Group's reinsurance treaties.

With regard to credit risk contained in insurance and other receivables, the exposure amounts to R68 million (2018: R78 million), comprising balances with policyholders, agents, brokers, intermediaries and reinsurers:

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
Policyholder short-term debtors	**46 410**	44 320	**46 410**	44 320
Agents, brokers and intermediaries	**–**	1	**–**	1
Investment debtors	**3 157**	4 331	**3 157**	4 331
Reinsurance recoveries	**5 187**	1 733	**5 187**	1 733
Other	**12 536**	27 895	**12 536**	27 895
	67 290	78 280	**67 290**	78 280

Group policy dictates that provision is made for all premium debtors that exceed 30 days.

Agents, brokers and intermediaries totalling R0.001 million (2018: R0.001 million) are subject to a comprehensive relationship management programme, including credit assessment. There is no material exposure to any single agent, broker or intermediary. The widespread nature of the individual amounts combined with the relationship programme reduces the credit risk.

Industry supported default lists help to prevent rogue agents, brokers and intermediaries from conducting business with the Hollard Specialist Life Group. Full provision is made for non-recoverability as soon as management is uncertain as to the recovery.

The Hollard Specialist Life Group uses reputable reinsurers thereby reducing any credit risk.

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.3 Financial risk management objectives *continued*

30.3.4 Liquidity risk

Liquidity risk is the risk that the Hollard Specialist Life Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Insurance companies are registered financial institutions and are required to hold minimum capital to, *inter alia*, reduce policyholder exposure to the entity's liquidity risk. The Financial Sector Conduct Authority (FSCA) is the regulatory authority that regularly reviews compliance with these minimum capital requirements.

Liabilities entered into by the Hollard Specialist Life Group are continuously managed in order to control the liquidity risks to which the Hollard Specialist Life Group is exposed. The Hollard Specialist Life Group has sufficient liquid resources.

The following tables detail the Hollard Specialist Life Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Hollard Specialist Life Group can be required to pay. The table includes both interest and principal cash flows.

Management monitors the liquidity risks by ensuring that all short-term liabilities are not paid earlier or later than the credit terms and also by ensuring that the payment terms are favourable to the Hollard Specialist Life Group.

	Total R'000	Within 1 year R'000	1 – 5 years R'000	Over 5 years R'000
Period when cash flow is expected to become due				
2019				
Group				
LIABILITIES				
Current taxation	**26 580**	**26 580**	**–**	**–**
Due to group companies	**63 972**	**63 972**	**–**	**–**
Insurance and other payables	**145 857**	**145 857**	**–**	**–**
Total	**236 409**	**236 409**	**–**	**–**
Company				
LIABILITIES				
Current taxation	**25 580**	**26 580**	**–**	**–**
Due to group companies	**63 972**	**63 972**	**–**	**–**
Insurance and other payables	**145 857**	**145 857**	**–**	**–**
Total	**236 409**	**236 409**	**–**	**–**
2018				
Group				
LIABILITIES				
Net policyholder liabilities	121 455	145 042	100 183	(123 770)
Due to group companies	767	767	–	–
Insurance and other payables	147 635	147 635	–	–
Total	269 857	293 444	100 183	(123 770)
Company				
LIABILITIES				
Net policyholder liabilities	121 455	145 042	100 183	(123 770)
Due to group companies	767	767	–	–
Insurance and other payables	147 635	147 635	–	–
Total	269 857	293 444	100 183	(123 770)

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.4 Insurance risk

Insurance risk is the risk that future claims and expenses will exceed the value placed on insurance liabilities.

It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. This could also occur because of the frequency or severity of claims and benefits being 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 (using statistical techniques). The Hollard Specialist Life Group uses appropriate base tables of standard mortality and morbidity according to the type of contract being written and the territory in which the insured person resides. An investigation into the actual experience of the Hollard Specialist Life Group over the last three years 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. The Hollard Specialist Life Group maintains termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at the best estimate of future termination rates.

The timing is specifically influenced by future mortality, morbidity and withdrawal rates, about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in liability calculations. As such, each assumption represents a source of uncertainty.

The larger the portfolio of uncorrelated insurance risks, the smaller the relative variability about what the expected outcome will be. In addition, a more diversified portfolio of risks in terms of type and amount of risk, geographical location and type of industry covered, is less likely to be affected, across the board, by a change in any subset of the risks.

Policyholder behaviour risks

Policyholders have the option to discontinue or withdraw benefits prior to expiry of the contract term. As a result policyholder behaviour contributes to insurance risk.

The main risk posed by this behaviour is the risk that expenses and commissions incurred early in the term of the contract, but priced to be recovered by means of ongoing charges over a longer period, are not fully recovered due to the decision by the policyholder to cease or reduce contributions.

On contracts where a withdrawal benefit is payable, this risk is mitigated by conditions built into policy contracts which enable the Hollard Specialist Life Group to recoup these unrecovered expenses by means of a lump sum charge.

In addition, commission clawback provisions, included in contracts with intermediaries, enable the Hollard Specialist Life Group to mitigate some of the risk of early termination.

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics such as Aids. The Hollard Specialist Life Group manages these risks through its underwriting strategy and reinsurance arrangements.

Catastrophe risk is the risk of multiple claims arising out of a single event. The Hollard Specialist Life Group has catastrophe reinsurance in place as a mitigating action.

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.4 Insurance risk *continued*

Claims development

The tables below show the claims development gross and net of reinsurance for the Hollard Specialist Life Group and company.

	2017 R'000	2018 R'000	**2019 R'000**
Group and company			
Insurance claims – gross			
Estimate of ultimate claim costs:			
At the end of the claim year	319 713	308 520	**290 226**
One year later	292 854	303 970	**–**
Two years later	291 585	–	**–**
Current estimate of cumulative claims	291 585	303 970	**290 226**
Cumulative payments to date	(289 685)	(288 718)	**(284 360)**
Liability recognised	1 900	15 252	**5 866**
Cumulative liability – statement of financial position			**23 018**
Insurance claims – net			
Estimate of ultimate claim costs:			
At the end of the claim year	272 028	257 144	**253 737**
One year later	275 167	258 420	**–**
Two years later	275 478	–	**–**
Current estimate of cumulative claims	275 478	258 420	**253 737**
Cumulative payments to date	(273 578)	(243 216)	**(253 011)**
Liability recognised	1 900	15 204	**726**
Cumulative liability – statement of financial position			**17 830**

30.5 Other risks

Legal risk

The Hollard Specialist Life Group's legal obligations arise throughout its operations and where the Hollard Specialist Life Group may be faced with risk where legal proceedings are brought against it.

Legal risk arises where:

- the Hollard Specialist Life Group's businesses may not be conducted in accordance with applicable laws in South Africa;
- the Hollard Specialist Life Group may be liable for damages to third parties; and
- contractual obligations may be enforced against the Hollard Specialist Life Group in an adverse way, resulting in legal proceedings being instituted against it.

The Hollard Specialist Life Group has processes and controls in place to manage its legal risk.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The initiation of all transactions and their administration is conducted on the foundation of segregation of duties that has been designed to ensure materially the completeness, accuracy and validity of all transactions. These controls are augmented by management and executive review of control accounts and systems, electronic and manual checks and controls, back-up facilities and contingency planning. The internal control systems and procedures are also subjected to regular internal audit reviews.

for the year ended 2019

30. MANAGEMENT OF INSURANCE AND FINANCIAL RISK *continued*

30.5 Other risks *continued*

Taxation risk

Taxation risk is the risk that the Hollard Specialist Life Group will incur a financial loss and reputational damage due to an incorrect interpretation and application of tax legislation or due to the impact of new taxation amendments on existing structures.

During the development stage of any new product and prior to any significant transactions, the taxation resources of the Hollard Specialist Life Group, and if required external resources, identify and advise on any material tax exposure which may arise. Proposed new amendments to tax laws is researched fully by the taxation resources to identify any potential impact to the Hollard Specialist Life Group.

Taxation risk is further mitigated through policy terms and conditions, which enable the risk to be passed back to policyholders.

Regulatory risk

Regulatory risk is the risk arising from the non-compliance with, or incorrect application of, regulatory requirements.

In order to manage this risk, the Hollard Specialist Life Limited is an active participant in industry bodies that engage in discussions with policy makers and regulators. The Hollard Specialist Life Limited also has a compliance function which monitors conformance to all regulatory requirements.

31. CONTINGENT LIABILITIES

The Hollard Specialist Life Group, in the ordinary course of business enters into transactions which expose the Hollard Specialist Life Group 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*. At statement of financial position date there were no material contingent liabilities for the Hollard Specialist Life Group.

32. EVENTS AFTER THE REPORTING PERIOD

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

03.

HOLLARD SPECIALIST INSURANCE GROUP

Directors’ approval and statement of responsibility

for the year ended 30 June 2019

The directors of the Hollard Specialist Insurance Group are responsible for the maintenance of adequate accounting records and the integrity of the annual financial statements and group annual financial statements of Hollard Specialist Insurance Company. The annual financial statements presented on pages 72 to 123 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. The Hollard Specialist Insurance Group’s external auditors, Deloitte & Touche, have audited the annual financial statements and their audit report appears on pages 68 and 69.

The directors are also responsible for the Hollard Specialist Insurance Company and Hollard Specialist Insurance Group’s systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements and group annual financial statements, to adequately safeguard, verify and maintain accountability for assets and to prevent and detect material misstatement and loss.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the Hollard Specialist Insurance Company and Hollard Specialist Insurance Group will not be a going concern in the foreseeable future based on forecasts and available cash resources. The viability of the Hollard Specialist Insurance Company and Hollard Specialist Insurance Group is supported by the annual financial statements.

Deloitte & Touche were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit were valid and appropriate.

The annual financial statements of the Hollard Specialist Insurance Company and the Hollard Specialist Insurance Group on pages 72 to 123 were approved by the board of directors on 24 October 2019 and are signed on its behalf by:

ADT Enthoven
Chairman

24 October 2019

S Ntombela
Chief executive officer

24 October 2019

Certificate by the company secretary

In accordance with section 88(e) of the Companies Act, it is hereby certified that to the best of my knowledge and belief the Hollard Specialist Insurance company has lodged with the Registrar of Companies, for the financial year ended 30 June 2019, all such returns as are required by a public company in terms of the Act and that such returns are true, correct and up to date.

Corpstat Governance Services (Proprietary) Limited (appointed 1 August 2019)
Company secretary

24 October 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; and
- 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

Independent auditors' report

To the shareholders of Hollard Specialist Insurance Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Hollard Specialist Insure Limited and its subsidiaries ("the Group") set out on pages 72 to 123 which comprise the consolidated and separate statements of financial position as at 30 June 2019 and statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group and company as at 30 June 2019 and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 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.
- 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.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Dinesh Munu
Partner

31 October 2019

Building 8, Deloitte Place
The Woodlands
Woodlands Drive
Sandton

for the year ended 30 June 2019

The directors of the Hollard Specialist Insurance Group draw the attention of the users of these financial statements to the change of the company name, effective 1 July 2019, from the Regent Insurance Company to the Hollard Specialist Insurance Company.

The directors present their annual report which forms part of the audited annual financial statements of the Hollard Specialist Insurance Group and Hollard Specialist Insurance Company for the year ended 30 June 2019.

Nature of business

Hollard Specialist Insurance Company is incorporated in the Republic of South Africa and a registered short-term insurer and underwrites all classes of business. Subsidiary companies own properties for rental. The Hollard Specialist Insurance Group operates in South Africa.

Holding company

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

	% held	Country of incorporation
Subsidiaries		
Erf Four Nine Nine Spartan (Proprietary) Limited	**100**	**South Africa**

Hollard Specialist Insurance Company's interest in the aggregate profit after tax in the subsidiary amounted to R0.8 million (2018: R1.8 million).

