CFAO MOTORS INSURANCE LIMITED (previously Unitrans Insurance Ltd)
(Registration number: 1999/001865/06)

AUDITED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

Prepared by: Gordon Samuelson BCompt.
Designation: CFO

CFAO MOTORS INSURANCE LIMITED
(Registration Number : 1999/001865/06)

FINANCIAL STATEMENTS
For the year ended 31 March 2021

CONTENTS **Page**

CFAO MOTORS INSURANCE LIMITED
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Corporate governance statement

INTRODUCTION AND ENDORSEMENT OF SOUND CORPORATE GOVERNANCE PRINCIPLES

The board of directors ("the Board") is committed to and subscribes to the values of good corporate governance, to the extent that it would add value to the operations of the organization, contained in the King Report on Governance for South Africa and the Code of Governance Principles (jointly "King"). The Board endorses the principles of fairness, responsibility, transparency and accountability advocated by King. In line with the "apply and explain" principle of King, CFAO Motors Insurance Limited ("the Company") has made material and relevant disclosures in its Annual Financial Statements, supported by an explanation where a different practice has been adopted.

In addition, the Board has adopted, implemented and documented an effective governance framework that provides for the prudent management and oversight of the Company's non-life insurance business and adequately protects the interests of its policyholders as required in the applicable Prudential Standards. This framework is proportionate to the nature, scale and complexity of the Company's non-life insurance business and risk.

The board of directors and its sub-committees

- Composition

  The Company has an effective unitary board with an independent non-executive director as Chairman. The roles of the Chairman and Chief Executive Officer (CEO) are segregated.

  The Board comprises of four (2020: five) members of whom three (2020: four) are non-executive directors. The three non-executive directors are independent directors as defined in King and the Prudential Standards.

  The Board comprises individuals of a high calibre with diverse backgrounds and expertise, facilitating independent judgement and broad deliberations in the decision-making process. Further details are disclosed under the section "Directors' report" in this report on pages 16-18.

  The Board and shareholder regularly evaluate the Board's composition to ensure the appropriate mix of skills and experience exist and, when the need arises, changes to the composition are recommended to the shareholder. On appointment and on an annual basis all directors are subject to a formal regulatory prescribed "fit and proper" test. When appointing directors, the Board takes cognisance of its needs in terms of different skills, experience, diversity, size, race and other demographics.

- Board responsibilities

  The Board has a fiduciary duty to act in good faith, with due diligence and care and in the best interest of the Company and its stakeholders and is the primary body responsible for the corporate governance values of the Company. While control is delegated to management in the day-to-day management of the Company, the Board retains full and effective control over the Company.

  The Board's responsibilities include inter alia the appointment of the CEO, approval of corporate strategy, monitoring of risk management, corporate governance, as well as monitoring adherence to the Prudential Standards and Treating Customers Fairly. The Board reviews and approves the Company's strategic business plans and monitors financial performance of the company and implementation of the strategies. A formal documented board charter as recommended by King has been adopted by the Board and is reviewed annually.

Corporate governance statement (continued)

- Term of office

The Board is responsible for continuously monitoring the optimal composition of the Board, with significant influence exercised by the shareholder. The CEO has an employment contract that can be terminated with one month's notice, subject to fair labour practices. Similarly, the Shareholder has the right to remove a Board member subject to fair labour practices and in line with the Companies Act requirements.

The dates of appointment of the board members in office at the end of the financial year 31 March 2021 are disclosed in the section "Directors' report" on pages 16-18.

- Board meetings

The Board normally meets once every quarter. Should any important matter arise during the period between scheduled quarterly meetings, additional meetings may be convened. Each meeting is conducted in accordance with a formal and structured agenda. The agendas for the regular Board meetings are aligned with the annual Board plan to ensure that all substantive matters that require the Board's attention are included on the agenda and are presented in an organised manner and prioritised order. The Chairman sets the agenda for each meeting in consultation with the CEO and the Company Secretary and all directors are afforded the opportunity to add matters to the agenda. When required, decision-making takes place by way of written resolutions.

Before each Board meeting, an information (Board) pack is distributed to each Board member, which provides background information on the performance of the Company for the period to date as well as any other matters for discussion at the meeting.

The Board and its sub-committees ensure a proper system of corporate governance.

At its meetings, the Board considers both financial and other qualitative information that might have an impact on the business and the stakeholders in the Company.

During the year ended 31 March 2021, three (2020:two) Board meetings were held. The attendance by members of the Board was as follows:

Date	Fernando Patrizi	Andre Rhoodie	Mark Scharneck	Howard Walker	Brynn Stephenson
	Chairman Independent non-executive director	*Executive director CEO*	*Independent non-executive director*	*Independent non-executive director*	*Non-executive director*
May 2020	✓	✓	✓	✓	×
August 2020	✓	✓	✓	✓	×
November 2020	✓	✓	✓	✓	■

✓ present
× apology received
■ resigned

- Board committees

The Board has established two committees to assist it in discharging its duties and responsibilities in meeting its corporate governance and fiduciary duties. Each committee has its own terms of reference that defines its duties and powers. Notwithstanding the delegation of functions to the committees, the Board remains ultimately responsible for the proper fulfilment of such functions, except for the functions of the audit committee relating to the appointment, fees and terms of engagement of the external auditor.

Corporate governance statement (continued)

- Board committees (continued)

The chairperson of each committee makes a presentation to the Board on relevant issues discussed at the committee meeting. All Board committees are chaired by an independent non-executive director.

All the Board committees are free to take independent outside professional advice in respect of their committee obligations as and when required at the expense of the Company and with the prior arrangement with the CEO of the Company.

The Board committees, with a summary of their terms of references, are as follows:

(i) Audit Committee

The Audit Committee comprises of three (2020: three) members, who were elected by the shareholder. All members of the Audit Committee, including the Chairman, are independent non-executive directors. Due to the fact that the Chairman of the Board possesses skills, qualifications, expertise and extensive experience of the South African insurance industry, which, together with his business acumen, are invaluable to the Audit Committee, the Chairman is also a member of the Audit Committee. In terms of the Prudential Standards, his membership is approved annually by the Shareholder at the Annual General Meeting.

The Board does not believe that the membership of the Audit Committee by the Board Chairman compromises the effectiveness and independence of the Audit Committee.

The names of the members of the Audit Committee are disclosed in the section "Directors' report" on page 19.

A full Audit Committee report is included on pages 9 to 10 of this report.

In summary, the committee's objectives are to assist the Board of directors in fulfilling its fiduciary duties in terms of:

- the safeguarding of the company's assets;
- the integrity of the financial reporting process;
- the system of internal control;
- the management of accounting and reporting risks;
- the audit process both external and internal;
- the application of a combined assurance model;
- to determine the nature and extent of any non-audit services that the auditors may provide to the Company.

During the year ended 31 March 2021, three (2020: two) Audit Committee meetings were held. The attendance by members of the committee was as follows:

Date	Mark Scharneck	Fernando Patrizi	Howard Walker
	Chairman Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*
May 2020	✓	✓	✓
November 2020	✓	✓	✓
March 2021	✓	✓	✓

✓ present

The external auditors have attended all the Audit Committee meetings.

(ii) Risk Committee

The Risk Committee (RC) comprises of four (2020:five) members. The Chairman is an independent non-executive director who possesses the skills, qualifications, expertise and extensive experience in risk matters.

The names of the members of the RC are disclosed in the section "Directors' report" on page 19.

Corporate governance statement (continued)

(ii) Risk Committee (continued)

In summary, the committee's objectives are to assist the Board of directors in fulfilling its fiduciary duties by ensuring that:

- the Company has implemented an effective policy and plan for risk, compliance and investment/capital management that will enhance the Company's ability to achieve its strategic objectives;
- the disclosure regarding risk and compliance in the financial statements/annual report is comprehensive, accurate, timely and relevant;
- the Company's Risk Management Plan and Compliance Management Plan are appropriate and relevant and address the key material risks facing the Company;
- the Company's risk management is adequate and effective in ensuring proper mitigation and control while management strategies and actions implemented for each risk are appropriate;
- the Company's business remains financially sound and solvent by having appropriate assets, providing for the Company's liabilities and capital adequacy requirements at all times. Solvency Assessment and Management requirements are appropriately adopted and implemented by the Company;
- the viability of new products has been appropriately assessed;
- Treating Customers Fairly requirements are appropriately adopted and implemented by the Company;
- the reserving policy is appropriate in light of legislation, the specific insurance structures and the best estimate of the liabilities;
- a sound approach is followed in applying actuarial valuations;
- the reports made to regulatory authorities are complete and accurate; and
- the technical provisions are adequate.

During the year ended 31 March 2021, three (2020: two) Risk Committee meetings were held. The attendance by members of the committee was as follows:

Date	Howard Walker	Andre Rhoodie	Mark Scharneck	Fernando Patrizi	Brynn Stephenson
	Chairman Independent non-executive director	*Executive director CEO*	*Independent non-executive director*	*Independent non-executive director*	*Non-executive director*
May 2020	✓	✓	✓	✓	×
August 2020	✓	✓	✓	✓	×
November 2020	✓	✓	✓	✓	■

✓ present
× apology received
■ resigned

(iii) Remuneration and Social & Ethics Committees

The Shareholder decided not to duplicate the current infrastructures which already exist within the CFAO Motors Group. These Committees are constituted at shareholder Group level and cover CFAO Motors Insurance Limited's operations in their terms of reference ensuring alignment with the Companies Act and the Insurance Act in terms of Governance and Operational Standards for Insurers.

Corporate governance statement (continued)

- Board effectiveness evaluation

  The annual Board effectiveness review for 2020 calendar year was conducted internally by the Chairman, this was deemed to be satisfactory.

