

The logo for Hollard, featuring the word "Hollard" in a white, sans-serif font with a small orange dot at the end of the period.

Hollard.

Hollard Specialist Life Limited

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

These annual financial statements have been prepared by the Financial Manager: Life Reporting, Rhys Carolissen, (CA(SA)), under supervision of the Head: Life Reporting, Navashnie Pillay, (ACMA, CGMA).

(Registration number: 1994/001332/06)

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

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SALIENT FEATURES

for the year ended 30 June 2021

	COMPANY				
	2021 R'000	2020 R'000	2019 R'000	2018 R'000	2017 R'000
Statement of profit and loss information					
Gross written premiums ¹	700 536	737 178	728 262	821 378	975 698
Net written premiums ²	697 516	733 175	721 100	761 351	735 083
Investment income ³	87 885	66 520	68 337	101 816	92 135
Net Insurance claims	412 636	163 857	102 020	2 666 954	331 526
Profit attributable to equity holders of the parent	83 388	205 823	232 924	150 373	576 831
Statement of financial position information					
Insurance liabilities	7 774	(71 692)	23 925	285 615	284 541
Equity attributable to equity holders of the parent	956 840	903 302	755 809	596 735	583 842
Total assets	1 262 220	1 188 747	1 239 723	1 338 302	1 410 279
Financial assets	655 566	585 518	612 921	759 015	751 473
Cash and cash equivalents	425 560	413 209	432 479	337 851	542 466
Actuarial Information					
Value of in-force business ⁴	485 875	545 762	503 624	548 674	296 933
Total embedded value	1 491 812	1 488 395	1 336 942	1 266 154	1 208 632
Solvency capital requirement ⁽⁵⁾	670 695	591 309	529 657	482 602	490 945
Solvency capital requirement cover ⁽⁵⁾	2,14	2,10	2,13	1,87	1,87

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

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

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

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

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

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

In terms of the Companies Act of South Africa, the Directors are required to maintain adequate accounting records and to prepare annual financial statements that fairly present the financial position at year-end and the results and cash flows for the year of Hollard Specialist Life Limited.

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

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

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

The external auditors are responsible for providing an opinion on the Company's annual financial statements.

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

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

These annual financial statements, set out on pages 12 to 57 have been approved by the Board of the Company and are signed on their behalf by:



ADH Enthoven
Chairman

22 October 2021



S Ntombela
Chief Executive Officer

22 October 2021

CERTIFICATION BY COMPANY SECRETARY

for the year ended 30 June 2021

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



A Allardyce
Company Secretary

22 October 2021

AUDIT COMMITTEE REPORT

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

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



MR Bower
Chairman: Audit Committee

22 October 2021

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2021

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

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

- Expenses were allowed for based on an expense analysis carried out during the year;
- Expense inflation is derived as the difference between the real yield curve and the nominal yield curve;
- Mortality assumptions were set based on the results of a mortality experience analysis carried out during the year with explicit allowance for HIV/AIDS;
- Withdrawals were set at levels consistent with an experience analysis carried out during the financial year;
- The risk free interest rate curve and the inflation curve supplied by the Prudential Authority were used to determine the policyholder liabilities;
- Income tax was allowed for explicitly at the appropriate rates and capital gains tax was allowed for implicitly in the discount rate (unchanged);
- A contingency reserve to cover possible data problems of R20 million (2020: R20 million) was held as a discretionary reserve;
- A R14 million (2020: R25 million) discretionary reserve is being held due to the uncertainty in amount and timing of Covid-19 claims; and
- Negative reserves were allowed for on the published reporting basis (unchanged).

	COMPANY	
	2021 R'000	2020 R'000
Value of in-force business	485 875	545 762
Access of assets over liabilities	1 005 937	942 633
Total embedded value	1 491 812	1 488 395

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

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2021

To the shareholder of Hollard Specialist Life Limited Report on the Financial Statements

We have audited the financial statements of Hollard Specialist Life Limited set out on 12 to 57, which comprise the statements of financial position as at 30 June 2021, and the statements of profit or loss and comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Hollard Specialist Life Limited Annual Financial Statements for the year ended 30 June 2021" which includes the Directors' Report as required by the Companies Act of South Africa and Salient features, Directors' responsibility statement and approval of the annual financial statements, Certification by company secretary, Embedded value statement and Audit committee report. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

for the year ended 30 June 2021

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

In terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 04 December 2015, we report that Deloitte & Touche has been the auditor of Hollard Specialist Life Limited for 17 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Harshal Kana
Partner

29 October 2021

AUDIT COMMITTEE REPORT

for the year ended 30 June 2021

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

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

1. THE COMMITTEE

1.1. Terms of Reference ("ToR")

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

1.2. Composition and meeting attendance

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

1.3. Roles and responsibilities

The Committee's key roles and responsibilities are focused on driving an integrated approach to assurance which ensures the significant risks facing the Group are effectively mitigated. To achieve this, the Group is focused on improving the 1st line capability of the 1st line of defence and improving the system of internal controls. This is aligned to the Combined Assurance Framework adopted by the Board. Amongst other matters, the role of the Committee is to monitor the relationship between assurance providers, including approval of the Group Compliance, Group Internal Audit and External Audit coverage plans for each financial year.

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

Internal Audit

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

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

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

External Auditor

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

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

AUDIT COMMITTEE REPORT (CONTINUED)

for the year ended 30 June 2021

Internal Financial Controls & the Annual Financial Statements

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

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

2. STATUTORY DUTIES

2.1. Financial Statements and Accounting Policies

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

2.2. Going Concern

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

2.3. External Auditor appointment and independence

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

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

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

3. CHIEF FINANCIAL OFFICER & THE FINANCE FUNCTION

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

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

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

4. STATEMENT ON INTERNAL FINANCIAL CONTROLS

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

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

5. STATEMENT ON INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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



MR Bower

Chairman of the Audit and Compliance Committee

DIRECTORS' REPORT

for the year ended 30 June 2021

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

Nature of business

The Company is a registered life assurer and transacts in all classes of life assurance business throughout the Republic of South Africa.

General review

In the year under review the Company achieved net profit attributable to the equity holders of the parent of R83 388 000 (2020: R205 823 000), which arose from the Company's operations as follows:

	COMPANY	
	2021 R'000	2020 R'000
Net premium income	684 575	725 159
Investment income and investment gains/(losses)	87 885	66 520
Other operating income	13 683	12 101
Total revenue	786 143	803 781
Net Insurance claims	423 467	163 857
Other operating expenses	246 557	311 865
Total expenses	670 024	475 722
Result of operating activities	116 119	328 058
Profit before taxation	116 119	328 058
Taxation	(31 368)	(96 187)
Profit for the year	84 751	231 871
Non-controlling interests	(1 363)	(26 048)
Net profit attributable to equity holders of parents	83 388	205 823

Share capital

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

Dividends

Dividends on ordinary shares of R49 644 000 (2020: R116 509 000) were declared by the Company during the year.

Subsidiaries, associates and joint ventures

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

Going concern

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

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

Also refer to the going concern note on page 56 of these financial statements for further details.

Subsequent events

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

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.

DIRECTORS' REPORT (CONTINUED)

for the year ended 30 June 2021

Directorate

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

AS Nkosi and NV Simamane.