Dividends

Hollard Specialist Insurance Group and Company declared and paid dividends of R416 million (2018: R212.9 million).

Share capital

Details of the authorised and issued share capital of the Hollard Specialist Insurance Company are reflected in note 17 to the annual financial statements.

Capital contribution

During the current financial year, preference share capital of R84.6 million (2018: R12.1 million) was contributed by several preference shareholders, this relates to the capitalisation of cell captive arrangements that were insolvent.

Special resolutions

The Hollard Specialist Insurance Company passed the following special resolutions:

- Approved the fees in respect of the independent non-executive directors.
- Authorised the company to provide any direct, or indirect financial assistance to any related or inter-related company, subject to the provisions of the Companies Act.
- Proposed new rights and conditions attaching to the preference shares.
- Adoption of a new memorandum of incorporation in its entirety.

The subsidiary did not pass any special resolutions, which might be significant to members in their appreciation of the state of affairs of the Hollard Specialist Insurance Group.

Events after reporting period

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

Financial performance

In the year under review the group achieved net profit after tax of R213 517 000 (2018: R252 801 000), which arose from the Group's operations as follows:

	Group 2019 R'000	Group 2018 R'000
Net premium income	**1 372 988**	1 355 752
Investment income	**140 784**	120 469
Other income	**23 500**	34 234
Total revenue	**1 537 272**	1 510 455
Net insurance claims	**(586 000)**	(564 101)
Other operating expenses	**(620 207)**	(587 115)
Total expenses	**(1 206 207)**	(1 151 216)
Profit before taxation	**331 065**	359 239
Taxation	**(117 548)**	(106 438)
Profit for the year	**213 517**	252 801
Equity owners of the company	**14 694**	25 349
Non-controlling interests	**198 823**	227 452
	213 517	252 801

Directorate

Board of directors
ADT Enthoven

Executive directors
S Ntombela
DJ Viljoen (appointed 01 October 2018)
WT Lategan (resigned 30 September 2018)
AL Mhlanga (appointed 1 November 2018)

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.

Non-executive directors
NG Kohler
B Ngonyama
AS Nkosi
MR Bower
R Fihrer
SC Gilbert
BF Mohale
S Patel
NV Simamane

Company secretary
Corpstat Governance Services Proprietary Limited (appointed 1 August 2019)

Business address
Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

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

The addresses of the secretary of the Hollard Specialist Insurance Company are:

Business address
Hollard Villa Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address
PO Box 87419
Houghton
Johannesburg
2041

Auditors
Deloitte & Touche will continue in office in accordance with section 90(2) of the Companies Act subject to the shareholder making such appointment.

Statements of financial position

as at 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
ASSETS					
Property and equipment	3	**12 212**	20 042	**12 002**	19 399
Investment property	4	**22 240**	22 240	**3 340**	3 340
Intangible assets	5	**35 129**	47 883	**35 129**	47 883
Investments in subsidiaries	6	**–**	–	**1 773**	1 773
Reinsurers' share of outstanding claims	7	**28 329**	34 840	**28 329**	34 840
Reinsurers' share of unearned premiums	7	**4**	86	**4**	86
Financial assets	8	**1 270 186**	1 627 541	**1 270 186**	1 627 541
Agents and other insurers' balances	9	**27 134**	41 066	**27 134**	41 066
Deferred tax liability	10	**3 069**	(43 115)	**4 355**	(41 829)
Other receivables including insurance receivables	12	**8 402**	21 113	**6 033**	20 020
Due from group companies	13	**1 492**	93	**2 865**	1 466
Cash and cash equivalents	14	**419 759**	87 171	**419 635**	86 917
Total assets		**1 827 956**	1 858 900	**1 810 785**	1 842 502
EQUITY					
Share capital	17	**2 940**	2 940	**2 940**	2 940
Share premium	17	**197 563**	197 563	**197 563**	197 563
Sub-ordinated debt capital	25	**200 000**	200 000	**200 000**	200 000
Retained earnings		**59 925**	58 440	**44 641**	43 918
Equity attributable to the equity holders of the parent		**460 428**	458 943	**445 144**	444 421
Non-controlling interests		**459 914**	592 834	**459 914**	592 834
Total equity		**920 342**	1 051 777	**905 058**	1 037 255
LIABILITIES					
Outstanding claims	7	**270 018**	281 142	**270 018**	281 142
Unearned premiums	7	**416 187**	370 898	**416 187**	370 898
Agents and other insurers' balances	9	**80 326**	66 746	**80 326**	66 746
Current taxation		**8 260**	(4 975)	**8 260**	(4 950)
Provisions	15	**16 707**	32 752	**16 825**	32 752
Due to group companies	13	**40 296**	1 737	**40 296**	1 737
Insurance and other payables	16	**75 820**	58 883	**73 815**	56 922
Total liabilities		**907 614**	807 183	**905 727**	805 247
Total equity and liabilities		**1 827 956**	1 858 900	**1 810 785**	1 842 502

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Gross written premiums		**1 433 548**	1 395 861	**1 433 548**	1 395 861
Outward reinsurance premiums		**(15 218)**	(15 394)	**(15 218)**	(15 394)
Net written premiums		**1 418 330**	1 380 467	**1 418 330**	1 380 467
Change in provision for unearned premium		**(45 342)**	(24 715)	**(45 342)**	(24 715)
◆ Change in gross provision		**(45 261)**	(24 443)	**(45 261)**	(24 443)
◆ Reinsurers' share		**(81)**	(272)	**(81)**	(272)
Net premiums earned	18	**1 372 988**	1 355 752	**1 372 988**	1 355 752
Commission income		**1 191**	1 876	**1 191**	1 876
Investment income	19	**140 784**	120 469	**139 495**	119 067
Investment gains/(losses)	20	**6 509**	12 356	**6 509**	12 356
Other operating income	21	**15 800**	20 002	**15 800**	20 002
Net income		**1 537 272**	1 510 455	**1 535 983**	1 509 053
Net claims incurred		**(586 000)**	(564 101)	**(586 000)**	(564 101)
◆ Gross insurance claims paid	22	**(552 685)**	(502 693)	**(552 685)**	(502 693)
◆ Reinsurers' share of claims paid	22	**4 274**	4 583	**4 274**	4 583
Claims handling costs	22	**(36 475)**	(72 506)	**(36 475)**	(72 506)
◆ Change in provision for outstanding claims	22	**5 405**	7 534	**5 405**	7 534
◆ Change in reinsurers' share of provision for outstanding claims	22	**(6 519)**	(1 019)	**(6 519)**	(1 019)
Finance costs		**(1 391)**	(1 233)	**(1 391)**	(1 233)
Commission and acquisition expenses		**(389 922)**	(333 425)	**(389 922)**	(333 425)
General marketing and administration expenses		**(209 754)**	(247 911)	**(209 251)**	(248 957)
Share of profit from associate		**–**	–	**–**	–
Exceptional items*		**–**	14 706	**–**	14 706
Sub-ordinated debt finance cost		**(19 140)**	(19 252)	**(19 140)**	(19 252)
Profit before taxation	23	**331 065**	359 238	**330 279**	356 791
Taxation	11	**(117 548)**	(106 438)	**(117 524)**	(105 756)
Profit after taxation		**213 517**	252 801	**212 755**	251 035
Total comprehensive income for the year		**213 517**	252 801	**212 755**	251 035
Profit attributable to:					
Equity owners of the company		**14 694**	25 349	**13 932**	23 583
Non-controlling interests		**198 823**	227 452	**198 823**	227 452
		213 517	252 800	**212 755**	251 035
Total comprehensive income attributable to:					
Equity owners of the company		**14 694**	25 349	**13 932**	23 583
Non-controlling interests		**198 823**	227 452	**198 823**	227 452
		213 517	252 801	**212 755**	251 035

** Exceptional items for the prior year relate to profit on sale of a version of an intangible asset.*

Statements of changes in equity

for the year ended 30 June 2019

Group	Share* capital R'000	Share premium R'000	Share-based equity reserve R'000	Retained earnings R'000	Sub-ordinated debt capital R'000	Non-controlling interests R'000	Total R'000
Balance at 30 June 2017	2 940	197 563	260	31 115	200 000	566 924	998 802
Net profit for the year	–	–	–	25 349	–	227 452	252 801
Total comprehensive income for the year ended 30 June 2018	–	–	–	25 349		227 452	252 801
Share-based equity reserve transferred to retained earnings on vesting	–	–	(1 175)	1 175	–	–	–
Share-based equity	–	–	915	–	–	–	915
Direct transfer from non-controlling interest to retained earnings	–	–	–	801	–	(801)	–
Dividends paid	–	–	–	–	–	(212 866)	(212 866)
Capital contribution	–	–	–	–	–	12 125	12 125
Balance at 30 June 2018	2 940	197 563	–	58 440	200 000	592 834	1 051 777
Impact of IFRS 9 transition adjustment net of taxation				**(9)**			**(9)**
Restated balance as at 30 June 2018	**2 940**	**197 563**	**–**	**58 431**	**200 000**	**592 834**	**1 051 768**
Net profit for the year	**–**	**–**		**14 694**	**–**	**198 823**	**213 517**
Total comprehensive income for the year ended 30 June 2019	**–**	**–**		**14 694**		**198 823**	**213 517**
Share-based equity reserve transferred to retained earnings on vesting	**–**	**–**		**–**	**–**	**–**	**–**
Share-based equity	**–**	**–**		**–**	**–**	**–**	**–**
Direct transfer from non-controlling interest to retained earnings	**–**	**–**			**–**	**–**	**–**
Dividends paid	**–**	**–**		**(13 200)**	**–**	**(416 376)**	**(429 576)**
Capital contribution						**84 633**	**84 633**
Balance at 30 June 2019	**2 940**	**197 563**	**–**	**59 925**	**200 000**	**459 914**	**920 342**

Company	Share* capital R'000	Share premium R'000	Share-based equity reserve R'000	Retained earnings R'000	Sub-ordinated debt capital R'000	Non-controlling interests R'000	Total R'000
Balance at 30 June 2017	2 940	197 563	260	18 359	200 000	566 924	986 046
Net profit for the year	–	–	–	23 583	–	227 452	251 035
Total comprehensive income for the year ended 30 June 2017	–	–	–	23 583	–	227 452	251 035
Share-based equity reserve transferred to retained earnings on vesting	–	–	(1 175)	1 175	–	–	–
Share-based equity	–	–	915	–	–	–	915
Direct transfer from non-controlling interest to retained earnings	–	–	–	801	–	(801)	–
Dividends paid	–	–	–	–	–	(212 866)	(212 866)
Capital contribution						12 125	12 125
Balance at 30 June 2018	2 940	197 563	–	43 918	200 000	592 834	1 037 255
Impact of IFRS 9 transition adjustment net of taxation				**(9)**			**(9)**
Restated balance as at 30 June 2018	**2 940**	**197 563**	**(0)**	**43 909**	**200 000**	**592 834**	**1 037 246**
Net profit for the year	**–**	**–**	**–**	**13 932**	**–**	**198 823**	**212 755**
Total comprehensive income for the year ended 30 June 2019	**–**	**–**	**–**	**13 932**	**–**	**198 823**	**212 755**
Share-based equity reserve transferred to retained earnings on vesting	**–**	**–**			**–**	**–**	**–**
Share-based equity	**–**	**–**		**–**	**–**	**–**	
Direct transfer from non-controlling interest to retained earnings	**–**	**–**	**–**		**–**		**–**
Dividends paid	**–**	**–**	**–**	**(13 200)**	**–**	**(416 376)**	**(429 576)**
Capital contribution						**84 633**	**84 633**
Balance at 30 June 2019	**2 940**	**197 563**	**(0)**	**44 641**	**200 000**	**459 914**	**905 058**

