CENTRIQ
LIFE INSURANCE

CENTRIQ LIFE INSURANCE COMPANY LIMITED

(Registration No. 1943/016409/06)

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2020

CENTRIQ

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RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements has been audited in terms of Section 90 (1) of the Companies Act, no 71 of 2008.

The Annual Financial Statements has been prepared by Livhuwani Mariba and reviewed by Terina Erasmus, CA (SA).

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The board of directors of Centriq Life Insurance Company Limited ("the Company") accepts responsibility for the integrity, objectivity and reliability of the annual financial statements of the Company. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors is to express an independent opinion on the fair presentation of the annual financial statements based on their audit of the Company.

The Risk and Financial Review Committee has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards ("IFRS").

The board is of the opinion that the Company is financially sound and operates as a going concern. The financial statements have accordingly been prepared on this basis. Refer to note 25 for an assessment of COVID-19 and the expected impact on the Company

The annual financial statements were approved by the board and signed on their behalf by:

DIRECTOR	**DIRECTOR**
16 February 2021	16 February 2021

CERTIFICATION BY THE COMPANY SECRETARY

In terms of Section 88(2)(e) of the Companies Act, no 71 of 2008 ("the Act"), as amended, I certify that in respect of the financial year ended 31 December 2020, the Company has lodged with the Companies and Intellectual Property Commission all such returns and notices as required in terms of the Act and that all such returns and notices are true, correct and up to date.

E PRICE
Company Secretary
16 February 2021

REPORT OF THE AUDIT COMMITTEE

The Company's holding company, Santam Limited performed duties of an Audit Committee for the Company as prescribed in Section 94(2) of the Companies Act no 71, 2008. The Santam Audit Committee is supported by the Company's Risk and Financial Review ("RFR") committee, which is a subcommittee of the board of the Company.

The Risk and Financial Review ("RFR") committee consists of 3 non-executive directors, 2 of whom are independent. The RFR committee met quarterly with the Chief Executive Officer and representatives from external and internal auditors, risk management as well as other assurance providers in attendance. The RFR committee operated in accordance with an annual work plan to cover all relevant matters. Items discussed at these meetings were formally minuted and, where needed, appropriate action plans were documented.

The mandate and responsibilities of the RFR committee encompass, amongst others, all actions required to:

- Oversee annual financial reporting including the annual financial statements;
- Ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities;
- Oversee the internal audit function;
- Oversee the risk management process;
- Oversee the external audit function; and
- Receive and deal with complaints (whether from within or outside the Company) relating either to the accounting practices and internal audit of the group, or to any related matter and report to the Santam Limited's audit committee on all complaints received and the action to be taken thereon.

During the year the RFR committee assisted the Santam Limited's Audit Committee and the board of directors by performing an objective and independent review of the performance of the finance and risk management functions. This was achieved through close cooperation and communication with management and the internal and external auditors, who have unrestricted access to members of the RFR committee.

The RFR committee also reviewed the Annual Financial Statements for the year ended 31 December 2020 and recommended these financial statements for approval by the Board on 16 February 2021. The RFR committee has functioned well and has performed all its other duties properly.

REPORT OF THE AUDIT COMMITTEE (CONTINUED)

The RFR committee considered the external auditor's independence for the financial year ended 31 December 2020 and is satisfied that the registered auditor, PricewaterhouseCoopers Inc., was independent of the Company.

The Santam Limited's audit committee with the appropriate assistance from the RFR committee is satisfied that it had fulfilled its responsibilities.

PE Speckmann
Chairman Santam Audit Committee

REPORT OF THE DIRECTORS

1. ACTIVITIES

The Company is incorporated in the Republic of South Africa and is authorised to transact in all classes of long–term insurance primarily as a cell captive alternative risk transfer insurer.

The Company primarily offers the following structured insurance and risk financing solutions:

1.1. Cell captive insurance

The Company offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the Company with a cell shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captive insurers allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders agreement. There are currently two distinct types of cell captive arrangements a) first party and b) third party.

1.1.1. First party cell captive arrangements are arrangements where the risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies.

The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.

1.1.2. Third party cell captive arrangements are arrangements where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The Company is the principal to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholder's agreement however determines that the cell shareholders remain responsible for the solvency of the cell captive arrangement. In substance the Company therefore reinsures this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

REPORT OF THE DIRECTORS (continued)

1. ACTIVITIES (continued)

1.2. **Own Risk assumption**

The Company selectively participates in underwriting risk across the portfolio of traditional insurance business which our underwriting managers underwrite on our behalf.

2. OPERATING RESULT

The following tables provide an overview of the operating results for the past two financial years.

	2020 R'000	2019 R'000
Total assets	1,223,354	846,065
Gross written premiums	2,594,508	1,553,256
Investment income and net gains on financial assets	48,049	37,726
Total comprehensive income for the year	18,082	13,291

3. SHARE CAPITAL

Ordinary share capital

The authorised and issued ordinary share capital remained unchanged during the year.

Non-convertible redeemable preference share capital

During the year the following shares were issued to cell shareholders as a result of capitalisation of cell captives:

Description	Class	Number of shares	Value (R)
Preference shares	P35	10	1,000,000
Preference shares	P36	20	20,000,000
Preference shares	P37	10	2,000,000
		40	23,000,000

REPORT OF THE DIRECTORS (continued)

3. SHARE CAPITAL (CONTINUED)

The following shares were redeemed by cell shareholders:

Description	Class	Number of shares	Value (R)
Preference shares	P8	6	2,000,000
		6	2,000,000

4. DIVIDENDS

ORDINARY SHARE CAPITAL

The following dividends were declared and paid during the year.