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

MS Claassen.

Executive Directors

S Ntombela (Group CEO), DJ Viljoen (Group CFO) and AL Mhlanga (Executive Director) (resigned 1st of February 2021) were the only Executive Directors who held office during the year.

Non-Executive Directors

NG Kohler, ADH Enthoven, B Ngonyama, MR Bower, R Fihrer, BF Mohale (resigned 31 July 2019), S Patel, AS Nkosi, SC Gilbert (resigned 31 August 2019), MS Claassen (appointed 30 June 2020) and NV Simamane were in office during the year as non-executive directors.

Auditors

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

Company Secretary

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

A Allardyce (appointed 01 May 2021)

Business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P O Box 87428
Houghton
2041

Holding company

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

STATEMENT OF FINANCIAL POSITION

for the year ended 30 June 2021

	Notes	COMPANY	
		2021 R'000	2020 R'000
Assets			
Property and equipment	4	–	–
Right of use assets	5	50	116
Investment properties	6	6 041	6 041
Intangible assets	7	1 714	5 172
Financial assets	8	655 566	585 518
Reinsurance assets		127 459	126 305
Insurance, loans and other receivables	10	37 085	35 492
Deferred tax	16	8 745	–
Current income taxation		–	16 893
Cash and cash equivalents	11	425 560	413 209
Total assets		1 262 220	1 188 747
Equity and liabilities			
Attributable to equity holders of the parent		956 840	903 302
Issued share capital	12	21	21
Share premium	12	94 666	94 666
Retained earnings		862 152	808 614
Non-controlling interest		20 901	39 332
Total equity		977 741	942 633
Insurance liabilities	13	7 774	(71 692)
Reinsurance liabilities		2 812	(3 074)
Provisions	14	2 844	2 522
Trade and other payables	15	120 000	169 056
Deferred taxation	16	144 627	149 302
Current income taxation		6 422	–
Total liabilities		284 480	246 113
Equity and liabilities		1 262 220	1 188 747

STATEMENT OF PROFIT AND LOSS

for the year ended 30 June 2021

	Notes	COMPANY	
		2021 R'000	2020 R'000
Revenue			
Gross written premiums		700 536	737 178
Reinsurance outwards		(3 020)	(4 003)
Net written premiums		697 516	733 175
Less: Change in unearned premium reserve		(12 941)	(8 015)
Net premium income	17	684 575	725 159
Investment income		44 443	79 886
Interest received	18	38 977	73 153
Dividends received	18	4 778	6 106
Rental income		688	626
Investment gains/(losses)		43 442	(13 366)
Realised gains on disposal of investments	19	14 020	1 911
Unrealised gains/(losses) on revaluation of investments	20	29 422	(15 276)
Other operating income	21	13 683	12 101
Total revenue		786 143	803 781
Expenses			
Gross policyholder benefits and claims incurred	22	362 025	261 311
Reinsurance recoveries	22	(24 477)	(24 339)
Transfer to/(from) policyholder liabilities		75 089	(76 653)
Net Insurance claims		412 636	160 319
Change in investment contracts liabilities		10 831	3 538
Commissions and other acquisitions		27 743	70 886
Interest paid		45	(15)
Marketing and administration expenses		218 768	240 995
Total expenses		670 024	475 722
Result of operating activities		116 119	328 058
Profit before taxation	23	116 119	328 058
Taxation	24	31 368	96 187
Profit for the year		84 751	231 871
Profit for the year attributable to:			
Equity holders of the parent		83 388	205 823
Non-controlling interests		1 363	26 048
		84 751	231 871

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
Profit for the year	84 751	231 871
Total other comprehensive income	84 751	231 871
Total other comprehensive income attributable to:		
Equity holders of the parent	83 388	205 823
Non-controlling interest	1 363	26 048
	84 751	231 871

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2021

Equity Attributable to Owners

	Issued share capital R'000	Share premuim R'000	Retained earnings R'000	Total Ordinary Shareholders Equity R'000	Non- controlling interest R'000	Total Equity R'000
COMPANY						
Balance at 1 July 2019	21	94 666	661 122	755 810	77 507	833 317
Net profit	-	-	205 823	205 823	26 048	231 871
Total comprehensive income	-	-	205 823	205 823	26 048	231 871
Dividends paid	-	-	(58 330)	(58 330)	(58 179)	(116 509)
Capital movement	-	-	-	-	(6 045)	(6 045)
Balance at 30 June 2020	21	94 666	808 614	903 302	39 332	942 633
Net profit	-	-	83 388	83 388	1 363	84 751
Total comprehensive income	-	-	83 388	83 388	1 363	84 751
Dividends paid	-	-	(29 850)	(29 850)	(19 794)	(49 644)
Capital movement	-	-	-	-	-	-
Balance at 30 June 2021	21	94 666	862 152	956 840	20 901	977 741

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2021

	Notes	COMPANY	
		2021 R'000	2020 R'000
Cash flows from operating activities			
Cash receipts from policyholders and other customers		699 095	733 274
Cash paid to policyholders, suppliers and employees		(646 868)	(604 291)
Cash generated from operations	25	52 227	128 983
Interest paid		45	(15)
Dividends paid	26	(49 644)	(116 509)
Interest received		38 977	73 153
Dividends received	27	4 778	6 106
Rental received		688	626
Other income	21	13 683	12 101
Taxation paid	28	(21 472)	(131 537)
Net cash inflow/(outflow) from operating activities		11 879	(27 092)
Cash flows from investing activities			
Acquisition of listed and unlisted investments		(75 707)	(66 470)
Proceeds on disposal of unlisted investments		48 878	59 981
Proceeds on disposal of other financial assets		-	21 258
Net cash inflow from investing activities		473	14 769
Cash flows from financing activities			
Non-controlling interest capital contribution		-	(6 947)
Net cash inflow/(outflow) from financing activities		-	(6 947)
Cash and cash equivalents			
Net increase/(decrease) in cash and cash equivalents		12 351	(19 270)
Cash, deposits and similar securities at beginning of year		413 209	432 479
Cash and cash equivalents at end of year		425 560	413 209

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2021

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 Company at 30 June 2021 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 01 July 2018 and in compliance with the Companies Act, No 71 of 2008.

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

Carried at fair value:

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

Carried at different measurement basis:

- Policyholder insurance contract liabilities and related reinsurance assets that are measured in terms of the FSV basis as set out in note 1.20 to the accounting policies.

Adoption of new and revised standards

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

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

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 – 1 January 2021
- Amendment to IFRS 16 – Covid-19-Related Rent Concessions beyond 30 June 2021 – 1 April 2021
- Amendments to IAS 16 Property – Plant and Equipment – Proceeds before Intended Use – 1 January 2022
- Amendments to IFRS 3 (May 2020) – Reference to the Conceptual Framework – 1 January 2022
- Amendments to IAS 37 (May 2020) – Onerous Contracts – Cost of Fulfilling a Contract – 1 January 2022
- Amendments to IAS 1 – Classification of liabilities as current or non-current – 1 January 2023
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current – Deferral of Effective Date – 1 January 2023
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies – 1 January 2023
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction – 1 January 2023
- Amendments to IAS 8 – Definition of accounting estimates – 1 January 2023

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

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 Limited and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Depreciation on property, plant and equipment is calculated using the straight-line method after allocating their cost to their residual values over their estimated useful lives. The assets residual values and useful lives are reviewed at each statement of financial position date and adjusted if appropriate. The expected useful lives are as follows:

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

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

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

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

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

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

1.3 Intangible assets

Computer software

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs clearly associated with an identifiable and unique system, which will be controlled by the Hollard Specialist Life Limited 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.