- Succession planning

  The Company's operations require highly-skilled resources. Currently two individuals are responsible for the daily operations of the business, both of whom have professional qualifications. The Company has succession and employee retention plans in place, and the Company is confident that it should be possible to source replacements from within the greater CFAO Motors Group should the need arise.

- Company Secretary

  The Board is assisted by a competent, suitably qualified Company Secretary with suitable experience and who has been empowered to fulfil the duties. While providing the Board collectively, and each director individually, where needed, with guidance on the discharge of their duties in terms of applicable legislation and regulations, the Company Secretary maintains an arm's-length relationship with the Board. In addition to fulfilling the duties prescribed by the Companies Act and by King, the Company Secretary advises the Board on appropriate procedures for the management of meetings and ensures that a prudent corporate governance framework is maintained.

External audit

The company's financial statements have been audited by Mazars . The audit committee is satisfied that the external auditor has observed the appropriate level of business and professional ethics. The audit committee has no reason to believe that the external auditor has not at all times acted with uncompromised independence.

The Company's philosophy is to make use of the appropriately qualified service providers for any professional services that may be required at any time. If the company requires other services from the external auditors, the company ensures that these services will be provided in a manner that will not/may not be construed to impair the independence of the external auditors. The company has a process in place to deal with the rendering of non-audit services by the external auditors.

All non-audit services to be performed by the external auditor must be approved by the Audit committee, there were none for the period under review.

Risk management framework

- Responsibility

  Managing risk is integral to ensuring the continued success of the Company and is key in protecting stakeholders' interests and generating value for the shareholder. The Board recognises and acknowledges that it is accountable for the total process of risk management and the system of internal control.

  Through its sub-committees, the Board reviews key risks at its quarterly meetings together with the assessed exposures to these key risks. Minutes of the meetings of the sub-committees are distributed to all Board members.

  Executive management is accountable to the Board for ensuring that suitable risk management and internal control processes are integrated into the strategic and operational management of the Company.

  The executive management and the Chief Risk Officer (CRO), assisted by the Company's outsourced actuarial function (True South Actuaries), have aligned the Company's risk management systems (risk strategy, risk policies and procedures for identifying, measuring, monitoring, managing and reporting all material risk).

- Risk identification, assessment, monitoring and mitigation

  The Company has developed a comprehensive risk management framework that enables management to deal effectively with uncertainty and associated risks. The framework is risk focused, places reliance on the oversight of the control functions, including the work of internal audit and relies on the work done by third parties, including external audit. The risk management framework outlines the following risk management process:

Corporate governance statement (continued)

Risk management framework (continued)

Risk identification

Risk Champions for each Key Risk Category (classification of risks based on potential causes) are elected by the Chief Risk Officer. The role of the Risk Champion is to identify and assess risks, and to record in the Risk Register the relevant details of the risk identified.

Risk identification in CFAO Motors Insurance Limited is the structured identification of the risks facing the entity, such that they can be understood and appropriately controlled. The identification covers existing and emerging risks, both within CFAO Motors Insurance Limited, and risks arising from being part of CFAO Motors Group. The identification is conducted in line with the Key Risk Categories.

All identified risks, root-causes and consequences are documented in the Risk Register. Judgment is applied in determining the significance or materiality of any risk in relation to the activities in which CFAO Motors Insurance Limited engage. Where such judgement is applied, it is documented by the Risk Champion and reviewed by the Chief Risk Officer.

At least on an annual basis, the Chief Risk Officer has a session on emerging risks with the Risk Champions, and this session is used for the identification of emerging risks. A list of emerging risks is maintained by the Chief Risk Officer and provided to the Risk Champions to consider when completing the Risk Register.

Risk Assessment

Risk assessment is conducted by the Risk Champions. Risk Champions complete/update the Risk Register on an ongoing basis and at least once every three months. Risks are reassessed immediately when material additional information becomes available that is directly linked to the risk or its controls.

The Risk Register is reviewed at least once every three months by the Chief Risk Officer and outcomes of the review are discussed with the relevant Risk Champions.

Risk is assessed on an inherent basis and on a residual basis. Inherent risk is defined as the risk intrinsic to business activities and arises from exposure to, and uncertainty from potential future events. Inherent risk is evaluated by considering the degree of probability and the potential adverse impact on CFAO Motors Insurance Limited's capital or earnings. The inherent risk assessment is made without considering the impact of risk mitigation and any controls, but taking into account the nature and complexity of the business.

Residual risk refers to the inherent risk after controls have been applied. The evaluation is depicted by the following relationship: Inherent risk mitigated by the effectiveness of controls = residual risk. The effectiveness of the controls in place to manage and control the identified risks is assessed as part of the risk assessment process. Each identified inherent risk must be assigned adequate and effective controls for managing the risk in line with the Risk Strategy. Controls may either be a single control activity that is capable of mitigating the risk or a number of control activities that, in combination, mitigate inherent risk to the desired level.

The risk assessment also includes a determination of the future or forward-looking direction of residual risk. The direction of risk is assessed as decreasing (D), stable (S), or increasing (I).

To the extent possible, an assessment is done of the quantum of the financial consequence or impact should the risk materialise. All envisaged expenses or losses as a direct consequence of the risk are included in the value of the risk, and the base currency for recording risk information is ZAR.

The risk assessment per identified risk is captured in a Risk Register which clearly captures a description of the risk, root causes, consequences of the risk, risk owner, the likelihood and impact, the key controls and ratings, risk ratings, direction, as well as the future planned actions and monitoring aspects.

The annual Own Risk and Solvency Assessment process of stress and scenario testing is used to supplement the risk assessment process.

Corporate governance statement (continued)

CFAO Motors Insurance Limited risks are categorised according to the following risk categories:

Credit risk	Pertains to the counterparty's inability or unwillingness to fully meet its contractual obligations. Exposure to this risk results from financial transactions with a counterparty including issuer and policyholder.
Market risk	Pertains to changes in market rates or commodity prices. Exposure to this risk is caused by investing in investments where returns are linked to interest rates, foreign exchange, equity and commodity prices.
Liquidity risk	Insurer's inability to purchase or otherwise obtain the necessary funds, either by increasing liabilities or converting assets, to meet its obligations as they become due, without incurring unacceptable losses.
Insurance risk	Product design and pricing risk Exposure to financial loss resulting from insurance business where the costs and liabilities assumed in respect of a product line, exceed the revenue from the product. Underwriting risk Exposure to financial loss resulting from the selection and approval of risk to be insured, the reduction, retention and transfer of risk, the reserving and adjudication of claims, and the management of contractual product options.
Operational risk	Arises from the exposure to financial loss in the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural catastrophes.
Legal and regulatory	Arises from an insurance company's or related party's non-compliance, or potential non-compliance, with legislation.
Strategic risk	Arises from an insurance company's inability to implement appropriate business plans, strategies, decision-making, resource allocation and its inability to adapt to changes in its business environment.
Reputational risk	Type of risk related to the trustworthiness of the business. Damage to a company's reputation can result in lost revenue or destruction of shareholders value, even if the company is not found guilty of a crime.
Systemic risk	The risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual entity, group or component of a system. It refers to the risk imposed by interlinkages and interdependencies in a system or market where the failure of a single entity or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system or market.
Conduct risk	The risk that the insurer's behaviour with regards to product design, sales processes, post sales services and governance will result in poor outcomes for customers it serves.
Technology and Information Risk	Understanding the Company's overall exposure to Technology and Information risks to ensure business continuity, prevent cyber-attacks and ensure technology and information security and privacy.

Regulatory compliance, business ethics and organisational integrity

CFAO Motors Insurance Limited is committed to the highest standard of business conduct and organisational integrity in the conduct of its affairs.

- Compliance

CFAO Motors Insurance Limited considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be an integral part of doing business. CFAO Motors Insurance Limited's compliance function facilitates the management of compliance through analysing statutory and regulatory requirements, and monitoring the implementation and execution thereof. On a quarterly basis, the status thereof is reported to the Risk Committee.

No material deviations were reported during the 2021 financial period.

Corporate governance statement (continued)

- Business ethics and integrity

The Company aspires to the highest levels of business ethics and integrity in the conduct of its operations. Open and regular communication between the Board, management and staff in this regard strengthens these cornerstones of the Company's operations. Careful consideration is given to ethics in the employment of new staff and the allocation of responsibility to staff. The Company adopts a zero-tolerance approach to non-adherence to its ethical principles.

The Company complies with the CFAO Motors (Pty) Ltd code of conduct and all new employees are trained on this as part of their induction.

During the current financial period, there has been no material breach of the Company's code of conduct.

CFAO Motors Insurance Limited has embedded a Treating Customers Fairly (TCF) programme. The programme is managed by the Company's TCF Champion,

- TCF is a standing agenda item for Risk and Executive meetings;
- there is on-going alignment of business processes, including new business and product development, with TCF principles.

- Regulators

Management meets with the Market Conduct Authority and the Prudential Authority (PA) on a regular basis to discuss matters of mutual interest to facilitate a close and mutually beneficial working relationship and is committed to extending its full cooperation to the regulatory authorities where required.

- Staff

CFAO Motors Insurance Limited subscribes to the highest levels of professionalism and integrity in its conduct with stakeholders and all employees are required to conduct themselves in this manner. Staff are expected to adhere to all legal and ethical business practices.

Recognising human capital as one of its most important resources, the Company provides its employees with the requisite technical skills and training and development opportunities to enhance their skills.

The Company values its staff by ensuring that they are:

- Empowered and engaged;
- Recognised and fairly rewarded; and
- Led by ethical and trustworthy leaders.