Statements of cash flows

for the year ended 30 June 2019

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Cash generated/(utilised) from operations	24.1	**359 376**	327 383	**359 523**	326 805
Interest received	24.2	**127 962**	116 530	**127 945**	116 530
Interest paid		**(20 531)**	(20 477)	**(20 531)**	(20 477)
Share-based equity movement		**–**	1 179	**–**	1 719
Taxation paid	24.3	**(150 497)**	(87 610)	**(150 498)**	(87 279)
Net cash inflow/(outflow) from operating activities		**316 309**	337 005	**316 439**	336 758
Cash flow from investing activities					
Acquisition of property and equipment		**(286)**	(738)	**(286)**	(738)
Proceeds on sale of property and equipment		**–**	1 802	**–**	1 802
Proceeds on sale of financial assets		**890 484**	1 421 391	**890 484**	1 421 391
Acquisition of financial assets		**(539 647)**	(1 949 093)	**(539 647)**	(1 949 093)
Dividends received	24.2	**10 671**	8 442	**10 671**	8 442
Net cash (outflow)/inflow from investing activities		**361 222**	(518 196)	**361 222**	(518 196)
Cash flow from financing activities					
Dividends paid	24.4	**(429 576)**	(212 866)	**(429 576)**	(212 866)
Non-controlling interest capital contribution	24.5	**84 633**	12 125	**84 633**	12 125
Net cash outflow from financing activities		**(344 943)**	(200 741)	**(344 943)**	(200 741)
Net (decrease)/increase in cash and cash equivalents		**332 588**	(381 932)	**332 718**	(382 179)
Cash and cash equivalents at beginning of year		**87 171**	469 103	**86 917**	469 096
Cash and cash equivalents at end of year		**419 759**	87 171	**419 635**	86 917

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the group at 30 June 2019 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

Accounting policies

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

1.1 Basis of preparation

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

The consolidated and separate annual financial statements have been prepared in compliance with IFRS and interpretations for year ends commencing on or before 1 July 2017 and in compliance with the Companies Act, No 71 of 2008.

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

Carried at fair value:

- Financial instruments (which includes derivative financial instruments) which are designated at fair value through profit or loss.
- Liabilities for cash-settled share-based payment arrangements.

Adoption of new and revised standards

The group 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 was no changes to the 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 R9 000 (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 at amortised cost	Transition adjustment	As classified under IFRS 9 at amortised cost
Preference shares*	**23 233**	**(9)**	**23 224**
Gross transition adjustment	**23 233**	**(9)**	**23 224**

**ECL charge on transition.*

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.

1.1 *Basis of preparation* *continued*

Apart from providing more qualitative disclosures on the group's 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.

Standards, interpretations and amendments to published standards that are not yet effective as at June 2019

The following are some amendments to IFRS that could have an impact on the Hollard Specialist Insurance Group's future financial statements:

- **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.

1.2 *Consolidation*

The consolidated annual financial statements incorporate the financial statements of the Hollard Specialist Insurance Company and entities controlled by the Hollard Specialist Insurance Company (its subsidiaries).

Subsidiaries

Subsidiary undertakings, which are those companies in which the Hollard Specialist Insurance Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Control is achieved where the Hollard Specialist Insurance Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities and when the Hollard Specialist Insurance Group has the majority of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Hollard Specialist Insurance Group and are no longer included from the date on which control ceases (effective date of disposal). Gains or losses on disposal of subsidiaries are included in the statement of comprehensive income. In the company's financial statements, interests in subsidiary companies are shown at cost less any required impairment (which is assessed annually as set out in the accounting policies).

The Hollard Specialist Insurance 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.

The excess of the cost of acquisition over the fair value of the Hollard Specialist Insurance Group's share of the identifiable net assets acquired is recorded as goodwill. If after the reassessment, the Hollard Specialist Insurance Group's interest in the fair value of the net assets of the subsidiary acquired exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income.

1.2 Consolidation *continued*

At the acquisition date, the identifiable assets acquired and liabilities assumed are measured at fair values except deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements which are recognised and measured in accordance with IAS 12 *Income taxes* and IAS 19 *Employee benefits* respectively.

The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the Hollard Specialist Insurance Group. Inter-group transactions, balances and unrealised gains or losses are eliminated on consolidation.

The Hollard Specialist Insurance Group consolidates a SPE when the substance of the relationship between the Hollard Specialist Insurance Group and the SPE indicates that the Hollard Specialist Insurance Group controls the SPE. The Hollard Specialist Insurance Group operates cell captives on behalf of entities that wish to participate in the insurance result of a particular category of insured risk. Preference shares are issued to those participants giving them the rights to share in profits on an agreed basis. To reflect the substance of the transaction it is consolidated and the participants' share of profits is treated as a non-controlling interest.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Hollard Specialist Insurance Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Hollard Specialist Insurance Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

1.3 Property and equipment

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

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

Office equipment	20%
Computer equipment	20%
Motor vehicles	20%
Furniture and fittings	10%
Leasehold improvements	Shorter of useful life and lease term
Land	Land is not depreciated

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

Where the carrying amount of the asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount. Gains or losses on disposal are determined by reference to the carrying amount of the asset and the net profit is recorded in the statement of comprehensive income on disposal.

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

1.4 *Intangible assets*

Computer software

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs clearly associated with an identifiable and unique system, which will be controlled by the Hollard Specialist Insurance Group and has a probable benefit exceeding the cost beyond one year, are recognised as an asset. These costs comprise all directly attributable costs necessary to create, produce and prepare the asset for its intended use, such as costs of material and supplier services used or consumed in generating the intangible asset. Expenditure that enhances and extends the benefits of computer software beyond their original specifications and lives is recognised as a capital improvement and capitalised to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of three years. Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Amortisation of intangibles

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

- Computer software development costs 3 – 5 years

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

1.5 *Investment properties*

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

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

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

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

1.6 *Leases*

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

The Hollard Specialist Insurance Group as lessor

Operating leases

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

1.6 **Leases** *continued*

The Hollard Specialist Insurance Group as lessee

Finance leases

Assets held under finance leases are recognised as assets of the Hollard Specialist Insurance Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease.

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

Operating leases

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

1.7 ***Acquisition costs associated with insurance contracts***

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

1.8 ***Operating and administration***

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

1.9 ***Impairment of tangible and intangible assets***

At each statement of financial position date, the Hollard Specialist Insurance Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Hollard Specialist Insurance Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and the value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

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

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

1.10 *Financial assets*

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

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

Under IAS 39 Financial assets at fair value through profit or loss have two sub-categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

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

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain or losses are recognised in the statement of comprehensive income.

Financial assets at fair value through profit or loss include derivative financial instruments.

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.

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Hollard Specialist Insurance Group has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. 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.

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.

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

1.10 ***Financial assets*** *continued*

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.
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.

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

1.11 ***Impairment of financial assets***

The Hollard Specialist Insurance Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

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

1.11 *Impairment of financial assets* *continued*

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

a. It is held within a business model where the objective is achieved by both collecting contractual cash flows and selling financial assets.
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.

The expected credit loss (ECL) model applies to financial assets measured at amortised cost (for example loans and receivables and inter-company 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 reversed on a case-by-case basis.

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.

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.

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:

1.11 ***Impairment of financial assets*** *continued*

Calculation of ECL *continued*

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%.

1.12 ***Derecognition of financial assets***

A financial asset (or, when applicable a part of a financial asset or part of a Hollard Specialist Insurance Group's group of similar financial assets) is derecognised when:

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

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

When continuing involvement takes the form of a written and/or purchased option (including cash-settled option or similar provision) on the transferred asset, the extent of the Hollard Specialist Insurance Group's continuing involvement is the amount of the transferred asset that the Hollard Specialist Insurance

1.12 Derecognition of financial assets *continued*

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

1.13 Agents and other insurers' balances

Agents and other insurers' balances comprise amounts due to and from underwriting agents, insurers and other insurance related entities.

1.14 Insurance receivables

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

1.15 Cash and cash equivalents

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

1.16 Share capital

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

1.17 Classification of insurance contracts

Insurance contracts are those contracts where the Hollard Specialist Insurance Group has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is risk other than financial risk, transferred from the holder of the contract to the issuer. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variables. Insurance contracts can also transfer financial risk.

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

Reinsurance

Contracts entered into with reinsurers by the short-term operations, under which the Hollard Specialist Insurance Group is compensated for losses on one or more contracts, and which meet the classification requirements for insurance contracts, are classified as reinsurance contracts held.

The benefits to which Hollard Specialist Insurance Group are entitled under their reinsurance contracts held are recognised as reinsurance assets, consisting of short-term balances due from reinsurers that are dependent on the expected claims and benefits. Reinsurance liabilities are primarily premiums payable and are recognised as an expense when due.

1.18 Income recognition

Premiums

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

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

1.18 Income recognition *continued*

Premiums *continued*

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of the premium received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten less provisions raised for cash backs. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Unearned premiums

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 the risks that have not expired by the end of the financial year, are calculated on the 365-basis for even risk business and other bases that best represent the unearned risk profile for uneven risk business.

Reinsurance contracts

The Hollard Specialist Insurance Group cedes risks to reinsurers in the normal course of business for the purpose of limiting its exposure to liability. Reinsurance arrangements do not relieve the Hollard Specialist Insurance Group from its direct obligations to its policyholders. 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 Hollard Specialist Insurance Group may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Hollard Specialist Insurance Group will receive from the reinsurer. Impairment losses are recognised in the statement of comprehensive income.

Only contracts that 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. Contracts that do not transfer significant risk (that is, financial reinsurance) are accounted for as financial assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Investment income

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

Interest income is recognised using the effective interest rate method by reference to the principal debt outstanding and the interest rate. Rental income is recognised on a straight-line basis over the term of the relevant lease. Other investment returns are accounted for on an accrual basis.

1.19 Claims recognition

Insurance contracts

Underwriting results

The Hollard Specialist Insurance Company's short-term underwriting results are determined after making provisions for unearned premiums, outstanding claims and such additional provisions as are considered necessary. The methods used to determine these provisions are set out below.

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. Claims

1.19 Claims recognition *continued*

outstanding comprise provisions for the Hollard Specialist Insurance Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not, and an appropriate risk margin.

While the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used to value the provisions, and the estimates made, are reviewed regularly.

1.20 Policyholder insurance contracts

IBNR – Insurance contracts

Provision is made in the policyholders liabilities under insurance contracts for the estimated cost at the end of the year for claims IBNR at that date. IBNR provisions are calculated using run-off triangle techniques or as a multiple, based on the average historical reporting delay of the claims reported in the three weeks following the valuation date but where the claims event occurred prior to valuation date. These liabilities are not discounted due to the short-term nature of outstanding claims.

Unexpired risk provision

Provision is made for unexpired risks arising to the extent that the expected value of claims and claims handling expenses attributable to the unexpired periods of contracts in force at the statement of financial position date exceeds the unearned premiums provision in relation to such contracts and attributable investment income after the deduction of any deferred acquisition costs.

Cash-back provisions

A provision is made for the accrued expected obligations to policyholders to the extent that the premiums for these benefits are already received and other terms and conditions are met within the period leading up to the expected cash back.

Deferred acquisition costs

The costs of acquiring new and renewal insurance business that is commission and other acquisition costs, primarily related to the term products of that business, are deferred. Deferred acquisition costs are amortised on a *pro rata* basis over the contract term. Similarly, any reinsurance commissions received are deferred and recognised as income over the term of the reinsurance contract. Deferred acquisition costs and reinsurance commissions received are included in unearned premium provision.

Liability adequacy test – Insurance contracts

At each reporting date the adequacy of the insurance liabilities is assessed. This is done using an unearned premium approach for pre-claims liabilities and by using a statistical approach for the claims liabilities. The claims liabilities are reported at a 75% level of sufficiency, claims liabilities are thus expected to be sufficient three out of every four years. If that assessment shows that the carrying amount of the insurance liabilities (less related deferred acquisition costs) is inadequate in the light of the estimated future cash flows, the insurance liability is increased and the deficiency is recognised as a loss.