Acquired rights over books of business

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

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

Amortisation of intangibles

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

- Computer software development 3-5 years

Amortisation commences from the date the software is applied to day-to-day business processing. As the software is proprietary and specific to the Hollard Specialist Life Limited'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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.4 Investment properties (continued)

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 Limited as an owner-occupied property becomes an investment property, the Hollard Specialist Life Limited 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 Limited 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.

The Hollard Specialist Life Limited as lessor

Operating leases

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

The Hollard Specialist Life Limited as lessee

Finance leases

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

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

Operating leases

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

1.6 Acquisition costs associated with insurance contracts

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

1.7 Operating and administrative expenditure

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

1.8 Impairment of tangible and intangible assets

At the end of each reporting period, the Hollard Specialist Life Limited 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 Limited 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.9 Financial assets

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

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

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

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

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

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

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

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

The ECL impairment loss allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

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 Limited 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.

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 '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 Company has revised its impairment methodology for each of these classes of assets.

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

For held-to-maturity financial assets and loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Hollard Specialist Life Limited 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 Limited 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 Limited 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 Limited 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 Limited'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 Limited 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 Limited's continuing involvement is the amount of the transferred asset that the Hollard Specialist Life Limited may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Hollard Specialist Life Limited's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

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 Limited cedes insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the Hollard Specialist Life Limited with reinsurers under which the Hollard Specialist Life Limited 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 Limited.

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 Limited may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Hollard Specialist Life Limited 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 Limited from its obligations to policyholders.

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

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

1.14 Cash and cash equivalents

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

1.15 Share capital

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

1.16 Classification of contracts

Insurance contracts are those contracts where the Hollard Specialist Life Limited (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 Limited determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

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

1.17 Income recognition

Revenue

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

Insurance contracts

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.17 Income recognition (continued)

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 Limited's rights to receive payment have been established.

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

Policy fee income

The Hollard Specialist Life Limited 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 Limited 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 Limited. Unpaid disability claims are estimated using the input of assessors for individual cases reported to the Hollard Specialist Life Limited and statistical analysis for the claims incurred but not reported. Outstanding claims are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Investment contracts

Claims incurred are recorded as deductions from investment contract liabilities.

Reinsurance contracts

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

1.19 Policyholder insurance and investment contracts

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.19 Policyholder insurance and investment contracts (continued)

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

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

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

Classification of insurance and investment contracts

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

i) Insurance contracts

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

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

Claims incurred

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

ii) Investment contracts

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

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

Management of insurance and financial risk

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

i) Insurance risk

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.19 Policyholder insurance and investment contracts (continued)

Reinsurance arrangements

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

Policyholder behaviour risk

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

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

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

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

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

Hollard uses the standardised formula for calculating the SCR.

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

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

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

Mortality and morbidity business

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.19 Policyholder insurance and investment contracts (continued)

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

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

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

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

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

Liability adequacy test

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

Claims development table

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

ii) Financial risk:

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

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

ii) Financial risk: (continued)

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

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

Interest rate risk

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

Equity risk

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.19 Policyholder insurance and investment contracts (continued)

Currency risk

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

Credit risk

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

Key areas of credit risk exposure include:

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

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

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

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

Liquidity risk

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

1.20 Financial liabilities

Financial liabilities comprise policyholders' liabilities under investment contracts.

Financial liabilities are initially measured at fair value, net of transaction costs that are directly attributable to the raising of the funds. The measurement of policyholder liabilities under investment contracts is described in [note 1.22](#) to the accounting policies.

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

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

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

Trade and other payables

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.21 Provisions

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

1.22 Taxation

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

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

Current taxation

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

Deferred taxation

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

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

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

Dividends tax

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

1. Summary of significant accounting policies (continued)

1.23 Employee retirement benefits

The policy of the Hollard Specialist Life Limited is to provide retirement benefits for its employees. The contributions paid by the Hollard Specialist Life Limited 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 Limited'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 Limited pays contributions to privately administered pension insurance plans on a mandatory basis. The Hollard Specialist Life Limited 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 Limited's shareholders is recognised as a liability in the Hollard Specialist Life Limited's financial statements in the period in which the dividends are approved by the Hollard Specialist Life Limited's board of directors.

1.27 Events after statement of financial position date

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

1.28 Transactions with related parties

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

1.29 Key assumptions in applying accounting policies

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

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

- Policyholders' liabilities under insurance contracts are derived from estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received (net of expected service costs). The key assumptions have been detailed in note 13 of the notes.
- The Hollard Specialist Life Limited holds a number of financial assets that are designated at fair value through profit/loss. These are valued at quoted market prices as far as possible. However, if such prices are unavailable, fair value is based either on internal valuations or management's best estimates of realisable amounts.
- Impairment tests are conducted on all assets included in the statement of financial position. In determining the value in use, various estimates are used by management including deriving future cash flows and applicable discount rates. These estimates are most applicable to the impairment tests on reinsurance assets, intangible assets (including goodwill), deferred acquisition costs and receivables. Further details are contained in note 1.8 and 1.10 of the accounting policies.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

2. Accounting estimates and judgements

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

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

2.1 Critical accounting estimates and judgements in applying accounting policies

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

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

2.2 The ultimate liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from claims under insurance contracts is the Hollard Specialist Life Limited'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 Limited 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 Limited 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 Limited's asset mix with an allowance for mismatching risk.

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

The determination of the liabilities under long-term insurance contracts are dependent on estimates made by the Hollard Specialist Life Limited. Estimates are made as to the expected number of deaths for each of the years in which the Hollard Specialist Life Limited is exposed to risk. The Hollard Specialist Life Limited 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 Limited's own experience.

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

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

2.4 Fair value of investment contracts

The Hollard Specialist Life Limited 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Financial risk management

3.1 Introduction

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

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

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

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

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

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

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

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

3.2 Exposure to risks arising from financial instruments

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Financial risk management (continued)

3.2 Exposure to risks arising from financial instruments (continued)

3.2.1 Credit risk

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

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

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

Insurance, loans and other receivables

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

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

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

Investments

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

Investments (continued)

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

The analysis of credit quality of the Company's assets is disclosed in note 3.1 (a) on page 35 of these annual financial statements.