CFAO MOTORS INSURANCE LIMITED
(Registration Number : 1999/001865/06)

Audit Committee report
For the year ended 31 March 2021

Introduction

The company has a constituted Audit Committee (the Committee), comprising the following three independent non-executive directors:

- Mark Scharneck (Chairman);
- Fernando Patrizi; and
- Howard Walker.

Background

The Committee is an independent statutory committee, as well as a committee of the Board in respect of duties assigned to it by the Board. The overall objective of the Committee is to assist the Board in discharging its duties relating to, amongst others, the safeguarding of assets, the operation of adequate internal controls and systems, ensuring that adequate financial accounting controls and processes exist, the completeness and relevance of financial information pertaining to financial reporting and the preparation of financial statements, as well as overseeing that statutory and regulatory requirements are met on an ongoing basis.

The Committee is pleased to present its report for the financial year ended 31 March 2021. The report is presented in accordance with the requirements of the Companies Act, No. 71 of 2008 (the Act), as well as the recommendations contained in the King Codes.

Duties carried out

During the year ended 31 March 2021, the Committee convened twice to discharge its statutory and Board delegated responsibilities. As an overview only, and not to be regarded as an exhaustive list, the Committee carried out the following duties:

1. Financial statements

   The Committee evaluated CFAO Motors Insurance Limited's financial statements for the year ended 31 March 2021. Amongst others, the Committee reviewed the principles, policies and accounting practices and standards adopted in the preparation of the financial statements.

   The financial statements comply, in all material aspects, with relevant International Financial Reporting Standards.

   Furthermore, no complaints relating to the accounting policies and practices, the contents or audit of the financial statements, or any other related matter, were received.

   Accordingly, having satisfied itself as to the appropriateness and completeness of the policies, practices and contents, the Committee has endorsed and recommended the financial statements for approval by the Board.

2. Internal audit function

   The Company's internal audit function (IAF) has been outsourced to CFAO Motors (Pty) Ltd Internal Audit. The Committee exercised oversight over the IAF, ensuring amongst others, that:

   a. the IAF has a risk- based audit plan that addresses the key risks;
   b. the internal audit plan and internal audit charter are approved, and the IAF is suitably skilled and resourced;
   c. the methodologies and work of the IAF complies with the international standards for internal auditors;
   d. the IAF has assessed the system of internal controls and business processes and has submitted a written statement covering the Company's prevailing system of internal controls (overall rating good); and
   e. regular meetings are held with the Internal Audit Executive (IAE).

3 External audit

   Mazars is the Company's appointed external auditors, MC Groenewald is the Audit Partner. The committee has played an oversight role in respect of the external audit process to ensure its effectiveness. Amongst others, the Committee:

   a. reviewed the external auditors' audit plan and report to the Committee;
   b. satisfied itself that the auditors and the designated audit partner, are independent as defined in terms of the prescribed legislation and that there has been no occurrence during the period under review that has impaired this independence and;
   c. through enquiry, ascertained that the auditors have not identified any reportable irregularity that requires reporting thereof to the Independent Regulatory Board of Auditors ("IRBA").

Audit Committee report (continued)
For the year ended 31 March 2021

Conclusion on fulfillment of duties and obligations

The committee members collectively possess the relevant skill, qualifications and experience in the field of commerce, finance, actuarial, external and internal audit processes, governance and compliance to fulfill their obligations. The members have been kept up to date with the latest developments in insurance and auditing.

Throughout the review period the members remained independent of character and their judgment has not been impaired in any way.

Given the above, the committee is of the opinion that it has discharged its responsibilities.

Recommendation to shareholder

The Committee has submitted its report to the Board for presentation to the shareholder. Furthermore, the committee recommends that the existing members of the committee be appointed for another term until the Company's next annual general meeting.

MA Scharneck
Chairman
On behalf of the Audit Committee

30 July 2021

CFAO MOTORS INSURANCE LIMITED

(Registration Number : 1999/001865/06)

Approval of financial statements by the board

The directors are responsible for the preparation, integrity and fair presentation of the financial statements of CFAO Motors Insurance Limited. The financial statements presented on pages 1 to 54 have been prepared by management in accordance with International Financial Reporting Standards, Financial Reporting pronouncements as issued by the Financial Reporting Standards Council and in the manner required by the Companies Act, No.71 of 2008 (as amended), of South Africa.

The Company's direct shareholder (CFAO Motors Investments (Pty) Ltd) intends to enter into a subscription and shareholders agreement with an external Insurance Company and in terms of this contractual arrangement (Cell Arrangement) will offer CFAO Group customers insurance products that are underwritten by this external Insurer. The Company intends to do an Amalgamation transaction in terms of Section 44 of the Income Tax Act with the Cell Arrangement and intends to do a portfolio transfer of its Insurance Risks. This transaction should be finalised by the end of November 2021. The financial statements has been prepared on the liquidation basis due to the intention to transfer the insurance products into a cell captive structure within the next 12 months and to wind down the Company once the necessary regulatory approvals have been obtained.

The directors are satisfied that adequate accounting records and a system of internal control appropriate for the Company's size has been maintained.

The independent audit firm, Mazars, which was given unrestricted access to all financial records and related data, has audited the financial statements. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. The independent auditor's report is presented on pages 13-15.

The financial statements were approved by the board of directors on 30 July 2021 and are signed on its behalf by:

Fernando Patrizi
Chairman
30 July 2021

Andre Rhoodie
Executive Director

CFAO MOTORS INSURANCE LIMITED

(Registration Number : 1999/001865/06)

Certification by the company secretary

In terms of section 88(2)(e) of the Companies Act (the Act), No. 71 of 2008, I certify that, to the best of my knowledge and belief, the Company has lodged with the Company and Intellectual Property Commission, all such returns and notices as required of a public company for the year ended 31 March 2021 and that all such returns are true, correct and up to date.

For : Corpstat Governance Services (Pty) Ltd

Company secretary

30 July 2021

mazars

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Independent Auditor's Report

To the Shareholders of CFAO Motors Insurance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CFAO Motors Insurance Limited (the company) set out on pages 20 to 54, which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of CFAO Motors Insurance Limited as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Impact of the amalgamation transaction and transfer of its insurance business on the Financial Statements

In forming our opinion on the financial statements, which is not modified, we draw attention to note 18 of the notes to the financial statements, which indicates the company's intention to perform a portfolio transfer of its insurance business in terms of an amalgamation transaction with a newly created cell arrangement within an external insurer. Thereafter, the shareholder does not intend that the company will continue to carry on trade but that it will be deregistered when regulatory obligations have been met. Going concern thus is not an appropriate basis of preparation. The financial statements have therefore been prepared on the liquidation basis in accordance with, and in compliance with the International Financial Reporting Standards ("IFRS").

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "CFAO Motors Insurance Limited Annual Financial Statements for the year ended 31 March 2021", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include financial statements and our auditor's reports 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Mazars has been the auditor of CFAO Motors Insurance Limited for 3 years.

Mazars

Mazars
Partner: Riana Groenewald
Registered Auditor
30 July 2021
Cape Town

CFAO MOTORS INSURANCE LIMITED

(Registration Number : 1999/001865/06)

Directors' Report

The directors have pleasure in presenting the directors' report which forms part of the financial statements for the year ended 31 March 2021.

Nature of the business

CFAO Motors Insurance Limited, a public unlisted company incorporated in South Africa, is a registered non-life insurer and transacts in the motor, accident and health, liability, miscellaneous, engineering, guarantee, transportation and property classes of business throughout the Republic of South Africa.

Operating results

The results of operations are set out on pages 20 to 54 below. With the year-end change in the prior period from September to March due to alignment with the Shareholder year-end, the current period is for twelve months and the comparative is for a six month period.

Share capital

There was no change in the nature of the authorised or issued share capital of the Company for the 2021 financial year.

Going concern

The Company's direct shareholder (CFAO Motors Investments (Pty) Ltd) intends to enter into a subscription and shareholders agreement with an external Insurance Company and in terms of this contractual arrangement (Cell Arrangement) will offer CFAO Group customers insurance products that are underwritten by this external Insurer. The Company intends to do an Amalgamation transaction with the Cell Arrangement and intends to do a portfolio transfer of its Insurance Risks. This transaction should be finalised by the end of November 2021. The financial statements has been prepared on the liquidation basis due to the intention to transfer the insurance products into a cell captive structure within the next 12 months and to wind down the Company once the necessary regulatory approvals have been obtained.

As a result, the below classes of assets and liabilities have been classified as Current Assets and Current Liabilities as at 31 March 2021.

Assets	**Note**	**R'000**
Current assets		
Cash and cash equivalents	**11**	52,446
Outstanding premiums, net of commission	**4**	9,819
Amounts due from reinsurers	**4**	5,250
Accounts receivable	**4**	3,336
Investments	**10**	361,354
Deferred tax asset	**12**	413
Taxation receivable		509
Technical Assets		
Reinsurers' share of technical liabilities		
- Unearned premiums	**14**	25,224
- Outstanding claims (including IBNR)	**14**	6,228
Deferred acquisition costs	**14**	32,154
Prepaid expenses	**9**	10,627
Total Assets		**507,360**

CFAO MOTORS INSURANCE LIMITED

(Registration Number : 1999/001865/06)

Directors' report (continued)

Going concern (continued)

Equity and liabilities	**Note**	**R'000**
Capital and reserves		
Share capital	**13**	15
Share premium		15,135
Retained Earnings		311,668
Current liabilities		
Taxation payable		
Accounts payable	**4**	13,332
Amounts due to reinsurers	**4**	609
Technical liabilities		
Gross provision for unearned premiums	**14**	101,774
Deferred reinsurance commission revenue	**14**	2,789
Gross outstanding claims (including IBNR)	**14**	62,038
Total Equity and liabilities		**507,360**

Distribution to shareholder

A dividend of R 120m (800 000,00 cents dividends per share) was declared and paid (2020: nil) during the reporting period.