1.21 Financial liabilities

Trade and other payables

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

1.22 Provision

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

Leave pay provision

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

Employee bonus provision

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

1.23 Taxation

Income taxation on the profit or loss for the periods presented comprises current and deferred taxation.

Current taxation

The charge for current tax is based on the results for the year as adjusted for items that are non-taxable or are disallowed. It is calculated using the tax rates that have been enacted or substantively enacted on the statement of financial position date, in each particular jurisdiction in which the Hollard Specialist Insurance Group operates.

Deferred taxation

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

1.23 *Taxation* *continued*

Dividends tax

A dividends tax became effective on 1 April 2012 and this tax is levied on non-exempt shareholders. The Hollard Specialist Insurance Group is responsible for the collection of the dividends tax and payment of the amounts collected to the South African Revenue Service. As this tax is levied on the shareholders and not the company, it does not form part of the tax expense recognised in the statement of other comprehensive income. Dividends are reflected gross of tax.

1.24 *Employee retirements benefits*

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

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

1.25 *Share-based payments transactions*

The Imperial Holdings Group operates equity-settled share-based compensation plans. Senior employees and executives of the Hollard Specialist Insurance Group participate in the plan and Hollard Specialist Insurance Group bears the costs thereof.

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Hollard Specialist Insurance Group revises its estimates of the number of equity instruments that are expected to vest.

The impact of the revision of original estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share-based payment reserve in equity.

1.26 *Exceptional items*

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

1.27 *Offsetting*

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

1.28 *Dividend distribution*

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

1.29 *Events after the statement of financial position date*

The financial statements are adjusted to reflect events that occurred between the statement of financial position date and the date when the financial statements are authorised for issue, provided they provide evidence of conditions that existed at the statement of financial position date. Events that are indicative of conditions that arose after the statement of financial position date are disclosed (if material), but do not result in an adjustment of the financial statements themselves.

1.30 *Transactions with related parties*

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

1.31 *Key assumptions in applying accounting policies*

Key assumptions are those used to derive estimates, which require management's most complex or subjective judgements.

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

- The Hollard Specialist Insurance Group holds a number of financial assets that are held at fair value through profit or loss. These are valued at quoted market prices as far as possible. However, if such prices are unavailable, fair value is based either on internal valuations or management's best estimates of realisable amounts.
- Impairment tests are conducted on all assets included in the statement of financial position. In determining the value in use, various estimates are used by management including deriving future cash flows and applicable discount rates. These estimates are most applicable to the impairment tests on reinsurance assets, intangible assets (including goodwill), deferred acquisition costs and receivables. Further details are contained in note 1.10 and 1.11 of the accounting policies.
- The IBNR provision consists of a best estimate reserve and an explicit risk margin. Further details are contained in note 7.4 of the notes to the consolidated annual financial statements.

2. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. In terms of IAS 8 *Accounting policies, changes in accounting estimates and errors*, changes in accounting estimates do not necessitate a prior period adjustment.

for the year ended 30 June 2019

	Notes	Property R'000	Computer and office equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
3. PROPERTY AND EQUIPMENT						
Group						
2019						
Balance at the beginning of the year		**1 837**	**14 975**	**3 230**	**–**	**20 042**
Additions		**–**	**286**	**–**	**–**	**286**
Depreciation charge for the year	23	**(311)**	**(6 333)**	**(1 472)**	**–**	**(8 116)**
Balance at the end of the year		**1 526**	**8 928**	**1 758**	**–**	**12 212**
Cost		**3 152**	**34 216**	**11 017**	**–**	**48 385**
Accumulated depreciation and impairments		**(1 626)**	**(25 288)**	**(9 259)**	**–**	**(36 173)**
Balance at the end of the year		**1 526**	**8 928**	**1 758**	**–**	**12 212**
2018						
Balance at the beginning of the year		2 158	23 185	5 841	218	31 402
Additions		–	738	–	–	738
Disposals		–	(9 575)	(3 580)	(218)	(13 373)
Depreciation charge for the year	23	(321)	(8 133)	(2 118)	–	(10 572)
Accumulated depreciation on disposals		–	8 760	3 087	–	11 847
Balance at the end of the year		1 837	14 975	3 230	–	20 042
Cost		3 152	33 927	11 017	–	48 096
Accumulated depreciation and impairments		(1 315)	(18 952)	(7 787)	–	(28 054)
Balance at the end of the year		1 837	14 975	3 230	–	20 042

3. PROPERTY AND EQUIPMENT *continued*

	Notes	Property* R'000	Computer and office equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
Company						
2019						
Balance at the beginning of the year		**1 837**	**14 761**	**2 801**	**–**	**19 399**
Additions		**–**	**286**	**–**	**–**	**286**
Depreciation charge for the year		**(311)**	**(6 106)**	**(1 266)**	**–**	**(7 683)**
Balance at the end of the year		**1 526**	**8 941**	**1 535**	**–**	**12 002**
Cost		**3 152**	**33 079**	**9 776**	**–**	**46 007**
Accumulated depreciation and impairments		**(1 626)**	**(24 138)**	**(8 241)**	**–**	**(34 004)**
Balance at the end of the year		**1 526**	**8 941**	**1 535**	**–**	**12 002**
2018						
Balance at the beginning of the year		2 158	22 733	5 205	–	30 096
Additions		–	738	–	–	738
Disposals		–	(9 565)	(3 580)	–	(13 145)
Depreciation charge for the year		(321)	(7 905)	(1 911)	–	(10 137)
Accumulated depreciation on disposals		–	8 760	3 087	–	11 847
Balance at the end of the year		1 837	14 761	2 801	–	19 399
Cost		3 152	32 791	9 776	–	45 719
Accumulated depreciation and impairments		(1 315)	(18 030)	(6 975)	–	(26 320)
Balance at the end of the year		1 837	14 761	2 801	–	19 399

** Property comprises capitalised leasehold improvement, R3.1 million (2018: R3.1 million).*

for the year ended 30 June 2019

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
4. INVESTMENT PROPERTY				
Balance at the beginning of the year	**22 240**	22 240	**3 340**	3 340
Balance at the end of the year	**22 240**	22 240	**3 340**	3 340

Investment property comprises the following:

- Property situated on ERF 35325, Bellville, Cape Town. The cost of the property is R2.4 million and the market value is R3.3 million (2018: R3.3 million).
- Property situated in Irene Extension 3, Pretoria. The cost of the property is R18.4 million and the market value is R17.1 million (2018: R17.1 million).

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
5. INTANGIBLE ASSETS				
Application software				
Balance at the beginning of the year	**47 883**	79 379	**47 883**	79 379
Development costs capitalised	**13 630**	–	**13 630**	–
Amortisation for the year	**(25 218)**	(25 842)	**(25 218)**	(25 842)
Disposal	**(11 298)**	(74 693)	**(11 298)**	(74 693)
Accumulated depreciation on disposals	**10 132**	69 039	**10 132**	69 039
Balance at the end of the year	**35 129**	47 883	**35 129**	47 883
Cost	**104 388**	102 057	**104 388**	102 057
Accumulated amortisation and impairment	**(69 259)**	(54 174)	**(69 259)**	(54 174)
Balance at the end of the year	**35 129**	47 883	**35 129**	47 883
6. INVESTMENTS IN SUBSIDIARIES				
Balance at the beginning of the year			**1 773**	1 773
Balance at the end of the year			**1 773**	1 773

Hollard Specialist Insurance Company's interest in the aggregate profit after tax in subsidiaries amounted to R0.76 million (2018: R1.8 million).

Details of subsidiaries have been provided in note 31.

7. GENERAL INSURANCE LIABILITIES

	2019			2018		
	Gross R'000	**Reinsurance R'000**	**Net R'000**	Gross R'000	Reinsurance R'000	Net R'000
Group and company						
Reported claims	**218 046**	**28 195**	**189 851**	230 779	34 706	196 073
Incurred but not reported	**51 972**	**134**	**51 838**	50 363	134	50 229
Outstanding claims, including claims IBNR	**270 018**	**28 329**	**241 689**	281 142	34 840	246 302
Unearned premiums	**416 187**	**4**	**416 183**	370 898	86	370 812
Balance at the end of the year	**686 205**	**28 333**	**657 872**	652 040	34 926	617 114

	Group			Company		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Analysis of movements in net outstanding claims including claims IBNR						
2019						
Balance at the beginning of the year	**281 142**	**34 840**	**246 302**	**281 142**	**34 840**	**246 302**
Claims incurred during the year	**547 280**	**(2 245)**	**549 525**	**547 280**	**(2 245)**	**549 525**
Less: claims paid during the year	**(552 685)**	**(4 274)**	**(548 411)**	**(552 685)**	**(4 274)**	**(548 411)**
Other	**(5 719)**	**8**	**(5 727)**	**(5 719)**	**8**	**(5 727)**
Balance at the end of the year	**270 018**	**28 329**	**241 689**	**270 018**	**28 329**	**241 689**
2018						
Balance at the beginning of the year	288 676	35 859	252 817	288 676	35 859	252 817
Claims incurred during the year	495 159	3 564	491 595	495 159	3 564	491 595
Less: claims paid during the year	(502 693)	(4 583)	(498 110)	(502 693)	(4 583)	(498 110)
Balance at the end of the year	281 142	34 840	246 302	281 142	34 840	246 302
Analysis of movements in unearned premium						
2019						
Balance at the beginning of the year	**370 898**	**85**	**370 812**	**370 898**	**85**	**370 812**
Premiums written during the year	**1 433 548**	**15 218**	**1 418 330**	**1 433 548**	**15 218**	**1 418 330**
Less: premiums earned during the year	**(1 388 287)**	**(15 299)**	**(1 372 988)**	**(1 388 287)**	**(15 299)**	**(1 372 988)**
Other	**28**	**–**	**28**	**28**	**–**	**28**
Balance at the end of the year	**416 187**	**4**	**416 183**	**416 187**	**4**	**416 183**
2018						
Balance at the beginning of the year	346 455	358	346 097	346 455	358	346 097
Premiums written during the year	1 395 861	15 394	1 380 467	1 395 861	15 394	1 380 467
Less: premiums earned during the year	(1 371 418)	(15 667)	(1 355 752)	(1 371 418)	(15 667)	(1 355 752)
Balance at the end of the year	370 898	85	370 812	370 898	85	370 812

7. GENERAL INSURANCE LIABILITIES *continued*

7.1 Maturity analysis of general insurance liabilities

Based on actuarial modelling of historical and future expected trends, the Hollard Specialist Insurance Group has estimated the probable cash outflows associated with general insurance liabilities. The maturity analysis of the gross insurance liabilities is set out below. The maturity profile of the related reinsurance assets is expected to be similar to the profile of the gross liabilities.

	Maturity in less than three months R'000	Maturity between three months and one year R'000	Maturity more than one year R'000	Total R'000
Group and company				
2019				
Claims IBNR	**28 726**	**13 444**	**9 802**	**51 972**
Outstanding claims	**119 979**	**57 127**	**40 940**	**218 046**
Unearned premiums	**52 180**	**138 840**	**225 167**	**416 187**
Total	**200 885**	**209 411**	**275 909**	**686 205**
2018				
Claims IBNR	19 080	14 804	16 479	50 363
Outstanding claims	87 431	67 834	75 514	230 779
Unearned premiums	48 101	110 958	211 839	370 898
Total	154 612	193 596	303 832	652 040

7.2 Process used to determine significant assumptions

Insurance risks are unpredictable and the Hollard Specialist Insurance Group recognises that it is impossible to forecast with absolute precision the future claims payable under existing insurance contracts. Over time, the Hollard Specialist Insurance Group has developed methodologies that are aimed at establishing insurance provisions that are estimated to be adequate.