Reinsurance

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Financial risk management (continued)

3.2 Exposure to risks arising from financial instruments (continued)

3.2.2 Liquidity risk

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

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

3.2.3 Market risk

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

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

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

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

a) Interest rate risk

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Financial risk management (continued)

3.2 Exposure to risks arising from financial instruments (continued)

3.2.3 Market risk (continued)

b) Other market price (or equity) risk

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

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

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

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

Capital management

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

The Company's objectives when managing capital are to:

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management

3.1 Credit risk

a) Exposure to credit risk

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

	CARRYING VALUE IN STATEMENT OF FINANCIAL POSITION		NET CREDIT EXPOSURE	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
COMPANY				
Other Assets				
Financial assets at fair value through profit or loss – Listed investments	14 646	14 646	14 646	14 646
Financial assets at fair value through profit or loss – Unlisted investments	579 730	513 221	579 730	513 221
Financial assets at fair value through profit or loss – Bonds	1 356	1 273	1 356	1 273
Financial assets at amortised cost	59 834	56 378	59 834	56 378
Loans and other receivables	15 951	18 427	15 951	18 427
Cash and cash equivalents	425 560	413 209	425 560	413 209
Insurance Assets				
Insurance receivables – Premium debtors	21 133	17 066	21 133	17 066
Reinsurance assets	127 459	126 305	127 459	126 306
Total	1 245 670	1 160 525	1 245 670	1 160 525

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.1 Credit risk (continued)

b) Credit rating

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

Concentrations of credit risk are determined on the basis of counterparty credit rating criteria, as risks faced by these groupings are similar in nature. The grouping of assets in such manner highlights the credit quality associated with financial assets and liabilities. Credit ratings are sourced from Bloomberg for S&P, Fitch and Moody's.

	BB+ R'000	BB R'000	B R'000	Not Rated R'000	Total R'000
COMPANY					
2021					
Other Assets					
Financial assets at fair value through profit or loss – Listed investments	–	14 646	–	–	14 646
Financial assets at fair value through profit or loss – Unlisted investments	25 690	–	–	554 040	579 730
Financial assets at fair value through profit or loss – Bonds	–	–	1 356	–	1 356
Financial assets at amortised cost	–	–	–	59 834	59 834
Loans and other receivables	–	–	–	15 951	15 951
Cash and cash equivalents	–	300 840	–	124 720	425 560
Insurance Assets					
Insurance receivables – Premium debtors	–	–	–	21 133	21 133
Reinsurance assets	–	–	–	127 459	127 459
Total	25 690	315 486	1 356	903 138	1 245 670
2020					
Other Assets					
Financial assets at fair value through profit or loss – Listed investments	–	14 646	–	–	14 646
Financial assets at fair value through profit or loss – Unlisted investments	–	20 953	–	492 268	513 221
Financial assets at fair value through profit or loss – Bonds	–	–	1 273	–	1 273
Financial assets at amortised cost	–	–	–	56 378	56 378
Loans and other receivables	–	–	–	18 427	18 427
Cash and cash equivalents	274 920	127 369	–	10 920	413 209
Insurance Assets					
Insurance receivables – Premium debtors	–	–	–	17 066	17 066
Reinsurance assets	–	–	–	126 306	126 306
Total	274 920	162 968	1 273	721 365	1 160 526

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.1 Credit risk (continued)

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

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

	COMPANY			Gross carrying value R'000
	Neither past due nor impaired R'000	Past due not impaired R'000	Individually impaired R'000	
2021				
Financial assets at fair value through profit or loss – Listed investments	14 646	–	–	14 646
Financial assets at fair value through profit or loss – Unlisted investments	579 730	–	–	579 730
Financial assets at fair value through profit or loss – Bonds	1 356	–	–	1 356
Financial assets at amortised cost	59 834	–	–	59 834
Loans and other receivables	15 951	–	–	15 951
Cash and cash equivalents	425 560	–	–	425 560
Total	1 097 077	–	–	1 097 077
Insurance receivables – Premium debtors	51 135	–	(30 002)	21 133
Reinsurance assets	127 459	–	–	127 459
Total	178 595	–	(30 002)	148 593
2020				
Financial assets at fair value through profit or loss – Listed investments	14 646	–	–	14 646
Financial assets at fair value through profit or loss – Unlisted investments	513 221	–	–	513 221
Financial assets at fair value through profit or loss – Bonds	1 273	–	–	1 273
Financial assets at amortised cost	56 378	–	–	56 378
Loans and other receivables	18 427	–	–	18 427
Cash and cash equivalents	413 209	–	–	413 209
Total	1 017 154	–	–	1 017 154
Insurance receivables – Premium debtors	49 243	–	(32 177)	17 066
Reinsurance assets	126 305	–	–	126 305
Total	175 548	–	(32 177)	143 371

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(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.2 Liquidity risk

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

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

	Carrying value in statement of financial position R'000	Total contractual cash flows R'000	0 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
COMPANY						
2021						
Financial assets at fair value through profit or loss	595 732	595 732	595 732	–	–	–
Financial assets at amortised cost	59 834	59 834	–	59 834	–	–
Reinsurance Assets	127 459	127 459	3 612	–	123 847	–
Insurance, loans and other receivables	37 084	37 084	22 502	6 957	7 625	–
Cash and cash equivalents	425 560	425 560	425 560	–	–	–
Total	1 245 670	1 245 670	1 047 406	66 791	131 472	–
2020						
Financial assets at fair value through profit or loss	529 140	529 140	527 333	–	1 273	534
Financial assets at amortised cost	56 378	56 378	56 378	–	–	–
Reinsurance Assets	126 305	126 305	126 305	–	–	–
Insurance, loans and other receivables	35 492	35 492	26 481	4 238	4 773	–
Cash and cash equivalents	413 209	413 209	413 209	–	–	–
Total	1 160 525	1 160 525	1 149 706	4 238	6 046	534

b) Maturity profile on financial liabilities – contractual cash flows liabilities

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

	Carrying value in statement of financial position R'000	Total contractual cash flows R'000	0 – 12 months R'000
COMPANY			
2021			
Non-derivative financial liabilities			
Trade and other payables*	119 604	119 604	119 604
Lease liability	396	396	396
Total	120 000	120 000	120 000
2020			
Non-derivative financial liabilities			
Trade and other payables*	169 056	169 056	169 056
Lease liability	449	449	449
Total	171 578	171 578	171 578

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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for the year ended 30 June 2021

3. Risk management (continued)

3.2 Liquidity risk (continued)

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

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

	Probable cash outflows R'000	Maturity within a year R'000	Maturity between 2 and 5 years R'000	Maturity more than 5 years R'000
COMPANY				
2021				
Policyholder liabilities	(60 725)	(48 820)	-	(11 905)
Claims reported and loss adjustment expenses	26 705	26 705	-	-
Claims incurred but not yet reported	39 816	39 816	-	-
Unearned premium provision	1 978	1 978	-	-
Reinsurance liabilities	2 812	2 812	-	-
	10 585	22 490	-	(11 905)
2020				
Policyholder liabilities	(118 139)	(94 979)	-	(23 159)
Claims reported and loss adjustment expenses	13 999	5 853	8 146	-
Claims incurred but not yet reported	22 343	22 027	316	-
Unearned premium provision	10 104	10 104	-	-
Reinsurance liabilities	(3 074)	(3 074)	-	-
	(74 766)	(60 069)	8 462	(23 159)

3.3 Market risk

a) Sensitivity analysis – Interest rate risk

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

	2021			2020		
	Carrying amount R'000	Nominal interest rate % R'000	Effective interest rate % R'000	Carrying amount R'000	Nominal interest rate % R'000	Effective interest rate % R'000
Profile – COMPANY						
Fixed rate instruments						
Financial assets						
Bonds						
Due in 2 years	1 356	3,2	5,75	-	-	-
Due between 2 years and 5 years	-	-	-	1 273	3,2	5,75
	1 356			1 273		
Variable rate instruments						
Financial assets						
Cash and cash equivalents	425 560			413 209		
	425 560			413 209		