Subsequent events

COVID-19 PANDEMIC

As a result of the ongoing pandemic, the lockdown will have an effect on the financial position and performance of the company. The impact on claims has been provisionally quantified and we have retained R 2.0m in additional claims provisions which relates to the 2020/2021 financial period as at 31 March 2021. These estimates are subject to change as more data points are observed as the impact develops over time. The overall financial effect will be closely monitored on an ongoing basis. The Company has adopted mitigation strategies to manage the financial crisis that will emerge from the lockdown. (Note 17).

DIVIDEND POST YEAR-END

A dividend of R 100m (666 666,67 cents dividend per share) has been declared, which was paid on the 14th of June 2021.This changed the SCR (Solvency Capital Requirement) cover ratio from 3.74 to 2.46. The Directors applied the solvency and liquidity test and concluded that the Company will satisfy the test after implementing the distribution.

Looting and rioting

The impact on the company of the recent looting and rioting in South Africa is unknown, Management is still assessing the effects of the looting and rioting.

Remuneration Committee

The Shareholder's Remuneration Committee is responsible for CFAO Motors Insurance Limited's remuneration matters.

DIRECTORS

Fernando Patrizi (Chairman) B Compt (Hons) CA(SA)
Independent Non-executive director, appointed 1 March 2013

Mark Scharneck B Com, B Acc CA(SA)
Independent Non-executive director, appointed 1 March 2013

Howard Walker BSc, Fellow of the Actuarial Society of South Africa
Independent Non-executive director, appointed 1 September 2011

Andre Rhoodie Business Certificate
Executive director, appointed 18 February 2002

Brynn Stephenson
Non-executive director, appointed 1 July 2016 (Resigned 31 October 2020)

COMPANY SECRETARY

Corpstat Governance Services (Pty) Ltd
Hurlingham Office Park
Block C, Suite 3, 59 Woodlands Avenue
Hurlingham Manor

Directors' report (continued)

AUDIT COMMITTEE

Mark Scharneck (Chairman)	Independent, non-executive director
Fernando Patrizi	Independent, non-executive director
Howard Walker	Independent, non-executive director

RISK COMMITTEE

Howard Walker (Chairman)	Independent, non-executive director
Fernando Patrizi	Independent, non-executive director
Mark Scharneck	Independent, non-executive director
Andre Rhoodie	Executive director

EXTERNAL AUDITORS

Mazars

Mazars House, Rialto Road, Grand Moorings Precinct, Century City, South Africa

HOLDING COMPANY

CFAO Motor Investments (Pty) Ltd , majority shareholder is CFAO Holdings SA (Pty) Ltd

REGISTERED OFFICE

38 Ontdekekkers Road, Princess,
Roodepoort
1724
Republic of South Africa
Telephone +27 (0) 11 279 5600

CFAO MOTORS INSURANCE LIMITED
(Registration Number : 1999/001865/06)

Statement of profit and loss and other comprehensive income
At 31 March 2021

	Notes	Twelve months ended 31-Mar 2021 R'000	Six months ended 31-Mar 2020 R'000
Premiums written	*3*	**256,478**	68,198
Gross premiums written		**201,321**	42,161
Gross reinsurance inwards premiums written		**55,157**	26,037
Outward reinsurance premiums	*3*	**(121,831)**	(2,694)
Net premiums written		**134,647**	65,504
Change in provision for unearned premiums, net of reinsurance	*3*	**8,160**	1,186
Gross amount		**6,974**	58,750
Reinsurers' share		**1,186**	(57,564)
Earned premiums, net of reinsurance		**142,807**	66,690
Claims incurred, net of reinsurance		**(53,204)**	(14,962)
Claims paid	*3*	**(31,807)**	(22,988)
Gross amount		**(132,763)**	(33,399)
Reinsures' share		**100,956**	10,411
Change in provision for claims		**(21,397)**	8,026
Gross amount		**(21,565)**	8,219
Reinsures' share		**168**	(193)
Net operating expenses	*5*	**(46,348)**	(26,605)
Underwriting profit before investment and other income		**43,255**	25,123
Investment income	*6*	**22,286**	16,673
Fair value gains/losses on investments at fair value through profit and loss		**13,778**	(18,247)
Other income		**595**	2,890
Profit before taxation	*7*	**79,914**	26,439
Taxation	*8*	**(20,277)**	(9,819)
Net profit for the year		**59,637**	16,620
Other comprehensive income		**-**	-
Total comprehensive income for the year		**59,637**	16,620

CFAO MOTORS INSURANCE LIMITED
(Registration Number : 1999/001865/06)

Statement of financial position
At 31 March 2021

	Notes	31-Mar 2021 R'000	31-Mar 2020 R'000
Assets			
Non -current assets			
Investments	*10*	-	417,611
Current assets			
Cash and cash equivalents	*11*	52,446	59,876
Outstanding premiums, net of commission	*4*	9,819	12,249
Amounts due from reinsurers	*4*	5,250	6,127
Accounts receivable	*4*	3,336	2,619
Investments	*10*	361,354	-
Deferred tax asset	*12*	413	-
Taxation receivable		509	-
Technical Assets			
Reinsurers' share of technical liabilities			
- Unearned premiums	*14*	25,224	24,038
- Outstanding claims (including IBNR)	*14*	6,228	6,101
Deferred acquisition costs	*14*	32,154	35,676
Prepaid expenses	*9*	10,627	11,883
Total Assets		**507,360**	**576,180**
Equity and liabilities			
Capital and reserves			
Share capital	*13*	15	15
Share premium		15,135	15,135
Retained Earnings		311,668	372,031
Non- current liabilities			
Deferred tax liabilities	*12*	-	4,830
Current liabilities			
Taxation payable		-	572
Accounts payable	*4*	13,332	30,743
Amounts due to reinsurers	*4*	609	609
Technical liabilities			
Gross provision for unearned premiums	*14*	101,774	108,749
Deferred reinsurance commission revenue	*14*	2,789	3,023
Gross outstanding claims (including IBNR)	*14*	62,038	40,473
Total Equity and liabilities		**507,360**	**576,180**

Note : Please refer to Note 21 for the affected assets and liabilities for the Amalgamation transaction.

CFAO MOTORS INSURANCE LIMITED
(Registration Number. 1999/001865/06)

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Share Capital R'000	Share Premium R'000	Retained Earnings R'000	Total R'000
Six months ended 31 March 2020				
At the beginning of the year	**15**	**15,135**	**355,411**	**370,561**
Total comprehensive income for the period	-	-	**16,620**	**16,620**
Dividends paid	-	-	-	-
At the end of the period	**15**	**15,135**	**372,031**	**387,181**
Year ended 31 March 2021				
At the beginning of the year	15	15,135	372,031	**387,181**
Total comprehensive income for the year	-	-	59,637	**59,637**
Dividends paid	-	-	(120,000)	**(120,000)**
At the end of the year	**15**	**15,135**	**311,668**	**326,818**

CFAO MOTORS INSURANCE LIMITED
(Registration Number. 1999/001865/06)

Statement of cash flows
For the year ended 31 March 2021

	Notes	31-Mar 2021 R'000	31-Mar 2020 R'000
Cash flows from operating activities			
Cash generated from / (utilised in) operations	*15.1*	46,810	(84,951)
Investment income	*15.2*	25,711	2,315
Taxation paid	*15.3*	(26,602)	(14,545)
Net cash flows generated from / (utilised in) operating activities		**45,919**	**(97,181)**
Cash flows from investing activities			
Increase in Investments		(223,762)	-
Decrease in Investments		290,413	228
Proceeds on sale of property plant and equipment		-	13
Net cash outflow from investing activities		**66,651**	**241**
Cash flows from financing activities			
Dividends paid	*15.4*	(120,000)	-
Net cash flows from financing activities		**(120,000)**	**-**
Net decrease in cash and cash equivalents		(7,430)	(96,940)
Cash and cash equivalents at beginning of year		59,876	156,816
Cash and cash equivalents at end of the period		**52,446**	**59,876**

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented. The year-end was changed in the prior period to March in 2020 due to alignment with the Shareholder, and the reporting periods will not be comparable as 2020 is only for six months.

1.1 Statement of compliance

The financial statements have been prepared on the liquidation basis in accordance, and in compliance with, International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB") and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and in accordance with the requirements of the South African Companies Act, 2008.

1.2 Basis of preparation

The financial statements are presented in South African Rand, rounded to the nearest thousand. They are prepared on the historical cost basis, except for certain financial instruments carried at fair value.

The preparation of financial statements in accordance with IFRS requires management to make judgments, 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 judgments 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 period in which the estimate is revised if the revision affects only that period, or in the year of the revision and future periods, if the revision affects both current and future periods.

1.3 Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

1.4 Recognition and measurement of insurance contracts

Premiums

Written premiums comprise the premiums on contracts (including inward reinsurance) entered into during the period, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude Value Added Tax. Premiums written include adjustments (pro-rata or one day cancellations) to premiums written in prior accounting periods. Outward reinsurance premiums are recognized as an expense in accordance with the pattern of reinsurance service received.

1 Summary of significant accounting policies (continued)

The earned portion of premiums received, is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method or an appropriate risk period, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Deferred Acquisition costs

The costs (direct and indirect) of acquiring new and renewal insurance business that is primarily related to the production of that business, which represent commission and other related expenses, are subsequently deferred over the period in which the related premiums are earned.

Claims

Claims incurred in respect of general business consist of claims and claims handling expenses paid during the financial period together with the movement in the provision for outstanding claims.