7.3 Claim provisions

The Hollard Specialist Insurance Group's outstanding claims provisions include notified claims as well as claims IBNR.

Notified claims

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/or loss adjuster and past experience with similar claims. The Hollard Specialist Insurance Group employs staff experienced in claims handling and rigorously applies standardised policies and procedures around claim assessments.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Case estimates are initially set at a prudent level but are reviewed regularly and updated as new information becomes available.

Claims IBNR

The IBNR provision, other than for business originating from underwriting managers, consists of a best estimate reserve and an explicit risk margin. The best estimate represents the expected value of the insurance liabilities, that is the mean in a range of possible outcomes in the development of unreported claims and the future development of notified claims. The explicit risk margins are added to the best estimate to reflect the uncertainty of the ultimate cost of claims. The IBNR for business originating from underwriting managers is set at the historical industry average and adjusted if the experience indicates that the methodology is no longer appropriate. The aggregate of the best estimate reserve and risk margins expressed as a percentage of premiums written, represents the IBNR assumption for each financial year.

7. GENERAL INSURANCE LIABILITIES *continued*

7.3 Claim provisions *continued*

***Claims IBNR** continued*

The methods applied by the Hollard Specialist Insurance Group use historical claims development information and therefore the underlying basis assumes that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development or recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

The provision for the notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries. The calculation of the reinsurance recoveries considers the type of risk underwritten, which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

7.4 Premium provisions

The Hollard Specialist Insurance Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the Hollard Specialist Insurance Group's insurance contracts have an even risk profile and therefore the unearned premium provisions are released evenly over the period of insurance using a time-proportionate basis. For the remainder of the insurance portfolio the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts.

The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue are recognised on a basis consistent with the related provisions for unearned premiums.

7.5 Assumptions

The risk margins are determined statistically such that the level of confidence on the adequacy of the provision is approximately 75% (or only a 25% probability that the provision will be inadequate). The levels of the IBNR provisions and the risk margins are assessed annually by management against the Hollard Specialist Insurance Group's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate.

The IBNR provision for policies underwritten by underwriting managers ranges from 3% to 21% of net written premiums.

The unearned premiums provision for motor warranty policies takes account of assumed premium earning patterns. The premium earning patterns are reassessed and updated by management after review of the actual loss experience for these types of contracts.

7.6 Sensitivity of assumptions

The assumption that will have a significant impact on the Hollard Specialist Insurance Group's results is the confidence level used in the IBNR calculation. A hypothetical increase in the IBNR from the 75th percentile confidence level to the 80th percentile will have an adverse effect of R4.0 million (2018: R4.0 million) in income before tax. The 75% level of adequacy is considered prudent until the requirements of the Financial Services Board's proposed solvency assessment and management (SAM) principles are implemented.

for the year ended 30 June 2019

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
8. FINANCIAL ASSETS				
The Hollard Specialist Insurance Group's financial assets at fair value through profit or loss comprise:				
Listed preference shares	**54 049**	72 818	**54 049**	72 818
Corporate bonds	**130 585**	174 620	**130 585**	174 620
Collective investment schemes	**972 384**	1 085 103	**972 384**	1 085 103
Short-term cash deposits	**91 077**	295 000	**91 077**	295 000
	1 248 095	1 627 541	**1 248 095**	1 627 541
The Hollard Specialist Insurance Group's financial assets at amortised cost comprise:				
Unlisted preference shares	**22 091**	–	**22 091**	–
Total	**1 270 186**	1 627 541	**1 270 186**	1 627 541
Market value				
Maturity analysis of gilts				
Maturing in less than one year from statement of financial position date	**20 109**	56 102	**20 109**	56 102
Maturing in more than one year and less than five years from statement of financial position date	**110 476**	118 518	**110 476**	118 518
Total	**130 585**	174 620	**130 585**	174 620
Movement				
Balance at the beginning of the year	**1 627 541**	1 087 483	**1 627 541**	1 087 483
Additions	**539 647**	1 949 093	**539 647**	1 949 093
Disposals	**(890 484)**	(1 421 391)	**(890 484)**	(1 421 391)
Fair value adjustment	**(6 508)**	12 356	**(6 508)**	12 356
Impairment	**(9)**	–	**(9)**	–
Balance at the end of the year	**1 270 186**	1 627 541	**1 270 186**	1 627 541

The collective investment schemes comprises protected equity and money market funds with a duration of greater than 90 days.

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 Allowance for ECL R'000	Not credit impaired Allowance for ECL R'000	Credit Impaired Allowance for ECL R'000	Total allowance for ECL R'000	12 month ECL Allowance for ECL R'000	Not credit impaired Allowance for ECL R'000	Credit Impaired Allowance for ECL R'000
As at 1 July 2018	**9**		**9**	**9**		**9**	
Originations, purchases and interest accruals	**–**		**–**	**–**		**–**	
Balance at end of the year	**9**	**–**	**9**	**9**	**–**	**9**	**–**

During the current year the provision of ECL increased due to an increase in preference shares interest accruals and an increase in the portion of the balance allocated to stage 2 and 3 of the model. The ECL for these balances are based on insurance time ECLs thus resulting in a higher loss allowance when allocated to these stages.

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
9. AGENTS AND OTHER INSURERS' BALANCES				
Premium debtors	**51 059**	50 861	**51 059**	50 761
Provision for bad debts	**(23 925)**	(9 795)	**(23 925)**	(9 695)
Net receivable	**27 134**	41 066	**27 134**	41 066
Other insurance payables	**(80 326)**	(66 746)	**(80 326)**	(66 746)
Net payable	**(80 326)**	(66 746)	**(80 326)**	(66 746)
Net agent and other insurer's balances	**(53 192)**	(25 680)	**(53 192)**	(25 680)

This balance represents current amounts due to or from underwriters, brokers and premium debtors. The Hollard Specialist Insurance Group is of the opinion that the carrying amounts of these assets represents a reasonable approximation of fair value.

9.1 Insurance premium receivables

Insurance premium receivables are aged according to the terms and conditions of the underlying agreements. Past due policies are reviewed for recoverability and either lapsed or provided for where necessary. No interest is charged on the outstanding insurance premium receivables. If a claim is payable the outstanding amount receivable will be recovered from the amount payable to the client.

Movement in the provision for impairment of trade receivables	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Balance at the beginning of the year	**9 795**	20 902	**9 695**	19 266
Increase in allowance recognised in profit or loss	**(580)**	5 286	**(580)**	5 286
Amounts (written off)/reversed during the year	**14 710**	(16 393)	**14 810**	(14 857)
Balance at the end of the year	**23 925**	9 795	**23 925**	9 695

for the year ended 30 June 2019

9. AGENTS AND OTHER INSURERS' BALANCES *continued*

In determining the recoverability of a receivable, the Hollard Specialist Insurance Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
9.2 Age analysis				
Ageing of premium debtors				
Not past due	**40 889**	41 658	**40 889**	41 558
Past due 31 – 90 days	**8 268**	661	**8 268**	661
Past due 91 – 360 days	**4 525**	7 092	**4 525**	7 092
Past due more than one year	**(2 623)**	1 450	**(2 623)**	1 450
Total	**51 059**	50 861	**51 059**	50 761

10. DEFERRED TAX

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
Balance at the beginning of the year	**(43 115)**	(25 773)	**(41 829)**	(24 815)
Movement during the year attributable to:				
◆ Temporary differences	**19 822**	(11 260)	**19 822**	(10 932)
◆ Prior year underprovision	**26 362**	(6 082)	**26 362**	(6 082)
Balance at the end of the year	**3 069**	(43 115)	**4 355**	(41 829)
Comprising:				
Provisions	**9 798**	(56 074)	**11 084**	(54 788)
Unrealised appreciation on financial assets at fair value	**(6 729)**	12 959	**(6 729)**	12 959
Balance at the end of the year	**3 069**	(43 115)	**4 355**	(41 829)

11. TAXATION

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
South African and normal taxation				
Current	**163 733**	88 984	**163 709**	88 630
◆ Current year	**154 037**	79 098	**154 037**	78 744
◆ Prior year	**1 567**	1 609	**1 543**	1 609
◆ Capital gains	**8 129**	8 277	**8 129**	8 277
Deferred	**(46 185)**	17 342	**(46 185)**	17 014
◆ Current year	**(72 546)**	11 260	**(72 546)**	10 932
◆ Prior year adjustment	**26 361**	6 082	**26 361**	6 082
Withholding taxation	**–**	112	**–**	112
Total	**117 548**	106 438	**117 524**	105 756
Reconciliation of taxation:				
South African normal taxation at statutory rate of 28%	**28.00**	28.00	**28.00**	28.00
Adjusted for:				
Non-taxable income	**(0.73)**	(0.54)	**(0.73)**	(0.54)
Withholding tax and STC	**–**	0.03	**–**	0.03
Foreign tax rate difference	**–**	–	**–**	–
Losses in subsidiaries	**–**	–	**–**	–
Realised and unrealised gains for CGT	**(0.10)**	–	**(0.10)**	–
Prior year underprovision	**8.41**	2.14	**8.41**	2.16
Taxation charge in income statement	**35.58**	29.63	**35.58**	29.64

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000

12. OTHER RECEIVABLES INCLUDING INSURANCE RECEIVABLES

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Other receivables comprise:				
Reinsurance debtors	**(11)**	226	**(11)**	226
Salvage debtors	**1 270**	10 799	**1 270**	10 799
Sundry and other debtors	**8 469**	17 240	**6 100**	16 147
Gross receivables including insurance receivables	**9 728**	28 265	**7 359**	27 172
Bad debt provision	**(1 326)**	(7 152)	**(1 326)**	(7 152)
Balance at the end of the year	**8 402**	21 113	**6 033**	20 020

	Reinsurance debtors R'000	Salvage debtors R'000	Sundry and other debtors R'000	Total R'000
12.1 Ageing of other receivables				
2019				
Group				
Neither impaired nor past due	**–**	**–**	**5 844**	**5 844**
Past due but not impaired:	**(11)**	**1 270**	**2 623**	**3 882**
◆ 31 – 90 days	**(11)**	**1 270**	**550**	**1 809**
◆ Over 90 days	**–**	**–**	**2 073**	**2 073**
Balance at the end of the year	**(11)**	**1 270**	**8 467**	**9 726**
Company				
Neither impaired nor past due	**(11)**	**–**	**3 476**	**3 465**
Past due but not impaired:	**–**	**1 270**	**2 623**	**3 893**
◆ 31 – 90 days	**–**	**1 270**	**550**	**3 893**
◆ Over 90 days	**–**	**–**	**2 073**	**–**
Balance at the end of the year	**(11)**	**1 270**	**6 099**	**7 358**
2018				
Group				
Neither impaired nor past due	226	2 266	15 801	18 293
Past due but not impaired:	–	2 181	639	2 820
◆ 31 – 90 days	–	2 181	639	2 820
Impaired	–	6 352	800	7 152
Balance at the end of the year	226	10 799	17 240	28 265
Company				
Neither impaired nor past due	226	2 266	15 345	17 837
Past due but not impaired:	–	2 181	2	2 183
◆ 31 – 90 days	–	2 181	2	2 183
Impaired	–	6 352	800	7 152
Balance at the end of the year	226	10 799	16 147	27 172

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	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
13. DUE TO AND FROM GROUP COMPANIES				
Due from subsidiary	**–**	–	**1 373**	1 373
Due from fellow subsidiary	**1 492**	93	**1 492**	93
Due from group companies	**1 492**	93	**2 865**	1 466
Due to holding company	**–**	(1 737)	**–**	(1 737)
Due to fellow subsidiaries	**(40 296)**	–	**(40 296)**	–
Due to group companies	**(40 296)**	(1 737)	**(40 296)**	(1 737)
Net due to group companies	**(38 804)**	(1 644)	**(37 431)**	(271)

These are call loans payable on demand.