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.3 Market risk (continued)

b) Sensitivity analysis – Variable rate exposure

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

	Profit/(loss)		Equity	
	2% increase R'000	2% decrease R'000	2% increase R'000	2% decrease R'000
COMPANY				
2021				
Cash and cash equivalents	8 511	(8 511)	8 511	(8 511)
Net cash flow sensitivity	8 511	(8 511)	8 511	(8 511)
2020				
Cash and cash equivalents	8 650	(8 650)	8 650	(8 650)
Net cash flow sensitivity	8 650	(8 650)	8 650	(8 650)

c) Sensitivity analysis – Exposure to equity price risk

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

	2021			2020		
	Carrying amount R'000	Listed/Not listed R'000	Relevant stock exchange R'000	Carrying amount R'000	Listed/Not listed R'000	Relevant stock exchange R'000
COMPANY						
Preference shares	14 646	Listed	JSE	14 646	Not listed	JSE
Preference shares	59 834	Not listed	N/A	56 378	Not listed	N/A
	74 480			71 024		

d) Sensitivity analysis – Index exposure

All other variables constant, for listed equity investments, a 500 basis point increase/(decrease) in the relevant stock exchange index over the year would have increased/(decreased) equity and profit/(loss) by the amounts shown below. The analysis is performed on the same basis for 2020.

	Profit/(loss)		Equity	
	5% increase R'000	5% decrease R'000	5% increase R'000	5% decrease R'000
COMPANY				
2021				
Preference shares – Listed – JSE	732	(732)	732	(732)
Preference shares – Not listed	2 992	(2 992)	2 992	(2 992)
	3 724	(3 724)	3 724	(3 724)
2020				
Preference shares – Listed – JSE	732	(732)	732	(732)
Preference shares – Not listed	2 819	(2 819)	2 819	(2 819)
	3 551	(3 551)	3 551	(3 551)

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(CONTINUED)

for the year ended 30 June 2021

3. Risk management (continued)

3.4 Comprehensive income

a) Financial income and expenditure

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

	COMPANY	
	2021 R'000	2020 R'000
Financial assets at fair value through profit or loss	25 619	44 489
Financial assets at amortised cost	13 358	28 665
Net gain on financial assets as at fair value through profit and loss*	48 220	(7 260)
Financial income	87 197	65 893
Interest expense on financial liabilities measured at amortised cost	(45)	15
Net financial income	87 152	65 909
The above financial income and expense items include the following in respect of financial assets/liabilities not at fair value through profit and loss:		
Total interest income	25 619	44 489
Total interest expense	(45)	15
Net Interest income	25 574	44 504

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

b) Impairment losses

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

Impairment of premium debtors	(30 002)	(32 177)
- Impairment reversed/(recognised)	(30 002)	(32 177)
Impairment losses	(30 002)	(32 177)

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for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
4. Property and equipment		
Cost		
Office equipment	-	326
Office equipment	-	38
Furniture and fittings	-	288
Property and equipment – Cost	-	326
Accumulated depreciation		
Office equipment	-	(326)
Office equipment	-	(38)
Furniture and fittings	-	(288)
Property and equipment – Accumulated depreciation and impairment	-	(326)
Net carrying amount		
Office equipment	-	-
Office equipment	-	-
Furniture and fittings	-	-
Property and equipment – Carrying value	-	-
Reconciliation of movement on net carrying amount:		
Balance at the beginning of the year	-	31
Depreciation for the year	-	(31)
Office equipment	-	-
Furniture and fittings	-	(31)
Balance at the end of the year	-	-
5. Right of use		
Cost		
Property	70	70
Motor vehicles	247	247
Right of use asset – Cost	317	317
Accumulated depreciation		
Property	(20)	(10)
Motor vehicles	(247)	(191)
Right of use asset – Accumulated depreciation and impairment	(267)	(201)
Net carrying amount		
Property	50	60
Motor vehicles	-	56
Right of use assets – Carrying value	50	116
Reconciliation of movement on net carrying amount:		
Balance at the beginning of the year	116	-
Recognised on 1 July 2019 on adoption of IFRS 16	-	317
Property	-	70
Motor vehicles	-	247
Depreciation for the year	(66)	(201)
Property	(10)	(10)
Motor vehicles	(56)	(191)
Balance at the end of the year	50	116

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(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
6. Investment Property		
Investment Property – land and buildings – Cost	5 600	5 600
Investment Property – land and buildings – Revaluation	441	441
Fair value on investment properties	6 041	6 041
Reconciliation of movement on fair value amount:		
Balance at the beginning of the year	6 041	6 820
Impairment for the year	–	(779)
Balance at the end of the year	6 041	6 041

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 (2020: R5.6 million) and market value of R6.0 million (2020: R6.0 million). All valuations were performed by independent valuers.

	COMPANY	
	2021 R'000	2020 R'000
7. Intangible assets		
Cost		
Computer software	12 516	27 195
Acquired rights over books of business	100	–
Intangible assets – Cost	12 616	27 195
Accumulated amortisation and impairment		
Computer software	(10 903)	(22 023)
Intangible assets – Accumulated amortisation and impairment	(10 903)	(22 023)
Net carrying amount		
Computer software	1 614	5 172
Acquired rights over books of business	100	–
Intangible assets	1 714	5 172
Reconciliation of movement on net carrying amount:		
Balance at the beginning of the year	5 172	10 500
Acquisitions	100	–
Acquired rights over books of business	100	–
Amortisation for the year	(3 559)	(5 327)
Computer software	(3 559)	(5 327)
Balance at the end of the year	1 714	5 172

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY			
	2021 R'000	2020 R'000		
8. Financial assets				
Financial assets at fair value through profit or loss	595 732	529 140		
Financial assets at amortised cost	59 834	56 378		
	655 566	585 518		
Financial assets at fair value through profit or loss				
Listed Investments	14 646	14 646		
Unlisted Investments	579 730	513 221		
Bonds	1 356	1 273		
	595 732	529 140		
An analysis of the Group and Company's financial assets by market sector and maturity spread is provided below				
Listed Investments				
at market value	14 646	14 646		
Analysis of spread of listed investments by market sector	%	%		
Banks	100,00	100,00		
	100,00	100,00		
Unlisted Investments				
at fair value	579 730	513 221		
	%	%		
Unit trusts	100,00	100,00		
	100,00	100,00		
Total listed and unlisted investments at fair value	594 376	527 867		
Bonds				
Bonds and other assets at amortised cost by industry	1 356	1 273		
	%	%		
Banks	100,00	100,00		
	100,00	100,00		
	Maturity spread R'000	Maturity spread %	Nominal interest rate %	Effective interest rate %
COMPANY				
Bonds				
An analysis of debt securities by maturity spread for 2021				
0 – 1 year	1 356	100,00	3,00	6,00
1 – 2 years	-	-	-	-
2 – 5 years	-	-	-	-
	1 356	100,00		
An analysis of debt securities by maturity spread for 2020				
0 – 1 year	-	-	-	-
1 – 2 years	-	-	-	-
2 – 5 years	1 273	100,00	3,00	6,00
	1 273	100,00		