The outstanding claims provision comprises provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not and related internal and external claims handling expenses and an appropriate prudential margin.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported. Anticipated reinsurance recoveries are disclosed separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

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

Unexpired risk provision

Should unexpired risks arise provisions are made where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premium provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment returns.

1 Summary of significant accounting policies (continued)

1.4 Recognition and measurement of insurance contracts (continued)

Liabilities and related assets under liability adequacy test
The net liability recognised for insurance contracts is calculated on a per policy basis in line with Regulatory requirements. Where a shortfall is identified, an additional provision is made and the Company recognises the deficiency in income for the period. No shortfalls were recognized for the current period under review.

Reinsurance
Amounts recoverable under reinsurance contracts are assessed by Management for impairment at each reporting date.

Such assets are deemed impaired and the loss is recognized through profit and loss if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The Company ceded insurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders, other than for the Corporate / Commercial cover provided where a "pay-as-paid" clause is in place. Premiums ceded and benefits reimbursed are presented in the statement of comprehensive income and statement of financial position on a gross basis.

Provisional profit commission is recognised upfront where the Company is not required to render further services. The provisional profit commission is recognised at the amount received, unless the Company is aware of actual experiences that will result in the final commission amount being different from the expected amount.

1.5 Taxation
Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax is the expected tax payable on the taxable profit for the period, using tax rates enacted or substantially enacted at the statement of financial position date and any adjustment to tax payable in respect of previous periods.

1 Summary of significant accounting policies (continued)

1.5 Taxation (continued)

Deferred tax is provided in full, using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.6 Investment income

Interest is recognised as income using the effective interest rate method.

Dividends are recognised when the right to receive payment has been established.

1.7 Other assets

Deferred acquisition costs

Acquisition costs which comprise all direct and indirect costs arising from acquiring new and renewal insurance business that is primarily related to the production of that business, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

Prepaid expenses

Prepaid expenses comprise all direct and indirect costs arising from maintaining and servicing insurance contracts. For general business, prepaid expenses represent the proportion of the maintenance costs incurred which corresponds to the unearned premium provision.

1.8 Financial instruments

1.8.1 Application of IFRS 9 Financial Instruments

Financial impact of application of IFRS 9

Broadly, the classification possibilities, which are adopted by the company as applicable, are as follows:

1 Summary of significant accounting policies (continued)

1.8.1 Application of IFRS 9 Financial Instruments (continued)

Financial impact of application of IFRS 9 (continued)

Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or

- Mandatorily at fair value through profit or loss. (This classification automatically applies to all financial assets which do not qualify as at amortised cost or at fair value through other comprehensive income).

Financial liabilities:

Amortised cost

Note 4 Financial risk management presents the financial instruments held by the company based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the company are presented below:

Trade and other receivables, including outstanding premiums, reinsurer share of outstanding claims and reinsurance receivable

Classification

Trade and other receivables are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on trade and other receivables

Recognition and measurement
Trade and other receivables are recognised when the company becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method less accumulated impairment.

1 Summary of significant accounting policies (continued)

1.8.1 Application of IFRS 9 Financial Instruments (continued)

Trade and other receivables, including outstanding premiums, reinsurer share of outstanding claims and reinsurance receivable (continued)

Impairment
The company recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is reassessed at each reporting date.

The company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable. This policy is an application of the simplified approach which is prescribed by IFRS 9. Due to the short term nature of the financial assets lifetime expected credit losses will always be recognized.

Measurement and recognition of expected credit losses
The company makes use of a provision matrix to determine expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for the current and forecast direction of economic conditions at the reporting date, including the time value of money, where appropriate. For amounts due from reinsurers, credit ratings from rating agency S&P are utilized in assessing credit risk. For outstanding premiums, internal reports, budgets and forecasts are used to assess credit risk since the debt relates to transactions with related parties.

An ECL gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The ECL gain or loss is included in operating expenses in profit or loss as a movement in credit loss allowance.

Write off policy
The company writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Any recoveries made are recognised in profit or loss.

Credit risk
Details of credit risk are included in note 4.

Derecognition
Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Any gains or losses arising on the derecognition of trade and other receivables is included in profit or loss in the derecognition gains (losses) on financial assets at amortised cost line item.

1 Summary of significant accounting policies (continued)

1.8.1 Application of IFRS 9 Financial Instruments (continued)

Financial assets at fair value through profit or loss

Classification

Investments in collective investments schemes are classified as mandatorily at fair value through profit or loss. These investments do not qualify for classification at amortised cost or at fair value through other comprehensive income because either the contractual terms of these instruments do not give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, or the objectives of the company business model are met by selling the instruments rather than holding them to collect the contractual cash flows.

The company has classified investments at fair value through profit or loss.

Recognition and measurement

Investments in financial assets at fair value through profit or loss are recognised when the company becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss.

Interest received on financial assets at fair value through profit or loss are included in investment income.

Impairment

Investments in financial assets at fair value through profit or loss are not subject to impairment provisions.

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Trade and other payables

Classification

Trade and other payables are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the company becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

1 Summary of significant accounting policies (continued)

1.8.1 Application of IFRS 9 Financial Instruments (continued)

Trade and other payables (continued)

Recognition and measurement (continued)
They are subsequently measured at amortised cost using the effective interest method.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to note 4 for details of risk exposure and management thereof.

Derecognition
Refer to the "derecognition" section of the accounting policy for the policies and processes related to derecognition.

Cash and cash equivalents

Classification
Cash and cash equivalents comprise cash balances held with banks that are not held for investment purposes.

Recognition and measurement
These are initially measured at fair value, and subsequently at amortised cost.

Derecognition

Financial assets
The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities
The company derecognises financial liabilities when, and only when, the company obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1 Summary of significant accounting policies (continued)

1.9 Insurance receivables

Insurance and other receivables originated by the Company are stated at cost, less any impairments and are recognised when due. These include amounts due from agents and insurance policyholders.

1.10 Provisions

Provisions are recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

1.11 Dividends payable

Dividends payable are recorded in the Company's financial statements in the period in which the shareholder's right to receive payment has been established.

1.12 Contingencies and commitments

Transactions are classified as contingencies where the Company's obligations depend on uncertain future events. Items are classified as commitments where the Company commits itself to future transactions with external parties.

2 Critical accounting estimates and judgments in applying accounting policies

Management has discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

Going Concern

Given due cognizance of the entity's current intention to do a portfolio transfer of its Insurance Risks in terms of an Amalgamation transaction with a newly created Cell Arrangement within the external Insurer, the financial statement has been prepared on the liquidation basis due to the intention to transfer the insurance products into a cell captive structure within the next 12 months and to wind down the Company once the necessary regulatory approvals have been obtained.

Claims made under insurance contracts

The Company's estimates for reported and unreported losses and establishing resulting provisions are continually reviewed and updated and adjustments resulting from this review are reflected in income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is considered an appropriate basis for predicting future events.

Expected credit losses

For all financial assets measured at amortised cost, management is required to estimate the future expected credit losses on these assets in terms of IFRS 9. Estimation is applied in determining the probability of default which forms part of the expected credit loss calculations.

3 Insurance risk management

Risk management objectives and policies for mitigating risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons that are directly subject to the risk. The insured risks are directly associated to motor, accident and health, property, engineering, guarantee, liability, miscellaneous and transportation. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under contract. The Company also has exposure to market risk through its investment activities. These activities are limited to fixed deposits, cash and cash instruments and unit trust investments.

The theory of probability is applied to the pricing and provisioning for the portfolio of insurance contracts. The principal risk to the Company is pricing for the relevant insurance contracts written.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralized management of reinsurance and monitoring of emerging issues.

Underwriting strategy

The Company's underwriting strategy is reviewed annually, a claims assessment process is undertaken and market trends are evaluated. In addition, management reviews certain information monthly which includes premium income and loss ratio by class.

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The reinsurers are rated by external rating agencies and the Company reviews its reinsurance arrangements periodically. The Company obtains board approval in setting the minimum security criteria for acceptable reinsurance and the monitoring of the purchase of reinsurance against those criteria. Our current reinsurance arrangements consist of Excess of loss and Facultative.

Claims development

The unpaid claims estimate are current and there are no long outstanding amounts. The estimate is increased or decreased as losses are paid. The Company believes that the estimate of total claims outstanding as at the reporting date is adequate.

Each notified claim is assessed on a separate, case by case basis with due regard to the claims circumstance, information available from loss adjustors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

For all risks, the cost of outstanding claims and the IBNR ("incurred but not reported") provisions are estimated using generally accepted insurance practice. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each incident year based on observed development of earlier years and expected loss ratios.

3 Insurance risk management (continued)

Claims development (continued)

IBNR provisions are initially estimated at a gross level, and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method used by the Company takes into account historical data, gross IBNR estimates and the details of the reinsurance programme, to assess the expected size of the reinsurance recoveries.

The Company's IBNR provision meets the minimum requirements of the SAM requirements as at the reporting date. The Solvency Assessment and Management Interim measures (effective: 1 January 2012) introduced a calculation of the IBNR provision whereby net earned premiums for the past six underwriting years per class of business, are multiplied by predetermined factors (percentages).

The Company's insurance contracts are classified as 'short-tailed', meaning that the claim is settled within a year after the loss date.

In terms of IFRS 4, an insurer needs to only disclose claims run-off information where uncertainty exists about the amount and timing of claim payments not resolved within one year. Therefore detailed claims run-off information is not presented.