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
14. CASH AND CASH EQUIVALENTS				
Cash at bank and on hand	**419 759**	87 171	**419 635**	86 917
Cash deposits*	**–**	–	**–**	–
Total cash and cash equivalents	**419 759**	87 171	**419 635**	86 917

** Call and cash deposits maturing within three months or less.*

The average call rate on short-term bank deposits was 6.23% (2017: 6.5%)

15. PROVISIONS

15.1 Leave pay

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

15.2 Bonus

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

15.3 Other

Other provisions include among others, provisions for internal audit, actuarial and underwriting manager fees.

15. PROVISIONS *continued*

	Leave pay R'000	Bonus R'000	Service and maintenance R'000	Other R'000	Total R'000
Group					
2019					
Balance at the beginning of the year	**5 291**	**8 279**	**–**	**19 182**	**32 751**
Charged to statement of comprehensive income	**(2 495)**	**5 103**	**–**	**(119)**	**2 489**
Utilised during the year	**(766)**	**(7 880)**	**–**	**(9 887)**	**(18 533)**
Balance at the end of the year	**2 030**	**5 502**	**–**	**9 176**	**16 707**
2018					
Balance at the beginning of the year	7 163	31 963	–	18 898	58 024
Charged to statement of comprehensive income	1 826	6 132	–	2 597	10 555
Utilised during the year	(3 698)	(29 816)	–	(2 313)	(35 827)
Balance at the end of the year	5 291	8 279	–	19 182	32 752
Company					
2019					
Balance at the beginning of the year	**5 291**	**8 279**	**–**	**19 182**	**32 752**
Charged to statement of comprehensive income	**(2 495)**	**5 101**	**–**	**–**	**2 606**
Utilised during the year	**(766)**	**(7 880)**	**–**	**(9 887)**	**(18 534)**
Balance at the end of the year	**2 030**	**5 500**	**–**	**9 295**	**16 825**
2018					
Balance at the beginning of the year	7 163	31 963	–	18 898	58 024
Charged to statement of comprehensive income	1 826	6 132	–	2 597	10 555
Utilised during the year	(3 698)	(29 816)	–	(2 313)	(35 827)
Balance at the end of the year	5 291	8 279	–	19 182	32 752

16. INSURANCE AND OTHER PAYABLES

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
Reinsurance payable	**21 600**	25 600	**21 600**	25 600
Sundry creditors	**7 047**	–	**7 047**	–
Accruals	**3 381**	7 053	**3 381**	7 053
Other	**43 792**	26 230	**41 787**	24 269
Balance at the end of the year	**75 820**	58 883	**73 815**	56 922

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	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
17. SHARE CAPITAL AND SHARE PREMIUM				
Authorised share capital				
3 000 000 ordinary shares of R1 each and	**3 000**	3 000	**3 000**	3 000
1 000 preference shares of R0.01 each	*****	*	*****	*
Issued share capital				
2 939 800 ordinary shares of R1 each	**2 940**	2 940	**2 940**	2 940
15 preference shares of R0.01 each	*****	*	*****	*
Share premium	**197 563**	197 563	**197 563**	197 563

** Denotes an amount less than R1 000.*

The directors are authorised until the forthcoming annual general meeting to issue the unissued shares for any purpose and upon such terms and conditions as they deem fit but subject to the provisions of the Companies Act of South Africa, 2008, and the company's memorandum of incorporation.

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
18. NET PREMIUMS EARNED				
Net premiums earned represents gross written insurance premiums from policyholders adjusted for unearned premiums and reinsurance premiums paid.				
Gross premium income	**1 433 548**	1 395 861	**1 433 548**	1 395 861
Reinsurance	**(15 218)**	(15 394)	**(15 218)**	(15 394)
Unearned premiums	**(45 261)**	(24 443)	**(45 261)**	(24 443)
Reinsurance on unearned premiums	**(81)**	(272)	**(81)**	(272)
Total	**1 372 988**	1 355 752	**1 372 988**	1 355 752
19. INVESTMENT INCOME				
Interest income	**128 603**	115 219	**128 587**	115 219
Rental income	**1 558**	1 673	**285**	271
Investment management expenses	**(48)**	(4 865)	**(48)**	(4 865)
Dividend income	**10 671**	8 442	**10 671**	8 442
◆ Listed	**8 605**	5 685	**8 605**	5 685
◆ Unlisted	**2 066**	2 757	**2 066**	2 757
Total	**140 784**	120 469	**139 495**	119 067
20. INVESTMENT GAINS/(LOSSES)				
Realised profit on disposal of investments	**37 170**	22 244	**37 170**	22 244
Listed	**37 170**	22 244	**37 170**	22 244
Unrealised loss on revaluation of investments	**(30 661)**	(9 888)	**(30 661)**	(9 888)
Listed	**4 415**	(2 094)	**4 415**	(2 094)
Unlisted	**(35 076)**	(7 794)	**(35 076)**	(7 794)
Total	**6 509**	12 356	**6 509**	12 356
21. OTHER OPERATING INCOME				
Policy and underwriting fees	**15 029**	18 928	**15 024**	18 928
Recoveries	**23**	621	**23**	621
Sundry income	**748**	453	**748**	453
Total	**15 800**	20 002	**15 800**	20 002

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
22. NET CLAIMS INCURRED					
Gross		**(547 280)**	(495 159)	**(547 280)**	(495 159)
◆ Claims paid		**(552 685)**	(502 693)	**(552 685)**	(502 693)
◆ Change in provision for outstanding claims		**5 405**	7 534	**5 405**	7 534
Reinsurers' share		**(2 245)**	3 564	**(2 245)**	3 564
◆ Claims paid		**4 274**	4 583	**4 274**	4 583
◆ Change in provision for outstanding claims		**(6 519)**	(1 019)	**(6 519)**	(1 019)
Other					
Claims handling costs		**(36 475)**	(72 506)	**(36 475)**	(72 506)
Total		**(586 000)**	(564 101)	**(586 000)**	(564 101)

	Notes	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
23. PROFIT BEFORE TAXATION					
Profit before taxation is determined after taking the following into account:					
Depreciation	3	**8 117**	10 572	**7 683**	10 137
◆ Furniture and fittings		**1 473**	2 118	**1 266**	1 911
◆ Computer and office equipment		**6 333**	8 133	**6 106**	7 905
◆ Leasehold improvements		**311**	321	**311**	321
Amortisation of intangible assets	5, 24.1	**25 218**	25 842	**25 218**	25 842
Rentals under operating leases		**–**	880	**–**	880
Auditor's remuneration		**3 220**	2 368	**3 175**	2 323
Consultancy fees		**3 571**	7 722	**3 571**	7 722
Staff costs		**57 843**	121 517	**57 843**	121 517
Pension contributions*		**4 801**	10 680	**4 801**	10 680
Salaries		**53 042**	109 658	**53 042**	109 658
Share-based payment expense		**–**	1 179	**–**	1 179
(Loss)/profit on sale of property and equipment		**881**	(5 394)	**881**	(5 394)
Administration fees received		**216**	3 895	**216**	3 895
Number of employees at year end		**88**	145	**88**	145

** Post-employment benefits – the Hollard Specialist Insurance Group provides retirement benefits through independent funds under the control of trustees and all contributions to those funds are charged to the statement of comprehensive income. The large majority of employees are members of the Hollard Employees Pension Fund and the Hollard Employees Provident Fund which are governed by the Pensions Funds Act, 1956.*

for the year ended 30 June 2019

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
24. NOTES TO THE CASH FLOW STATEMENT				
24.1 Cash generated by operations				
Profit before taxation	**331 065**	359 239	**330 279**	356 791
Adjusted for:				
Interest income	**(128 603)**	(115 219)	**(128 587)**	(115 219)
Interest expense	**20 531**	20 477	**20 531**	20 477
Dividends received	**(10 671)**	(8 442)	**(10 671)**	(8 442)
Unrealised loss on revaluation of investments	**30 661**	9 888	**30 661**	9 888
Depreciation of property and equipment	**8 116**	10 572	**7 683**	10 137
Amortisation of intangible assets	**25 218**	25 842	**25 218**	25 842
Loss/(profit) on sale of property and equipment	**881**	5 394	**881**	5 394
Profit on sale of investments	**(37 170)**	(22 244)	**(37 170)**	(22 244)
Changes in working capital:	**119 348**	41 876	**120 698**	44 181
◆ Decrease in receivables	**27 006**	37 159	**28 561**	37 614
◆ Increase in other payables	**30 469**	9 004	**30 146**	9 256
◆ Decrease in other provisions	**(16 045)**	(25 272)	**(15 927)**	(25 272)
◆ Net movement in group loans	**37 160**	2 785	**37 160**	4 383
◆ Decrease in net outstanding claims and IBNR	**(4 613)**	(6 515)	**(4 613)**	(6 515)
◆ Increase in unearned premiums	**45 371**	24 715	**45 371**	24 715
Total	**359 376**	327 383	**359 523**	326 805

24. NOTES TO THE CASH FLOW STATEMENT

	Group 2019 R'000	Group 2018 R'000	Company 2019 R'000	Company 2018 R'000
24.2 Investment income				
Dividend received				
Dividend received per statement of comprehensive income	**10 671**	8 442	**10 671**	8 442
Total	**10 671**	8 442	**10 671**	8 442
Interest received				
Accrued interest income at the beginning of the year	**4 949**	6 260	**4 949**	6 260
Interest income per statement of comprehensive income	**128 603**	115 219	**128 587**	115 219
Accrued interest income at the end of the year	**(5 590)**	(4 949)	**(5 590)**	(4 949)
Total	**127 962**	116 530	**127 946**	116 530
24.3 Taxation paid				
Amount receivable at the beginning of the year	**4 975**	6 461	**4 950**	6 413
Amount charged to the statement of comprehensive income	**(117 548)**	(106 438)	**(117 524)**	(105 756)
Movement in deferred tax	**(46 184)**	17 342	**(46 184)**	17 014
	(158 757)	(82 635)	**(158 758)**	(82 329)
Amount (receivable)/payable at the end of the year	**8 260**	(4 975)	**8 260**	(4 950)
Cash paid during the year	**(150 497)**	(87 610)	**(150 498)**	(87 279)
24.4 Dividends paid				
Dividends per statement of changes in equity	**(429 576)**	(212 866)	**(429 576)**	(212 866)
Dividends paid cash	**(429 576)**	(212 866)	**(429 576)**	(212 866)
24.5 Non-controlling interest capital contribution				
Capital contribution per statement of changes in equity	**84 633**	12 125	**84 633**	12 125
Capital contribution received in cash	**84 633**	12 125	**84 633**	12 125

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25. RELATED PARTY TRANSACTIONS

25.1 Identity of related parties

The Hollard Specialist Insurance Company has a related party relationship with its holding company, subsidiary and fellow subsidiaries and with its directors and key management personnel.

25.2 Other related party transactions and balances

The company has balances receivable with subsidiary companies. These balances are disclosed below in note 25.2.2. Transactions between the Hollard Specialist Insurance Company and its subsidiary which are related parties have been eliminated on consolidation.

During the year, the Hollard Specialist Insurance Company in the ordinary course of business entered into the transaction below in note 25.2.1 with its holding company. This transactions occurred under terms that are no less favourable than those arranged with third parties.