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

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

	Fair value through profit or loss R'000	Loans and receivables R'000	At amortised cost investments	Total financial instruments	Insurance contract assets and liabilities	Other assets and liabilities	Total per statement of financial position	Fair value of financial instruments
COMPANY								
2021								
Assets								
Financial assets	595 732	-	59 834	655 566	-	-	655 566	655 566
Preference shares and debt instruments	595 732	-	59 834	655 566	-	-	655 566	655 566
Reinsurance assets	-	-	-	-	127 459	-	127 459	127 459
Insurance, loans and other receivables	-	29 960	-	29 960	7 046	79	37 085	37 085
Cash and cash equivalents	-	-	425 560	425 560	-	-	425 560	425 560
Total	595 732	29 960	485 394	1 111 087	134 505	79	1 245 670	1 245 670
Liabilities								
Insurance liabilities	-	-	-	-	7 774	-	7 774	7 774
Reinsurance liabilities	-	-	-	-	2 812	-	2 812	2 812
Employee benefits	-	-	-	-	-	2 844	2 844	2 844
Trade and other payables	-	-	-	-	-	120 000	120 000	120 000
Total	-	-	-	-	10 586	122 844	133 430	133 430
2020								
Assets								
Financial assets	529 140	-	56 378	585 518	-	-	585 518	585 518
Preference shares and debt instruments	529 140	-	56 378	585 518	-	-	585 518	585 518
Reinsurance assets	-	-	-	-	126 306	-	126 306	126 306
Insurance, loans and other receivables	-	35 430	-	35 430	-	61	35 491	35 491
Cash and cash equivalents	-	-	-	-	-	413 209	413 209	413 209
Total	529 140	35 430	56 378	620 949	126 306	413 270	1 160 524	1 160 524
Liabilities								
Insurance liabilities	-	-	-	-	71 692	-	71 692	71 692
Reinsurance liabilities	-	-	-	-	(3 074)	-	(3 074)	(3 074)
Employee benefits	-	-	-	-	-	2 523	2 523	2 523
Trade and other payables	-	-	-	-	-	169 055	169 055	169 055
Total	-	-	-	-	68 618	171 578	240 196	240 196

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

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

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

	Level 1	Level 2	Level 3	Total fair value
COMPANY				
2021				
Financial assets carried at fair value through profit or loss				
Listed Investments – Listed Preference shares	14 646	–	–	14 646
Unlisted Investments – Unit Trusts	–	579 730	–	579 730
Bonds	–	1 356	–	1 356
	14 646	581 085	–	595 732
2020				
Financial assets carried at fair value through profit or loss				
Listed Investments – Listed Preference shares	14 646	–	–	14 646
Unlisted Investments – Unit Trusts	–	513 221	–	513 221
Bonds	–	1 273	–	1 273
Total	14 646	514 494	–	529 140

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

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

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

	COMPANY	
	2021 R'000	2020 R'000
10. Insurance, loans and other receivables		
Insurance receivables – Premium debtors	21 133	17 066
Other receivables	15 952	18 425
Total insurance and other receivables	37 085	35 492

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
11. Cash and cash equivalents		
Cash on call	274 355	217 700
Cash at bank	129 168	96 554
Cash on deposit	22 037	98 955
Cash and cash equivalents	425 560	413 209

* Call and Cash deposits maturing within 8 months or less.

12. Share capital and premium

Authorised

3 000 000 Ordinary Shares	30	30
1 000 Preference Shares-Class A	-	-
	30	30

Issued and fully paid

2 125 000 Ordinary Shares	21	21
8 Preference Shares-Class A	-	-
	21	21

Share Premium	94 666	94 666
Issued shared capital	94 688	94 688

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

13. Insurance liabilities

Policyholder Liabilities under Investment Contracts

Balance at the beginning of the year	98 669	96 400
Contribution received	2 784	(2 525)
Maturities	145	591
Withdrawals and surrenders	329	3 049
Fair value movements	(10 052)	(2 406)
Amounts transferred to/from the income statement	(10 831)	(3 538)
Other movement for the year	23 416	7 117
Balance at the end of the year	104 460	98 669

Policyholder Liabilities under Insurance Contracts

Balance at the beginning of the year	(216 808)	(95 776)
Amounts transferred to/from the income statement	(75 089)	76 653
Other movement for the year	126 712	(197 684)
Balance at the end of the year	(165 185)	(216 808)
	(60 725)	(118 138)

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

Increase/(decrease) in policyholders liabilities under investment contracts	5 791	2 269
Increase/(decrease) in policyholders liabilities under insurance contracts	51 623	(121 031)
Increase/(decrease) in policyholders liabilities under investment and insurance contracts	57 414	(118 762)

Insurance liabilities

Policyholder Liabilities under Investment Contracts	104 460	98 669
Policyholder Liabilities under Insurance Contracts	(165 185)	(216 808)
Outstanding claims	66 521	36 342
Unearned premium provision	1 978	10 104
Total insurance liabilities	7 774	(71 692)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	Leave Pay R'000	Other R'000	Provisions R'000
14. Provisions			
2021			
Balance at the beginning of the year	2 523	(1)	2 522
Additional provisions raised/released during the year	1 281	-	1 281
Utilised during the year	(960)	1	(959)
Balance at the end of the year	2 844	-	2 844
2020			
Balance at the beginning of the year	2 904	(1)	2 903
Additional provisions raised/released during the year	688	-	688
Utilised during the year	(1 069)	-	(1 069)
Balance at the end of the year	2 523	(1)	2 522

Provisions

Leave pay

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

Bonus

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

Other

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

	COMPANY	
	2021 R'000	2020 R'000
15. Trade and other payables		
Trade payables	3 045	4 075
VAT payable	-	-
Sundry creditors	111 301	137 450
Lease liability	396	449
Due to group company	5 258	27 081
Trade and other payables	120 000	169 056

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
16. Deferred taxation		
Deferred income tax assets		
Deferred income tax to be recovered within 12 months	1 214	-
Deferred income tax to be recovered after 12 months	7 531	-
Deferred income tax assets	8 745	-
Balance at the beginning of the year	-	-
Movement during the year attributed to:		
Prior year adjustments	310	-
Provisions	903	-
CGT	748	-
Return Transfers from the Corporate Fund to Tax Funds	6 784	-
Balance at the end of the year	8 745	-
Balance comprises:		
Provisions	1 213	-
CGT	748	-
Return Transfers from the Corporate Fund to Tax Funds	6 784	-
Balance comprises:	8 745	-
Deferred income tax liabilities		
Deferred income tax to be recovered within 12 months	-	149 302
Deferred income tax to be recovered after 12 months	144 627	-
Deferred income tax liabilities	144 627	149 302
Balance at the beginning of the year	149 302	141 179
Movement during the year attributed to:		
Prior year adjustments	(5 913)	(81)
Provisions	-	1 897
Unrealised gain or losses on Assets at fair value through profit/loss	(1 103)	(811)
Release of "Phase In" Tax for Zerorised Negative Liabilities ¹	1 518	-
Change in Negative Reserves not taxed ¹	822	-
Other	-	7 117
Balance at the end of the year	144 627	149 302
Balance comprises:		
Provisions	-	(1 777)
Unrealised gain or losses on assets at fair value through profit/loss	2 171	(952)
Release of "Phase In" Tax for Zerorised Negative Liabilities ¹	52 051	-
Change in Negative Reserves not taxed ¹	90 405	-
Other	-	152 031
Deferred income tax - balance	144 627	149 302

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.