Terms and conditions of insurance contracts

The following gives an assessment of the Company's main products and the ways in which it manages the associated risks:

Customer Protection Plan - Inwards Reinsurance

Product features

Non-life insurance product sold to settle the amount owing which is equal to the aggregate "statutory early settlement figures" in terms of the Credit Agreement, being those that apply when the liability under a Credit Agreement is settled in a single sum, determined as at the date of death or permanent disability. When temporary disability is encountered by the insured, amounts equal to the monthly instalments due in terms of the Credit Agreement are paid to the finance house lasting for the duration of the illness. If it is a permanent disability or death, the Credit Agreement is settled in full.

If the insured is retrenched, the monthly instalment is paid directly to the Credit Provider, excluding the first instalment due immediately after the date of commencement of retrenchment. The benefit is for a maximum of six monthly instalments, limited to two claims of no more than three monthly instalments per claim. Benefits will cease after re-employment or after six months or two claim limit of the indemnity has expired, subject to the exclusions relating to the insured's retrenchments benefits. Should the customers not be able to afford the premium, customers can purchase a stand-alone retrenchment policy. This policy was discontinued 1 February 2019.

3 Insurance risk management (continued)

Terms and conditions of insurance contracts (continued)

Management of risks

The main underwriting risks associated with this product are low take up rate due to competitor products and negative public perception of the product.

These risks are managed through a sophisticated claims process and continued monitoring of the market to ensure relevance of the product.

Cover Plus - Inwards Reinsurance

Product features

Non-life insurance product sold to cover the shortfall encountered between what the insured owes the finance house and the amount the comprehensive insurer pays out when the vehicle is written off or stolen. In addition, cover is provided for the protection of the excess not exceeding R 6000 due to the comprehensive insurer in the event of a total loss.

There is also a deposit cover policy which is sold separately in the event that the vehicle is stolen or written off, the lost deposit will be re-imbursed back to the insured.

Management of risks

The main underwriting risks associated with these products are high rates of vehicle thefts with high volumes of shortfall and deposit claims and competitor products i.e. finance houses, comprehensive insurers.

These risks are managed by monitoring frequency and severity benchmarks against actual portfolio performance.

Warranty

Product features

Non-life insurance product sold which covers breakdown of the major mechanical components such as engine, gearbox, steering and the fuel system. On the purchase of a new vehicle cover will incept on the expiry of the manufacturer warranty and run for a further one, two or three years. On the purchase of a pre-owned vehicle that is outside of the manufacturer warranty, cover will incept immediately and run for one, two or three years.

3 Insurance risk management (continued)

Terms and conditions of insurance contracts (continued)

Management of risks

The main underwriting risks associated with this product are possible high frequency and severity of claims, manufacturer products and competitor products/ incentives.

These risks are managed by a robust claims vetting process, continuous management against benchmarks per dealership and franchise and an ongoing communication with the dealer channel in terms of sales risk profiling and dealer repair costs. There is also an ongoing measurement of dealership sales of own and other products.

Corporate and commercial

Product features

Cover is provided for Steinhoff Africa under property, motor, accident and health, liability and miscellaneous classes of business. This policy was discontinued 1 June 2021.

Management of risks

Risk is fully reinsured, except for the motor traders portfolio which is reinsured on an excess of loss basis, with a spread of both local and international reinsurers.

Tyre and Rim Warranty

Product features

Non-life insurance product sold covering the replacement or repair of tyres and rims in the event of accidental or malicious damage.

In addition there is roadside assistance cover, for flat tyre assistance, towing service or message relay service.

Management of risks

The main underwriting risks associated with this product are possible high frequency and severity of claims, manufacturer products and competitor products/ incentives.

3 Insurance risk management (continued)

Terms and conditions of insurance contracts (continued)

Tyre and Rim Warranty (continued)

These risks are managed by a robust claims vetting process, continuous management against benchmarks per dealership and franchise and an ongoing communication with the dealer channel in terms of sales risk profiling and dealer repair costs. There is also an ongoing measurement of dealership sales of own and other products.

Bodyline Maintenance

Product features

Non-life insurance product sold, cover is provided for chips, minor dents and light scratches to the motor vehicle as well as tar removal, hail damage and wheel rim, mag wheel and windscreen chips. There is an additional number plate warranty benefit which covers the replacement of the number plates in the event of damage or loss.

Management of risks

The main underwriting risks associated with this product are possible high frequency and severity of claims, manufacturer products and competitor products/ incentives.

These risks are managed by a robust claims vetting process, continuous measurement against benchmarks per dealership and franchise and an ongoing communication with the dealer channel in terms of sales risk profiling and dealer repair costs. There is also an ongoing measurement of dealership sales of own and other products.

Retrenchment

Product features

Non-life insurance product sold to cover a payable benefit equal to monthly instalments in terms of the vehicle finance agreement after a waiting period of 90 days from the date of commencement. The maximum indemnity is limited to 9 monthly instalments. This policy was discontinued 1 July 2020.

Management of risks

The main underwriting risks associated with this product is that the current economic climate creates a higher than usual retrenchment risk.

These risks are managed by monitoring frequency and severity on historical trends against actual portfolio performance.

3 Insurance risk management (continued)

Premiums

2021

	Motor	Accident & health	Assets	Miscellaneous	Total
	R '000	R '000	R '000	R '000	R '000
Gross premiums	118,598	9,502	124,509	3,869	256,478
UPP movement net of reinsurance	8,158	2	-	*	8,160
Gross earned premiums	126,756	9,504	124,509	3,869	264,638
Premiums ceded to reinsurers	(2,872)	-	(115,089)	(3,870)	(121,831)
Net earned premiums	123,884	9,504	9,420	(1)	142,807
					-

2020

	Motor	Accident & health	Assets	Miscellaneous	Total
	R '000	R '000	R '000	R '000	R '000
Gross premiums	65,661	5,729	(3,192)	-	68,198
UPP movement net of reinsurance	1,172	14	-	*	1,186
Gross earned premiums	66,833	5,743	(3,192)	-	69,384
Premiums ceded to reinsurers	(1,910)	(5)	(779)	-	(2,694)
Net earned premiums	64,923	5,738	(3,971)	-	66,690

* 100 % reinsured

Miscellaneous consists of Riot Wrap on the Corporate / Commercial portfolio.

3 Insurance risk management (continued)

Net Outstanding Claims

2021

	Motor	Accident & health	Assets	Total
	R '000	R '000	R '000	R '000
Net outstanding claims and IBNR opening balance	12,627	3,777	17,967	34,371
Net claims incurred	34,400	6,487	12,317	53,204
Claims paid	(30,575)	(5,284)	4,052	(31,807)
Net outstanding claims and IBNR closing balance	16,745	4,981	34,039	55,765

2020

	Motor	Accident & health	Assets	Total
	R '000	R '000	R '000	R '000
Net outstanding claims and IBNR opening balance	13,797	2,501	26,101	42,399
Net claims incurred	16,632	2,636	(4,310)	14,958
Claims paid	(17,624)	(1,359)	(4,001)	(22,984)
Net outstanding claims and IBNR closing balance	12,627	3,777	17,967	34,371

4 Financial risk management

Transactions in financial instruments may result in the Company assuming financial risks. These include market risk, interest rate risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks.

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 profitability or the value of its holdings of financial instruments. The objective of market risk management is to manage market risk exposures within approved risk tolerances, while optimising the return.

Credit risk
Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Company.

The Company has adopted a policy of only dealing with creditworthy counter parties as a means of mitigating the risk of financial loss from defaults. The Company only transacts with reputable entities with an established track-record and favourable credit ratings as per S&P.

Credit exposure is controlled and managed by counterparty limits that are reviewed and approved by the Company's Risk Committee which meets quarterly.

The major credit risks arise from trade and other receivables, outstanding premiums, reinsurers' balances and cash and cash equivalents. At present the Company deposits short-term cash surpluses with one major reputable bank in RSA and the ECL assessment is low due to strong credit ratings.

The average credit period on trade receivables is 30 days (2020: 30 days). No interest is charged on outstanding trade receivables.

No credit loss was determined as material for the current year, and therefore no provision for expected credit losses was made.

Credit loss allowances for expected credit losses are considered for all debt instruments, but excluding those measured at fair value through profit or loss.

Historic analysis found that the company have experienced very low default rates and resulting credit losses. The majority of premiums are due upfront in order to obtain insurance cover, thus reducing credit risk on premiums due substantially. The company assesses the probability of default on amounts due from reinsurers and binder holders as low based on external credit ratings of the reinsurers. The companies assessment of forward looking factors, including economic growth and inflation did not reveal probable substantial increases in credit risk. The overall ECL risk rating is low.

4 Financial risk management (continued)

Credit risk (continued)

Management assess the expected credit loss to be provided based on the probability of default, the exposure at default, and the loss given default of the debt instrument. Estimation is required in the determination of each of these assessments. The estimations are performed with reference to historical information and include a forward looking over-lay to account for future economic developments. Given the short lifespan of the debt instruments and their zero historic default rate, management have assessed the probability of default to be insignificant and therefore not provided for an expected credit loss provision.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

Management makes regular reviews to assess the degree of compliance with the Company's procedures on credit.

The outstanding premium of R 9 819 000 (2020: R 12 249 000) relates to premiums due from the retail dealer group, debt is short term and paid subsequent to year-end, credit risk is low as customers have paid the dealership and dealership just needs to settle to the Company.

Amounts due from reinsurers of R 5 250 000 (2020: R 6 127 000) are due from Hollard. The ECL assessment has indicated that no impairment is required due to their payment history and good credit rating. Hollard's credit rating as per S&P is an A.

Fair value of accounts payable and amounts due to reinsurers

Accounts payable and amounts due to reinsurers are carried at amortised cost, with their fair value being approximated by such value.