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
25.2.1 Transactions with group companies				
Interest paid to holding company	**19 140**	19 252	**19 140**	19 252
25.2.2 Year-end balances with related parties				
Receivable from related parties	**1 492**	93	**2 865**	1 466
◆ Erf Four Nine Nine Spartan (Proprietary) Limited	**–**	–	**1 373**	1 373
◆ Hollard Specialist Life Assurance Company Limited	**1 492**	93	**1 492**	93
Payable to related parties	**(40 296)**	(1 737)	**(40 296)**	(1 737)
◆ Hollard Insurance Company Limited	**(34 898)**	(1 737)	**(34 898)**	(1 737)
◆ Hollard Life Assurance Company Limited	**(5 398)**	–	**(5 398)**	–
Sub-ordinated debt capital				
Hollard Fundco (RF) (Proprietary) Limited*	**(200 000)**	(200 000)	**(200 000)**	(200 000)

** This loan has been sub-ordinated in favour of all policyholders and creditors*

26. OPERATING LEASE COMMITMENTS

The Hollard Specialist Insurance Group leases various offices and vehicles under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payments are as follows:

	Group 2019 R'000	Group 2018 R'000	**Company 2019 R'000**	Company 2018 R'000
◆ Not later than one year	**160**	3 056	**160**	3 056
◆ Between one and five years	**113**	2 790	**113**	2 790
	273	5 846	**273**	5 846

The above mentioned commitments will be funded from cash generated by operations.

27. DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS

	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000
Executive directors						
Director A						
Basic salary	**1 463**	**4 389**	**5 852**	918	2 754	3 672
Bonus and performance-related payments	**1 853**	**5 559**	**7412**	1 213	3 638	4 850
Estimated monetary value of other benefits	**20**	**60**	**80**	37	110	146
Pension/provident fund contributions	**164**	**492**	**656**	103	309	412
	3 500	**10 500**	**14 000**	2 270	6 810	9 080
Director B						
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**	–	–	–
Director C						
Basic salary	**263**	**789**	**1 052**	980	2 940	3 920
Bonus and performance-related payments	**1 321**	**3 963**	**5 284**	3 043	9 128	12 170
Estimated monetary value of other benefits	**11**	**33**	**44**	79	236	314
Pension/provident fund contributions	**30**	**90**	**120**	114	341	454
	1 625	**4 875**	**6 500**	4 215	12 644	16 858

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27. DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS *continued*

	2019			2018		
	Company R'000	**Rest of Group R'000**	**Total R'000**	Company R'000	Rest of Group R'000	Total R'000
Director D						
Basic salary	**1 142**	**1 142**	**2 284**	–	–	–
Bonus and performance-related payments	**145**	**145**	**290**	–	–	–
Estimated monetary value of other benefits	**49**	**49**	**98**	–	–	–
Pension/provident fund contributions	**131**	**131**	**262**	–	–	–
	1 467	**1 467**	**2 934**	–	–	–
Non-executive directors						
Director A	**178**	**534**	**712**	143	429	572
Director B	**157**	**472**	**629**	142	428	570
Director C	**221**	**665**	**886**	202	606	808
Director D	**226**	**680**	**906**	304	916	1 220
Director E	**153**	**460**	**613**	135	405	540
Director F	**194**	**582**	**776**	208	623	830
Director G	**304**	**912**	**1 216**	286	858	1 144
Director H	**130**	**391**	**521**	126	380	506
	1 563	**4 696**	**6 259**	1 546	4 644	6 190

27. DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS *continued*

Prescribed officers

	2019			2018		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
Prescribed officer A						
Basic salary	**761**	**2 285**	**3 046**	716	2 150	2 867
Bonus and performance-related payments	**1 000**	**2 999**	**3 999**	1 422	4 263	5 685
Estimated monetary value of other benefits	**51**	**155**	**206**	50	151	201
Pension/provident fund contributions	**90**	**271**	**361**	85	256	341
	1 902	**5 710**	**7 611**	2 272	6 820	9 093
Prescribed officer B						
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
Prescribed officer C						
Basic salary	**742**	**2 227**	**2 969**	699	2 099	2 798
Bonus and performance-related payments	**1 068**	**3 205**	**4 273**	1 473	4 421	5 894
Estimated monetary value of other benefits	**78**	**235**	**313**	75	225	299
Pension/provident fund contributions	**90**	**271**	**361**	85	256	341
	1 978	**5 938**	**7 915**	2 332	7 000	9 332
Prescribed officer D						
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

27. DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS *continued*

	2019 Company R'000	2019 Rest of Group R'000	2019 Total R'000	2018 Company R'000	2018 Rest of Group R'000	2018 Total R'000
Prescribed officer E						
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
Prescribed officer F						
Basic salary	**553**	**1 659**	**2 212**	523	1 569	2 091
Bonus and performance-related payments	**587**	**1761**	**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
Prescribed officer G						
Basic salary	**746**	**2 240**	**2 986**	706	2 119	2 825
Bonus and performance-related payments	**1 002**	**3 008**	**4 010**	1 330	3 992	5 322
Estimated monetary value of other benefits	**38**	**115**	**153**	34	104	138
Pension/provident fund contributions	**86**	**260**	**346**	81	245	326
	1 872	**5 623**	**7 495**	2 151	6 460	8 611

	2019			2018		
	Company R'000	**Rest of Group R'000**	**Total R'000**	Company R'000	Rest of Group R'000	Total R'000
27. DIRECTORS AND PRESCRIBED OFFICERS' EMOLUMENTS *continued*						
Prescribed officer H						
Basic salary	**788**	**2 366**	**3 154**	–	–	–
Bonus and performance-related payments	**398**	**1 192**	**1 590**	–	–	–
Estimated monetary value of other benefits	**34**	**104**	**138**	–	–	–
Pension/provident fund contributions	**91**	**275**	**366**	–	–	–
	1 311	**3 937**	**5 247**	–	–	–
Prescribed officer 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	**24 009**	**74 270**	**98 279**	23 247	87 229	110 476

The following changes were made to the directors and prescribed officers' emoluments during the current financial year:

- The directors emoluments split between company and rest of group were restated 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.

Fees for services as director for the year ended 30 June 2019 were approved by the shareholder at the annual general meeting. The remuneration of directors is determined by the remuneration committee based on the performance of the individual and market trends. All executive directors are eligible for annual performance-related bonus payments. The remuneration of directors and prescribed officers reflects the total remuneration paid by the Hollard Group for 2019.

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28. CONTINGENT LIABILITIES

The Hollard Specialist Insurance Group, in the ordinary course of business enters into transactions which exposes the group 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*. At statement of financial position date there were no material contingent liabilities for the Hollard Specialist Insurance Group.

29. MANAGEMENT OF INSURANCE RISK

29.1 Terms and conditions of insurance contracts

The Hollard Specialist Insurance Group underwrites risks that natural persons, corporates or other entities wish to transfer to an insurer. Such risks may relate to property, accident, personal accident, motor, engineering, marine, liability, aviation, and other perils that may give rise to an insurable event. The Hollard Specialist Insurance Group is 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 is greater than expected. Insurance events are by their nature random and the actual size and number of events in any one year may vary from those estimated, or experienced in prior periods.

The Hollard Specialist Insurance Group underwrites 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-tailed in nature represent an insignificant portion of the Hollard Specialist Insurance Group's insurance portfolio.

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

Property

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. The fire classes 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.

Accident

Provides indemnity for loss 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, loss of money and fidelity guarantee for staff.

Personal accident

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

Motor

Provides indemnity for loss or damage to the insured motor vehicle. The cover is normally on a comprehensive basis providing a wide scope of cover following an accident or a theft of the vehicle but the insured can select restricted forms of cover such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of a motor vehicle for damage to third party property or death or injury to a third party are also covered under this class of business.

29. MANAGEMENT OF INSURANCE RISK *continued*

29.1 Terms and conditions of insurance contracts *continued*

Engineering

Provides indemnity for loss sustained through the use of machinery and equipment or the erection of buildings or structures. This type of contract may cover losses resulting from project delay, machinery breakdown, loss of profits and deterioration of stock.

Marine

Provides indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo, with a project delay option. Hull covers loss or damage to vessels as a result of accidents and may also include legal liability as a result of the accident.

Liability

Provides indemnity for the insured against damages consequent to a personal injury or property damage and includes professional indemnity as well as directors' and officers' liability for errors and omissions.

Aviation

Provides indemnity for cargo, hull and liability classes of business. Cargo covers physical loss or damage to cargo. Hull covers loss or damage to aircraft. Liability covers third-party claims.

29.2 Risks that arise from insurance contracts

The Hollard Specialist Insurance Group distributes these products to 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. The Hollard Specialist Insurance Group provides primary risk policies, which are contracts structured to provide entry-level insurance cover for corporate entities.

29.3 Limiting exposure to insurance risk

The Hollard Specialist Group manages its insurance risk through setting underwriting limits, through approval procedures for transactions that involve new products or that exceed set limits or pricing guidelines and through monitoring of emerging issues. These procedures are described below:

Underwriting strategy

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. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of risk incidence will be, and therefore a well-diversified portfolio is not likely to be affected across the board by a change in any subset of the portfolio. The Hollard Specialist Insurance Group has developed its insurance underwriting strategy to stabilise risk experience by utilising a sufficiently large population of risks to reduce the variability of the expected outcome. The concentration of insurance risk is thereby substantially limited to the occurrence of natural disasters in densely populated areas.

The underwriting strategy is detailed in underwriting authorities which set the limits for underwriters in terms of amount of capacity, class of business, geographical location and industry to enforce the 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.

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

29. MANAGEMENT OF INSURANCE RISK *continued*

29.3 Limiting exposure to insurance risk *continued*

Reinsurance

The Hollard Specialist Insurance Group obtains third-party reinsurance cover to reduce risks from single events or accumulation of risk which could have a significant impact on earnings for the current year or on the Hollard Specialist Insurance Group's capital. This cover is placed in the local and international reinsurance markets.

Catastrophe events

The Hollard Specialist Insurance Group defines in its underwriting strategy the total aggregate exposure that it is prepared to accept in certain territories from a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Hollard Specialist Insurance Group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net risk exposure of the Hollard Specialist Insurance Group.

Other risks

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Sophisticated software and fraud detection measurements are in place to improve the Hollard Specialist Insurance Group's ability to detect fraudulent claims proactively.

Claims development

The Hollard Specialist Insurance Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to predetermined time scales dependent on the nature of the insurance contract. The Hollard Specialist Insurance Group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims "run-off risk". To manage run-off risk the Hollard Specialist Insurance Group takes steps to ensure that it has appropriate information regarding its claims and exposures and adopts sound reserving practices.

The majority of the Hollard Specialist Insurance Group's insurance contracts are classified as "short-tailed", meaning that generally claims are settled within a year after the loss date. This contrasts with the "long-tailed" classes where the claims cost takes longer to emerge. The Hollard Specialist Insurance Group's long-tailed business is generally limited to third-party motor liability and some engineering classes.

In terms of IFRS 4, an insurer need only disclose claims run-off information where uncertainty exists about the amount and timing of claim payments not resolved within one year. In total long-tail business comprises less than 6% (2018: 7%) of an average year's claims cost and consequently, detailed claims run-off information is not presented.

30. FINANCIAL RISK

The Hollard Specialist Insurance Group is exposed to various financial risks through its operating activities. The main financial risk is that the proceeds from the Hollard Specialist Insurance Group's financial assets are insufficient to fund the obligations arising from insurance contracts. The major components of this risk are market risk, credit risk and liquidity risk. An investment committee proposes asset management policies to the board and implements the policy as approved. It also appoints and monitors the activities of asset managers, receiving quarterly reports on compliance with investment mandates.

30.1 Market Risk

This can be described as the risk of a change in fair value or future cash flows of a financial instrument brought about by changes in interest rates, equity prices or foreign exchange rates.

Equity price risk

The portfolio of listed equities, gilts and foreign equities which are carried on the statement of financial position at fair value, are exposed to price risk, being the potential loss in market value resulting from an adverse change in prices.

At 30 June 2019 the Hollard Specialist Insurance Group was exposed to equities through listed instruments and collective investment schemes to the value of R1 billion (2018: R1.1 billion) at fair value. Assuming this exposure throughout the financial year, a hypothetical 1% decrease in the share index, based on similar sensitivities used in the industry and on market conditions, would result in an estimated reduction in profit before tax of R10 million (2018: R11 million).