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
17. Net premium income		
Single premiums	651 555	689 680
Recurring premiums	5 737	8 194
Reinsurance premiums inwards	43 244	39 304
Gross written premiums	700 536	737 178
Reinsurance outwards	(3 020)	(4 003)
Group reinsurance outwards – Facultative	1	–
Group reinsurance outwards – Non-proportional	(1 785)	(2 550)
Group reinsurance outwards – Proportional	(1 235)	(1 453)
Change in unearned premium reserve	(12 941)	(8 015)
Net premium income	684 575	725 159

Net premium income represents income from insurance contracts only. Items of income and expense in respect of investment contracts are excluded from the income statement and are accounted for directly against the liability under these contracts in the statement of financial position. Refer to note 13 on page 47 for details of the movement in policyholder liabilities under investment contracts.

	COMPANY	
	2021 R'000	2020 R'000
18. Dividends and interest		
Interest received		
Interest received – Financial assets at amortised cost	13 358	28 665
Interest received on call deposits	12 380	28 125
Sundry interest received	978	540
Interest received – Financial assets at fair value through profit or loss	25 619	44 489
Interest received on investments	22 146	40 129
Interest received from bank	1 654	2 285
Sundry interest received	(7)	618
Interest received on call deposits	1 826	1 457
Total Interest received	38 977	73 153
Dividends received		
Dividends received – Listed Preference shares	1 321	1 706
Dividends received – Unlisted Preference shares	3 457	4 400
Total Dividends received	4 778	6 106
Total interest received and dividend income	43 755	79 259
Interest paid		
Interest paid – General	45	(15)
Total Interest paid	45	(15)

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

Unlisted investments	14 020	1 911
Net realised (losses)/profits on fair value through profit or loss	14 020	1 911

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
20. Unrealised profits/(losses) on revaluation of investments and other financial assets		
Unlisted investments	29 422	(10 529)
Listed investments	–	(4 747)
Net unrealised profits/(losses) on fair value through profit or loss assets	29 422	(15 276)
21. Other income		
Administration fees received	943	941
Management fees received	12 717	11 123
Sundry income received	23	38
Other operating income	13 683	12 101
22. Policyholder benefits		
Individual and group	39 097	20 467
– Death and disability	28 408	11 612
– Maturity	84	10
– Other	10 605	8 846
Claims and loss adjustments expense	322 928	240 843
Gross policyholder benefits and claims incurred	362 025	261 311
Less: Reinsurance Recoveries – Death and disability	(24 477)	(24 339)
Net policyholder benefits	337 547	236 972
Net claims incurred		
Claims and loss adjustments expense	322 928	240 843
Claims paid	311 161	252 929
Claims procurement costs	2 951	4 065
Claims outstanding	7 891	(16 150)
IBNR	924	–
Policyholder benefits	39 097	20 467
Reinsurance recoveries	(24 477)	(24 339)
Reinsurance recoveries – Outstanding claims	(1 349)	137
Reinsurance recoveries	(23 128)	(24 476)
Net policyholder benefits	337 547	236 972

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	2021			2020		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
23. Profit before taxation						
Profit before taxation is determined after charging:						
Directors and Prescribed Officers emoluments						
Executive directors						
Director A						
Basic salary	1 516	4 548	6 064	1 512	4 536	6 048
Bonus and performance related payments	2 989	8 967	11 956	2 385	7 155	9 540
Estimated monetary value of other benefits	38	114	152	30	90	120
Pension/provident fund contributions	172	516	688	171	513	684
	4 715	14 145	18 860	4 098	12 294	16 392
Director B						
Basic salary	909	2 727	3 636	904	2 712	3 616
Bonus and performance related payments	1 856	5 568	7 424	1 358	4 074	5 432
Estimated monetary value of other benefits	42	126	168	38	114	152
Pension/provident fund contributions	106	318	424	105	315	420
	2 913	8 739	11 652	2 405	7 215	9 620
Director C						
Basic salary	1 814	1 814	3 628	1 799	1 799	3 598
Bonus and performance related payments	2 310	2 310	4 620	1 807	1 807	3 614
Estimated monetary value of other benefits	80	80	160	78	78	156
Pension/provident fund contributions	208	208	416	206	206	412
	4 412	4 412	8 824	3 890	3 890	7 780
Non-executive directors						
Director A	-	-	-	38	116	154
Director B	-	-	-	37	113	150
Director C	277	831	1 108	325	975	1 300
Director D	242	727	969	271	815	1 086
Director E	120	359	479	147	441	588
Director F	175	524	699	201	604	805
Director G	247	742	989	277	831	1 108
Director H	110	330	440	137	410	547
Director I	141	423	564	168	503	671
	1 312	3 936	5 248	1 601	4 808	6 409

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	2021			2020		
	Company R'000	Rest of Group R'000	Total R'000	Company R'000	Rest of Group R'000	Total R'000
23. Profit before taxation (continued)						
Prescribed officer A						
Basic salary	737	2 211	2 948	722	2 166	2 888
Bonus and performance related payments	1 111	3 333	4 444	899	2 697	3 596
Estimated monetary value of other benefits	13	39	52	13	39	52
Pension/provident fund contributions	83	249	332	81	243	324
	1 944	5 832	7 776	1 715	5 145	6 860
Prescribed officer B						
Basic salary	580	1 740	2 320	577	1 731	2 308
Bonus and performance related payments	793	2 379	3 172	642	1 926	2 568
Estimated monetary value of other benefits	80	240	320	76	228	304
Pension/provident fund contributions	73	219	292	72	216	288
	1 526	4 578	6 104	1 367	4 101	5 468
Prescribed officer C						
Basic salary	871	2 613	3 484	874	2 622	3 496
Bonus and performance related payments	1 169	3 507	4 676	837	2 511	3 348
Estimated monetary value of other benefits	6	18	24	6	18	24
Pension/provident fund contributions	98	294	392	95	285	380
	2 144	6 432	8 576	1 812	5 436	7 248
Directors and Prescribed Officers emoluments	18 966	48 074	67 040	16 888	42 889	59 777

	COMPANY	
	2021 R'000	2020 R'000
Auditors remuneration		
Audit fees	3 945	4 092
	3 945	4 092
Depreciation		
Office equipment	-	31
Furniture and fittings	-	31
Right of use	66	201
Property	10	10
Motor Vehicles	56	191
	66	232
Expenses for the acquisition of insurance contracts		
Commission	27 743	70 886
Other expenditure		
Amortisation of intangible assets	3 559	5 327
Write-off of premium debtors	(2 300)	17 760
Administration fees paid	78 056	70 646
Professional fees	2 493	3 633
Operating lease rentals – building	3 499	3 631
Operating lease rentals – computer	635	240