Categories of financial liabilities

31-Mar-21

	Amortised Cost	Total
	R '000	R '000
Accounts payable	13,332	13,332
Amounts due to reinsurers	609	609
Total	13,941	13,941

31-Mar-20

	Amortised Cost	Total
	R '000	R '000
Accounts payable	30,743	30,743
Amounts due to reinsurers	609	609
Total	31,352	31,352

4 Financial risk management (continued)

Fair value of trade and other receivables

Trade and other receivables are carried at amortised cost, with their fair value being approximated by such value.

Categories of financial assets

31-Mar-21

	Amortised Cost	Fair value through profit and loss (mandatory)	Total
	R '000	R '000	R '000
Amounts due from reinsurers	5,250	-	5,250
Accounts receivable	3,336	-	3,336
Outstanding premiums	9,819	-	9,819
Unit trusts	-	-	-
Cash Instruments	-	361,354	361,354
Cash and cash equivalents	52,446	-	52,446
Total	70,851	361,354	432,205

31-Mar-20

	Amortised Cost	Fair value through profit and loss (mandatory)	Total
	R '000	R '000	R '000
Amounts due from reinsurers	6,127	-	6,127
Accounts receivable	2,619	-	2,619
Outstanding premiums	12,249	-	12,249
Unit trusts	-	97,207	97,207
Cash Instruments	-	320,404	320,404
Cash and cash equivalents	59,876	-	59,876
Total	80,871	417,611	498,482

Currency risk

The Company is not exposed to currency risk as all transactions are denominated in South African Rands.

Liquidity risk

The Company is exposed to daily calls on its available cash resources from claims arising. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The company's liabilities are matched by appropriate assets and it has significant liquid resources to cover its obligations. The Company's liquidity and ability to meet such calls are monitored daily by the CFO and quarterly by the Board and by the Risk Committee. Accounts payable and amounts due to reinsurers all fall due within 12 months.

4 Financial risk management (continued)

Interest rate risk

	2021	2020
	R '000	R '000
Variable rate instruments		
Cash and cash equivalents	52,446	59,876
Sanlam Investment Managers – Enhanced Cash	260,909	169,492
Sanlam Investment Managers – Enhanced Yield	25,654	23,787
Sanlam Investment Managers – Active Income Fund	74,791	127,125
	413,800	380,280

Had interest rates for the period been 3 % higher or lower and been applied to the financial instruments at year end, profit for the period would have been higher or lower by R 10 728 946 (2020: R 9 495 948). The calculation ignores the impact of a change in interest rates on interest declarations from unit trust investments. The Company's exposure to market risk for changes in interest rate is concentrated in its investment portfolio. Had the value of investments in equity instruments , included in Sanlam Investment managers - Active Income Fund, been 3% higher/lower, return for the period would have been higher/ lower by R 49 079 (2020: R 2 982 167). The lower impact in current year is largely due to the liquidation of the PSG Portfolio during the current year.

Reinsurance risk

The Company cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks, group risks or defined blocks of business on a quota share basis. These reinsurance agreements spread the risk and minimize the effects of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. The reinsurer agrees to reimburse the ceded amount in the event the claim is paid. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders, other than for the Corporate / Commercial cover provided where a "pay-as-paid" clause is in place.

Capital management

The Financial Sector Regulation Act of 2017 commenced on 1 April 2018 introducing the twin peaks model of regulating financial institutions. The twin peaks model brought about the establishment of the Prudential Authority (PA), hosted within the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA). The prudential supervision of insurers is therefore, with effect from 1 April 2018, being performed within the PA. The new regulatory bodies have effectively replaced functions previously performed by the FSB.

4 Financial risk management (continued)

Capital management (continued)

The Insurance Act, 2017 (Act No. 18 of 2017 (Insurance Act) took effect on 1 July 2018, therefore CFAO Motors Insurance Limited reports in terms of the Solvency Assessment and Management (SAM) regulatory regime to the PA for this financial period ended 31 March 2021.

The SCR cover ratio at March 2021 was at 3.74 (2020: 3.94), reflecting a very healthy solvency position. After the dividend the SCR cover ratio is at 2.46.

5 Net operating expenses

	2021 R '000	2020 R '000
Gross operating expenses	**51,095**	27,891
Acquisition expenses	**37,638**	19,866
- commission paid	**13,274**	7,623
- other acquisition costs	**20,842**	12,111
- increase in deferred acquisition costs	**3,522**	132
Operating expenses	**13,457**	8,025
Reinsurance commission (revenue) /expenses	**(4,747)**	(1,286)
- reinsurance commission received	**(3,001)**	(424)
- other acquisition costs recovered	**(1,512)**	(933)
- increase/ decrease in deferred reinsurance commission	**(234)**	71
	46,348	26,605

6 Investment income

Interest income		
- cash and cash equivalents	**2,359**	2,315
- investments at fair value through profit and loss	**19,744**	13,739
Dividend income		
- investments at fair value through profit and loss	**183**	619
	22,286	16,673

7 Profit before taxation

	2021 R '000	2020 R '000
Profit before taxation is arrived at after taking the following items into account:		
Administration fees	1,619	749
Audit fees	906	1,148
- current period	1,191	1,245
- prior year	(285)	(97)
Consultancy fees	1,473	1,002
Management Fees	5,053	2,656

8 Taxation

South African normal taxation comprising:		
Current taxation		
- Current period	25,520	13,887
- Deferred taxation - current year	(5,243)	(4,068)
	20,277	9,819

Reconciliation of tax rate	%	%
Standard tax rate	28	28
Non deductible expenses	-0.31	-0.04
Non taxable income	0.06	0.59
Prior year overprovision	0.71	0
Taxable capital gains	-2.48	8.59
Previously unrecognised deferred tax	-0.6	0
Effective tax rate	25.38	37.14

The prior year tax rate recon has been updated to ensure it is more comparable with the current year

9 Prepaid Expenses

These relate to binder fees incurred paid to our binder holders and is written off over the life of the policy	10,627	11,883

10 Investments

Unit trusts		
PSG Flexible Fund (Class A)	-	13,237
Allan Gray Balanced Fund	-	1,984
Nedgroup Investments Stable Fund (Class A)	-	23,165
Coronation Strategic Income Fund (Class P)	-	8,780
PSG Konsult Preserver Fund of Funds	-	7,620
Investec Opportunity Fund (Class H)	-	11,143
Allan Gray Orbis Global Fund of Funds	-	886
PSG Wealth Global Moderate Feeder Fund (Class D)	-	955
Foord Balance Fund (Class B)	-	2,386
Coronation Capital Plus Fund (Class P)	-	12,197
Coronation Balanced Plus Fund (Class P)	-	8,095
PSG Wealth Moderate Fund of Funds (Class D)	-	6,759
	-	97,207

10 Investments (continued)	**2021**	**2020**
	R '000	**R '000**
Cash and Cash Instruments		
Sanlam Investment Managers – Enhanced Cash	260,909	169,492
Sanlam Investment Managers - Enhanced Yield (MMF)	25,654	23,787
Sanlam Investment Managers - Active Income Fund (MMF)	74,791	127,125
	361,354	320,404
Total Investments	361,354	417,611

Collective investment schemes are "Level 2" investments valued at published net asset value per unit based upon the published closing prices of the underlying investments. Level 2 fair value measurements are those derived from inputs other than published prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Enhanced Cash are Level 1 where fair value is derived from quoted published prices in active markets for identical assets.

11 Cash and cash equivalents

Cash at bank and in hand	1,155	110
Short term deposits	51,291	59,766
	52,446	59,876

12 Deferred taxation

Opening balance	4,830	8,898
Statement of comprehensive income charge	(5,243)	(4,068)
Closing balance	(413)	4,830
Deferred tax comprises temporary differences on:		
- Unrealised gains on investments	(278)	4,895
- Incentives	(135)	(65)
	(413)	4,830

13 Share capital

Authorised share capital		
49 500 ordinary shares of R1 each	50	50
500 “A” ordinary shares of R 1 each	-	-
Issued share capital		
15 000 ordinary shares of R1 each	15	15
1 “A” ordinary share of R 1	-	-

13 Share capital and premium (continued)

Authority over unissued shares
Pursuant to the provisions of section 38(1) of the Companies Act, 2008, as amended, the directors have authority to allot and issue all or any portion of the unissued ordinary shares on such terms and conditions as they deem fit and such authority shall be valid until the next Annual General Meeting.