Fair value hierarchy disclosures

The table below shows the Hollard Specialist Insurance Group's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification is based on the lowest level input that is significant to the fair value measurement in its entirety.

	2019		
	Valuations with reference to quoted prices in an active market Level 1 R'000	Valuations based on observable inputs Level 2 R'000	Total carried at fair value R'000
Financial assets held as at fair value through profit or loss			
2019			
Group and company			
Listed preference shares	**54 049**	**–**	**54 049**
Unlisted preference shares	**–**	**22 091**	**22 091**
Corporate bonds	**130 585**	**–**	**130 585**
Collective investment schemes	**972 384**	**–**	**972 384**
Short-term deposits more than one year	**91 077**	**–**	**91 077**
Total financial assets	**1 248 095**	**22 091**	**1 270 186**
2018			
Group and company			
Listed preference shares	49 634	–	49 634
Unlisted preference shares	–	23 184	23 184
Corporate bonds	174 620	–	174 620
Collective investment schemes	1 085 103	–	1 085 103
Short-term deposits more than one year	295 000	–	295 000
	1 604 357	23 184	1 627 541

30. FINANCIAL RISK *continued*

30.1 Market risk *continued*

Level 1 financial assets include assets where fair value is determined using quoted prices in an active market. For quoted prices in an active market to exist there should be actual and regular occurring market transactions and the prices of those transactions should be readily available.

Fair value for level 2 assets are determined by way of valuation techniques and the inputs into the valuation model are based on observable market inputs other than quoted prices included within level 1. An input is observable if it can be observed as a market price or can be derived from an observed market price.

If fair value is determined by way of valuation techniques and the inputs into the valuation model are not based on observable market data or the observable market data has been significantly altered then those instruments are classified as level 3.

30.2 Interest rate risk

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to a change in market interest rates. The following investments which are held at fair value, will be directly impacted by changes in market interest rates. Accounts receivable and accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered material given the short-term duration of these underlying cash flows. The Hollard Specialist Insurance Group does not have any interest-bearing borrowings. Interest rate risk is therefore limited to the Hollard Specialist Insurance Group's investment in variable rate investments, such as gilts and bonds.

The table below summarised the effective interest rates at the financial position date:

	Group 2019 %	Group 2018 %	**Company 2019 %**	Company 2018 %
Debt securities – fixed interest rate:				
Listed bonds	**12.21**	8.50	**12.21**	8.50
Cash at bank	**6.30**	6.23	**6.30**	6.23

Investment decisions are delegated by the board to the investment committee, which has ultimate responsibility for the investment portfolio's risk profile and related decisions. To this end, the committee is supported by a well-developed research function utilising portfolio managers.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at statement of financial position date. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been 1% higher/lower and all other variables were held constant, the Hollard Specialist Insurance Group's profit for the financial year ended 30 June 2019 would decrease/increase by R5.7 million (2018: R5.6 million) assuming the interest-bearing exposure was constant throughout the financial year.

30. FINANCIAL RISK *continued*

30.3 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate in Rand due to the changes in foreign exchange rates. The Hollard Specialist Insurance Group manages this risk by limiting the extent of net foreign assets to predetermined amounts considering the type of asset and foreign currency. At year end, the Hollard Specialist Insurance Group had no foreign currency exposure

30.4 Credit risk

The Hollard Specialist Insurance Group is exposed to the risk that a counterparty will be unable to pay amounts in full when due. The main areas of exposure are:

- Reinsurer's share of insurance liabilities.
- Amounts due from reinsurers in respect of claims already paid.
- Amounts due from insurance contract holders.
- Amounts due from insurance contract intermediaries.

The Hollard Specialist Insurance Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties and industry segments. Reputable financial institutions are used for investment and cash-handling purposes.

The Hollard Specialist Insurance Group has policies in place to ensure that sale of services are made via brokers with an appropriate credit history.

Credit risk in terms of direct insurance clients is mitigated by the fact that where premiums are not paid to the Hollard Specialist Insurance Group, the Hollard Specialist Insurance Group is not obliged to perform in terms of the policy contract, with respect to monthly business.

All reinsurers have at least an "A-" rating or better as rated by Standard and Poor's. Some of the local reinsurers are not separately rated, however, they are subsidiaries of international reinsurance groups, that are rated as above, and carry parental guarantees.

30. FINANCIAL RISK *continued*

30.4 Credit risk *continued*

Analysis of the credit quality of the Hollard Specialist Insurance Group's assets

	Normal monitoring R'000	Not rated R'000	Total R'000
Group			
2019			
Reinsurers' share of outstanding claims	**28 329**	**–**	**28 329**
Short-term deposits	**91 077**	**–**	**91 077**
Due from group companies	**–**	**1 492**	**1 492**
Cash and cash equivalents	**419 759**	**–**	**419 759**
Insurance and other receivables	**–**	**35 536**	**35 536**
Total	**539 165**	**37 028**	**576 193**
2018			
Reinsurers' share of outstanding claims	34 840	–	34 840
Short-term deposits	295 000	–	295 000
Due from group companies	–	93	93
Cash and cash equivalents	87 171	–	87 171
Insurance and other receivables	–	62 179	62 179
Total	417 011	62 272	479 283
Company			
2019			
Reinsurers' share of outstanding claims	**28 329**	**–**	**28 329**
Short-term deposits	**91 077**	**–**	**91 077**
Due from group companies	**–**	**2 865**	**2 865**
Cash and cash equivalents	**419 635**	**–**	**419 635**
Insurance and other receivables	**–**	**33 167**	**33 167**
Total	**539 041**	**36 032**	**575 073**
2018			
Reinsurers' share of outstanding claims	34 840	–	34 840
Short-term deposits	295 000	–	295 000
Due from group companies	–	1 466	1 466
Cash and cash equivalents	86 917	–	86 917
Insurance and other receivables	–	61 086	61 086
Total	416 757	62 552	479 309

Normal monitoring

This refers to the credit ratings ranging from "AAA" to "B-", "AAA" rating would refer to a counterparty being a superior financial security. The capacity to meet obligations is overwhelming under a variety of economic conditions. "B-" refers to counterparties which are partially vulnerable securities. Counterparties are able to meet current obligations, but the capacity to meet obligations is vulnerable during adverse economic conditions. All securities in this range need to be monitored whether "AAA" or "B-".

Reinsurance

Reinsurance is used to manage insurance risk. This does not discharge the Hollard Specialist Insurance Group's liability as the primary insurer. If the reinsurer fails to pay a claim for any reason, the Hollard Specialist Insurance Group remains liable for the payment to the policyholder. The Hollard Specialist Insurance Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

When selecting a reinsurer the Hollard Specialist Insurance Group considers its security. This is assessed from public rating information and from internal investigations.

30. FINANCIAL RISK *continued*

30.4 Credit risk *continued*

The ageing of the Hollard Specialist Insurance Group's financial assets after impairment at the reporting date was as follows:

	Agents and other insurance balances R'000	Other receivables R'000	Due from group companies R'000	Cash and cash equivalents R'000	Reinsurers' share of outstanding claims R'000	Reinsurers' share of unearned premium R'000
Group						
2019						
Neither impaired nor past due	**27 134**	**5 844**	**1 492**	**419 759**	**28 329**	**4**
Past due but not impaired:	**–**	**483**				
◆ 0 – 90 days		**483**				
Balance at the end of the year	**27 134**	**6 327**	**1 492**	**419 759**	**28 329**	**4**
2018						
Neither impaired nor past due	41 066	18 293	93	87 171	34 840	86
Past due but not impaired:	–	2 820				
◆ 0 – 90 days		2 820				
Balance at the end of the year	41 066	21 113	93	87 171	34 840	86
Company						
2019						
Neither impaired nor past due	**27 134**	**3 465**	**2 865**	**419 635**	**28 329**	**4**
Past due but not impaired:	**–**	**2 567**		**–**	**–**	**–**
◆ 0 – 90 days	**–**	**2 567**	**–**	**–**	**–**	**–**
Balance at the end of the year	**27 134**	**6 032**	**2 865**	**419 635**	**28 329**	**4**
2018						
Neither impaired nor past due	41 066	17 837	1 466	86 917	34 840	86
Past due but not impaired:	–	2 183		–	–	–
◆ 0 – 90 days	–	2 183	–	–	–	–
Balance at the end of the year	41 066	20 020	1 466	86 917	34 840	86

for the year ended 2019

30. FINANCIAL RISK *continued*

30.5 Liquidity risk

The Hollard Specialist Insurance Group is exposed to daily calls on its available cash resources from claims arising. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Hollard Specialist Insurance Group's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The Hollard Specialist Insurance Group's liquidity and ability to meet such calls are monitored by the investment committee. The Hollard Specialist Insurance Group has significant liquid resources to cover its obligations.

The maturity of the liquidity risk has been detailed in the table below:

	Total R'000	Within 1 year R'000	1 – 5 years R'000
Group			
2019			
Outstanding claims	**270 018**	**181 665**	**88 353**
Agents and other insurers' balances	**80 326**	**76 574**	**3 752**
Insurance and other payables	**75 825**	**75 825**	**–**
	426 169	**334 064**	**92 105**
2018			
Outstanding claims	281 142	189 149	91 993
Agents and other insurers' balances	66 746	62 994	3 752
Insurance and other payables	58 883	58 883	–
	406 771	311 026	95 745
Company			
2019			
Outstanding claims	**270 018**	**181 665**	**88 353**
Agents and other insurers' balances	**80 326**	**76 574**	**3 752**
Insurance and other payables	**73 818**	**73 818**	**–**
	424 162	**332 057**	**92 105**
2018			
Outstanding claims	281 142	189 149	91 993
Agents and other insurers' balances	66 746	62 994	3 752
Insurance and other payables	56 922	56 922	–
	404 810	309 065	95 745

30.6 Regulatory risks

Continuous legislation changes in the long-term and short-term environment may impact on the operational and financial structures within these businesses. The Hollard Specialist Insurance Group has sufficient resources to address the impact of legislation timeously and efficiently.

During the development stage of any new product, rights and obligations of all parties are clearly defined in the contracts and documentation.

30.7 Catastrophe risk

The Hollard Specialist Insurance Group sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Hollard Specialist Insurance Group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of operations.

30. FINANCIAL RISK *continued*

30.8 Solvency Risk

The Hollard Specialist Insurance Company is registered in South Africa, to provide short-term insurance and therefore submits quarterly and annual returns to the Financial Sector Conduct Authority in terms of the Short-Term Insurance Act, 1998. It is required to maintain at all times a statutory surplus asset ratio as defined in the Short-Term Insurance Act. The quarterly returns submitted to the regulator showed that Hollard Specialist Insurance Company met the minimum capital requirements at year end.

The prudential authority has completed the development of the new solvency assessment and management (SAM) regime for the South African insurance industry, to be in line with international standards. SAM was implemented on 1 July 2018. However, certain interim requirements were introduced in 2012, which prescribes the method used to calculate the statutory capital requirement and IBNR on a more risk-sensitive basis. Hollard Specialist Insurance Company meets the requirements under the interim measures.

31. SUBSIDIARIES

Details of the Hollard Specialist Insurance Company's subsidiary is as follows:

	Holding 2019 %	Holding 2018 %	Cost of shares R'000	Principal activity
Subsidiary				
Erf Four Nine Nine Spartan (Proprietary) Limited	**100**	**100**	1 773	Property

32. CONTINGENT LIABILITIES

The Hollard Specialist Insurance Group, in the ordinary course of business enters into transactions which expose the Hollard Specialist Insurance Group 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*. At statement of financial position date there were no material contingent liabilities for the Hollard Specialist Insurance Group.

33. EVENTS AFTER REPORTING PERIOD

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