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
24. Taxation		
South African normal taxation		
Current year	42 913	88 065
Deferred tax expense		
Current year	(13 420)	8 123
Taxation	-	96 187
All taxation is payable in respect of continuing operations		
Tax rate reconciliation:	%	%
Tax calculated at standard rate of South African tax on earnings	28,00	28,00
Adjusted for:		
- Exempt income on dividends not taxable	(0,01)	(0,52)
- Capital gains tax	(0,02)	(0,26)
- Realised gains not taxable	-	0,01
- Unrealised gains not taxable	-	(0,41)
- Other non-taxable income/non-deductable expenses	0,32	2,28
- Other	-	(0,58)
- Prior year (over)/underprovision	-	0,66
Tax rate reconciliation	28,29	29,18
25. Reconciliation of profit before taxation to cash generated from operation		
Profit Before Tax	116 119	328 058
Adjustments for :		
Depreciation	66	231
Intangible Asset Amortisation	3 559	5 327
Transfer to Policyholder liabilities under Insurance Contracts	51 623	340 508
Transfer to Policyholder liabilities under Investment Contracts	5 791	(459 270)
Investment Income	(43 755)	(79 260)
Rental Income	(688)	(626)
Other Income	(13 683)	(12 101)
Loss/(profit) on disposal of Investments	(14 020)	(1 911)
Unrealised (loss)/gain on revaluation of Listed Investments	-	4 747
Unrealised (loss)/gain on revaluation of Unlisted Investments	(29 422)	10 529
Increase/(decrease) in Employee Benefits	321	(381)
Interest expense	45	(15)
Asset transfers	-	(317)
Operating Cash Flows before Working Capital Changes	75 956	135 549
Working Capital Changes	(50 179)	(6 566)
Increase in Insurance Receivables, Loans and Other Receivables	(1 592)	(99)
(Increase)/decrease in Reinsurance Assets	(1 154)	15 274
Increase in Reinsurance Liabilities	5 886	10 731
Increase in Net Outstanding Claims and IBNR	30 178	13 041
(Decrease)/increase in Unearned Premiums	(8 126)	10 104
Decrease in Trade and Other Accounts Payable and Employee Benefits	(48 922)	(55 617)
Cash generated from Operations	52 227	128 983
26. Dividends paid		
Amount due at beginning of year	-	-
Amount declared in statement of changes in equity	(29 850)	(58 330)
Amount declared to non-controlling interest	(19 794)	(58 179)
Amount due at end of year	-	-
Cash amounts Paid	(49 944)	(116 509)
27. Dividends received		
Amount due at beginning of year	-	-
Amount received per income statement	4 778	6 106
Amount due at end of year	-	-
Cash amounts Received	4 778	6 106

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

	COMPANY	
	2021 R'000	2020 R'000
28. Taxation paid		
Amount due at beginning of year	(132 409)	(167 759)
Amount charged to income statement	(31 368)	(96 187)
Amount due at end of year	142 305	132 409
Cash amounts Paid	(21 472)	(131 537)
Amounts due at end of year comprised as follows:		
Deferred taxation asset	(8 745)	-
Deferred taxation liability	144 627	149 302
Current income taxation asset	-	(16 893)
Current income taxation liability	6 422	-
	142 304	132 409

29. Staff pension and provident fund

The Company has a defined contribution pension fund, the Hollard Employees Pension Fund, with 10 (2020: 6) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year were R142 144 (2020: R140 906).

The Company also has a defined contribution provident fund, the Hollard Employees Provident Fund, with 82 (2020: 78) employees of the Company being members of the fund. The Company's contributions to the fund charged against income for the year amounted to R1 406 530 (2020: R1 461 075).

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

30. Lease – low-value itmes

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

	COMPANY	
	2021 R'000	2020 R'000
Computers	635	240
Printers	-	2

31. Related party transactions

Transactions between Group companies

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

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

Year-end balances with related parties

	COMPANY	
	2021 R'000	2020 R'000
Payable to/(from) related parties		
Hollard Life Assurance Company Limited	(5 064)	28 077
Hollard Specialist Insurance Limited	(3)	977
The Hollard Insurance Company Limited	(191)	(18)
	(5 258)	27 082

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(CONTINUED)

for the year ended 30 June 2021

32. Capital expenditure

The Company's principal expenditure commitment is to its policyholders, the nature and quantum of which is governed by the terms of the specific insurance contracts that are issued to them. The Company does not expect to incur significant non-insurance related expenditure during the financial year ended 30 June 2021 and hence have not provided for a capital expenditure budget for this period (2020: Rnil). Any unanticipated capital or operating expenditure will be funded from internal sources.

33. Contingent liabilities

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

34. Subsequent events

The Covid-19 pandemic continues to impact the Company's operating environment beyond the reporting date. The Company continues to experience high mortality claims post June 2021, with the third wave peak in July and August reflecting the highest mortalities experienced to date since the inception of the pandemic.

There are no other facts or circumstances that have arisen between the reporting date and the date of this report which affect the financial position of the Hollard Specialist Life Limited as reflected in these annual financial statements.

35. Going concern

The directors have assessed the Company's ability to continue as a going concern. As at the 30 June 2021, the Company had a strong net asset value and liquidity position. The Covid-19 pandemic and the resultant uncertain economic environment and financial market volatility caused by it, has created uncertainty in the operating environment of the Company and the requirement to closely monitor the position going forward.

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

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

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

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

Mortality and retrenchment claims

The Company continues to experience high mortality claims post June 2021, with the third wave peak in July and August reflecting the highest mortalities experienced to date since the inception of the pandemic. At 30 June 2021, the Group has raised additional Covid-19 provisions for future negative mortality, retrenchment, disability of approximately R81 million. The mortality provision will be released against any future excessive claims experience in FY22. While significant uncertainty still remains over the vaccination rollout, fourth wave impacts and the impacts of any long term impacts of Covid-19, the group will continue to monitor developments of the pandemic and its impact on the assumptions and estimates going forward.

DIRECTORATE AND ADMINISTRATION

for the year ended 30 June 2021

Directorate

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

Non-Executive Chairman	ADH Enthoven
Group Chief Executive Officer	S Ntombela
Group Chief Financial Officer	DJ Viljoen
Executive Director	AL Mhlanga (resigned 01 February 2021)
Non-Executive Director	NG Kohler
Lead Independent Non-Executive Director	B Ngonyama
Independent Non-Executive Director	MR Bower
Independent Non-Executive Director	NV Simamane
Independent Non-Executive Director	R Fihrer
Independent Non-Executive Director	MS Claassen (appointed 30 June 2020)
Independent Non-Executive Director	S Patel
Independent Non-Executive Director	AS Nkosi

Company Secretary

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

A Allardyce (appointed 01 May 2021)

Public Officer

U Murphy

Compliance officer

M Patel

Registered office and business address

Hollard at Arcadia
22 Oxford Road
Parktown
Johannesburg
2193

Postal address

P/O Box 87428
Houghton
2041

Website

www.hollard.co.za

Nature of business

The Company transacts long-term assurance business.

Auditors

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

Registration number

1994/001332/06



A man with dark hair and a beard, wearing a dark polo shirt, is shown in profile, looking towards the right. The image is overlaid with a semi-transparent purple gradient. The background is blurred, suggesting an outdoor setting like a beach or a park.

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