14 Insurance Liabilities	**2021 R '000**	**2020 R '000**
Gross		
Short-term insurance contracts		
- claims reported #	48,374	25,385
- claims incurred but not reported	13,664	15,088
- unearned premiums	101,774	108,749
- deferred reinsurance commission	2,789	3,023
Total gross insurance liabilities	166,601	152,245
Recoverable from reinsurers		
Short-term insurance contracts		
- claims reported	136	87
- claims incurred but not reported	6,092	6,014
- unearned premiums	25,224	24,038
Total reinsurers' share of insurance liabilities	31,452	30,139

R 4 612 000 relates to inward reinsurance
(2020: R 3 376 000)

Net		
Short-term insurance contracts		
- claims reported	48,238	25,298
- claims incurred but not reported	7,572	9,074
- unearned premiums	76,550	84,711
- deferred reinsurance commission	2,789	3,023
Total net insurance liabilities	135,149	122,106
Other Assets under Insurance contracts		
Deferred Acquisition Costs		
Opening balance	35,676	35,808
Movement	(3,522)	(132)
Closing balance	32,154	35,676

14 Insurance Liabilities	**2021**	**2020**
	R '000	**R '000**
14.1 Analysis of movement in claims reported		
Gross		
Opening balance	25,385	33,601
Current year claims incurred	155,752	25,184
Current year claims paid	(107,378)	(13,196)
Previous year claims paid	(25,385)	(20,204)
Closing balance	48,374	25,385
Recoverable from reinsurers		
Opening balance	87	231
Current year claims incurred	101,093	10,498
Current year claims paid	(100,956)	(10,411)
Previous year claims paid	(87)	(231)
Closing balance	137	87
Net		
Opening balance	25,298	33,370
Current year claims incurred	54,659	14,686
Current year claims paid	(6,422)	(2,785)
Previous year claims paid	(25,298)	(19,973)
Closing balance	48,237	25,298
14.2 Analysis of movement in claims incurred but not reported reserve		
Gross		
Opening balance	15,088	15,091
Current year movement in reserve	(1,424)	(3)
Closing balance	13,664	15,088
Recoverable from reinsurers		
Opening balance	6,014	6,063
Current year movement in reserve	78	(49)
Closing balance	6,092	6,014
Net		
Opening balance	9,074	9,028
Current year movement in reserve	(1,502)	46
Closing balance	7,572	9,074

14 Insurance Liabilities (continued)	**2021**	**2020**
	R '000	**R '000**
14.3 Analysis of movement in unearned premiums		
Gross		
Opening balance	108,748	167,498
Current year movement	(6,974)	(58,750)
Closing balance	101,774	108,748
Recoverable from reinsurers		
Opening balance	24,038	81,602
Current year movement	1,186	(57,564)
Closing balance	25,224	24,038
Net		
Opening balance	84,710	85,896
Current year movement	(8,160)	(1,186)
Closing balance	76,550	84,710

The Company believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

Provisioning process

The process used to determine the assumptions is intended to result in estimates of the most likely or expected outcome. The sources of data used as input for the assumptions are internal, using detailed analytics that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

The nature of the business makes it relatively easy to predict the likely outcome of claims and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments.

15 Notes to the statement of cash flows	**2021**	**2020**
	R '000	**R '000**
15.1 Cash generated by operations		
Underwriting profit before investment income	43,255	25,123
Other income	595	2,890
Adjusted for changes in:		
- (Decrease) in net provision for unearned premiums	(8,160)	(1,186)
- Increase/(Decrease) in net provision for outstanding claims	21,397	(8,028)
- Decrease in deferred acquisition costs	3,522	132
- (Decrease)/increase in deferred reinsurance commission revenue	(234)	71
- Decrease in prepaid expenses	1,256	142
Operating profit before working capital changes	61,631	19,144
Working capital changes	(14,821)	(104,095)
- Decrease in outstanding premiums	2,430	3,419
- (Decrease)/increase in accounts receivable	(717)	1,574
- Decrease in amounts due from reinsurers	877	653
- (Decrease) in amounts due to reinsurers	-	(107,967)
- (Decrease) in accounts payable	(17,411)	(1,774)
	46,810	(84,951)
15.2 Investment income received		
Amount receivable at beginning of year	58,814	44,456
Investment income per statement of comprehensive income	22,286	16,673
Amount (receivable)/payable at end of year	(55,389)	(58,814)
	25,711	2,315
15.3 Taxation paid		
Amount (payable) at beginning of year	(573)	(1,231)
Current tax charge per the statement of comprehensive income	(25,520)	(13,887)
Amount payable at end of year	(509)	573
	(26,602)	(14,545)
15.4 Dividends paid		
Amount payable at beginning of year	-	-
Dividends declared during the year	(120,000)	-
Amount payable at the end of the year	(120,000)	-

16 ***Related party transactions***

The Company is a wholly owned subsidiary of CFAO Motor Investments (Pty) Ltd (incorporated in the Republic of South Africa). Majority shareholder is CFAO Holdings SA (Pty) Ltd.

16 Related party transactions (continued) 2021

Name of company	Administration fees	Management fees	Fees Paid	Dividends Paid	Premium received	Other income	Purchases
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
CFAO Motors Proprietary Limited (Fellow Subsidiary)	1,619	4,803	11,682	-	(18,667)	(2,402)	10,977
CFAO Motors Investments (Pty) Ltd	-	-	-	120,000	-	-	-
Isuzu Truck Centre Proprietary Limited (Fellow Subsidiary)	-	-	-	-	(187)	(15)	-
	1,619	**4,803**	**11,682**	**120,000**	**(18,854)**	**(2,417)**	**10,977**

Name of company	Intercompany debtors	Intercompany creditors
	R '000	R '000
CFAO Motors Proprietary Limited (Fellow Subsidiary)	9,780	(219)
	9,780	**(219)**

Related party transactions 2020

Name of company	Administration fees	Management fees	Fees Paid	Dividends Paid	Premium received	Other income	Purchases
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
CFAO Motors Proprietary Limited (Fellow Subsidiary)	749	3,006	7,878	-	(1,828)	(4,171)	6,098
Isuzu Truck Centre Proprietary Limited (Fellow Subsidiary)	-	-	-	-	(101)	-	-
	749	**3,006**	**7,878**	**-**	**(1,929)**	**(4,171)**	**6,098**

Name of company	Intercompany debtors	Intercompany creditors
	R '000	R '000
CFAO Motors Proprietary Limited (Fellow Subsidiary)	12,270	(304)
	12,270	**(304)**

For Executive Directors, standard terms and conditions of employment contracts apply.

17 Subsequent events

COVID 19

Management continues to assess the financial implications around the effects of COVID 19 on our operations as a whole. This includes the impact on new business written, expected higher cancellations in the existing portfolio, increased claims in the CPP and retrenchment portfolios and the ongoing performance of our investment portfolios.

We continue to monitor events as they unfold and should conditions worsen we will reassess the financial effects thereof as part of our out of cycle ORSA process.

For the reinsurance inwards book, on average 282 policies were sold per month at the outset of the pandemic (April to June 2020), for the period April to June 2021 the average is at 390 policies per month, June being the highest at 410 policies. On our term business, for the period April to June 2021 we sold 1 757 policies compared to 1 598 for the same period in 2020. The financial impact will only be felt in the future as profitability is recognised.

Management have evaluated the effect of the COVID-19 pandemic on the following, for which no significant impact has been identified:

- Demand for services
- Collection of trade and other receivables
- Investments

AMALGAMATION TRANSACTION

Please refer to Notes 18 and 21 for information regarding the Amalgamation transaction.

DIVIDEND POST YEAR-END

A dividend of R 100m (666 666,67cents dividend per share) has been declared, which was paid on the 14th of June 2021. This changed the SCR (Solvency Capital Requirement) cover ratio from 3.74 to 2.46. The Directors applied the solvency and liquidity test and concluded that the Company will satisfy the test after implementing the distribution.

LOOTING AND RIOTING

The impact on the company of the recent looting and rioting in South Africa is unknown, Management is still assessing the effects of the looting and rioting.

18 Going Concern

Given due cognizance of the Company's current intention to do a Portfolio transfer of its Insurance Risks in terms of an amlagamation transaction with a newly created Cell Arrangement within the external Insurer, the financial statements have been prepared on the liquidation basis due to the intention to transfer the insurance products into a cell captive structure and the winding down process within the next 12 months.The SCR cover ratio at March 2021 is at 3.74 (2020 : 3.94). After the dividend distribution the SCR cover ratio is at 2.46.

19 Contingent liabilities

No contingent liabilities existed at statement of financial position date.

20 New accounting pronouncements

The following new interpretations, revisions and amendments to existing standards with effective dates after 31 March 2021, have been issued:

New Standards, Interpretations, Revisions and Amendments not effective for the current financial year nor ***relevant to the Company's Operations***

IFRS 17	*Insurance Contracts*	*1 January 2023*

IFRS 17 Insurance Contracts now establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. With the impending Amalgamation and Portfolio transfer transaction, Management is of the opinion that no further assessment of the impact of IFRS 17 on CFAO Motors Insurance Limited is required.

21 Amalgamation Transaction

The Company's direct shareholder (CFAO Motors Investents (Pty) Ltd) intends to enter into a subscription and shareholders agreement with an external Insurance Company. In terms of this contractual arrangement (the Cell Arrangement), it will offer CFAO Group customers insurance products that are underwritten by this external Insurer. The Company will, as part of the agreement, do an Amalgamation transaction with the Cell Arrangement and intends to do a portfolio transfer of its insurance business. This transaction should be finalised by the end of November 2021. The financial statements has been prepared on the liquidation basis due to the intention to transfer the insurance products into a cell captive structure withingthe next 12 months and to wind down the Company once the necessary regulatory approvals have been obtained.

As a result, the below classes of assets and liabilities have been classified as Current Assets and Current Liabilities as at 31 March 2021.

Assets	**Note**	**R'000**
Current assets		
Cash and cash equivalents	**11**	52,446
Outstanding premiums, net of commission	**4**	9,819
Amounts due from reinsurers	**4**	5,250
Accounts receivable	**4**	3,336
Investments	**10**	361,354
Deferred tax asset	**12**	413
Taxation receivable		509
Technical Assets		
Reinsurers' share of technical liabilities		
- Unearned premiums	**14**	25,224
- Outstanding claims (including IBNR)	**14**	6,228
Deferred acquisition costs	**14**	32,154
Prepaid expenses	**9**	10,627
Total Assets		**507,360**
Equity and liabilities		
Capital and reserves		
Share capital	**13**	15
Share premium		15,135
Retained Earnings		311,668
Current liabilities		
Taxation payable		
Accounts payable	**4**	13,332
Amounts due to reinsurers	**4**	609
Technical liabilities		
Gross provision for unearned premiums	**14**	101,774
Deferred reinsurance commission revenue	**14**	2,789
Gross outstanding claims (including IBNR)	**14**	62,038
Total Equity and liabilities		**507,360**