	2020	2019
Ordinary shares	13,354,394	15,300,000

NON-CONVERTIBLE REDEEMABLE PREFERENCE SHARES

The following dividends were declared and paid during the year:

	2020	2019
Preference shares – (Class P9)	-	451,624
Preference shares – (Class P22)	-	2,752
Preference shares – (Class P30)	357,202,548	159,236,780
Preference shares – (Class P8)	4,900,327	-
Preference shares – (Class P25)	-	5,700,000
Preference shares – (Class P34)	3,500,000	6,100,000
Preference shares – (Class P20)	-	2,500,000
Preference shares – (Class P31)	11,000,000	35,400,000
Preference shares – (Class P26)	1,500,000	-
Preference shares – (Class P33)	7,800,000	-
Total preference share dividends paid	385,902,875	209,391,156
The following dividends were declared during the year and paid after year end:		
Preference shares – (Class P33)	2,678,215	-
Total dividends declared during the year	388,581,090	209,391,156

REPORT OF THE DIRECTORS (continued)

5. RELATED PARTIES

Related party relationships exist between the Company and its fellow subsidiaries, the holding company and the Sanlam and Santam groups of companies. Transactions and balances with related parties are disclosed in note 26. There are no related party transactions with key management other than directors' emoluments.

6. HOLDING COMPANY

Centriq Insurance Holdings Limited, the Company's holding company, holds 100% of the ordinary issued share capital. Santam Limited holds 100% of the ordinary issued capital in Centriq Insurance Holdings Limited. The ultimate holding company is Sanlam Limited.

7. DIRECTORS EMOLUMENTS AND INTERESTS IN SHARE CAPITAL

The directors do not have any interest in the Company. The directors' remuneration was paid by the Company's fellow subsidiary, Centriq Insurance Company Limited. Refer to note 26.

8. DIRECTORS AND COMPANY SECRETARY

The directorship of the Company is as follows:

Executive directors

PA Jennett (*)	(appointed 16/05/2013 as executive director and 01/09/2016 as Chief Executive Officer)
MC le Roux	(appointed 16/05/2013)

Non–executive directors:

L Lambrechts (Chairman) #	(appointed 01/01/2015)
HD Nel ^	(appointed 15/11/2012)
M Matthee	(appointed 14/09/2019)
MD Dunn # ^	(appointed 18/05/2016)
PE Speckmann # ^	(appointed 01/11/2017)

REPORT OF THE DIRECTORS (continued)

Sub–committee membership

Remuneration Committee members

^ Risk and Financial Review Committee members

* Investment Committee members

Company secretary

E Price (appointed 21/02/2013)

The Company secretary's postal and business addresses are:

40 3rd Avenue
Parktown North
2193

9. **AUDITORS**

PricewaterhouseCoopers Inc. will continue in office in accordance with Section 90(1) of the Companies Act, no 71 of 2008.

10. **CORPORATE GOVERNANCE REPORT**

The Corporate Governance and integrated reporting function for the Company is performed at the parent level, Santam Limited, and as a result a stand-alone corporate governance and sustainability report for the Company has not been prepared.

11. **AUDIT COMMITTEE**

The Company's holding company, Santam Limited performed duties of an audit committee for the Company as prescribed in Section 94 (2) of the Companies Act no 71, 2008. Please refer to page 3 for the Audit Committee Report.

12. **SUBSEQUENT EVENTS**

An ordinary shareholders' dividend payable to Centriq Insurance Holdings Limited of R18,082,134 (2019: R13,354,394) was declared on 11 February 2021. Refer to note 24.

Independent auditor's report

To the Shareholder of Centriq Life Insurance Company Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Centriq Life Insurance Company Limited (the Company) as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Centriq Life Insurance Company Limited's financial statements set out on pages 13 to 81 comprise:

- the statement of financial position as at 31 December 2020;
- statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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).*

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Centriq Life Insurance Company Limited's Annual Financial Statements for the year ended 31 December 2020", which includes the Report of the Directors, the Report of the Audit Committee and the Certification by Company Secretary as required by the Companies Act of South Africa. The other information does not include financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 PricewaterhouseCoopers Inc. has been the auditor of Centriq Life Insurance Company Limited for 10 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J.M Goncalves
Registered Auditor
Johannesburg, South Africa
19 April 2021

STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

	Notes	2020 R'000	2019 R'000
ASSETS			
NON-CURRENT ASSETS		**879,171**	**505,871**
Financial assets at fair value through profit and loss	4	771,423	384,329
Deposit held with cell owner	6	107,748	121,542
CURRENT ASSETS		**344,183**	**340,194**
Deposit held with cell owner	6	52,849	58,045
Financial assets at fair value through profit and loss	4	96,907	45,507
Reinsurance assets	5	26,426	21,173
Income tax asset		-	1,173
Insurance and other receivables	7	70,735	63,558
Cash and cash equivalents	8	97,266	150,738
TOTAL ASSETS		**1,223,354**	**846,065**
EQUITY AND LIABILITIES			
EQUITY		**33,085**	**28,357**
Ordinary share capital	9	15,000	15,000
Retained income		18,085	13,357
NON-CURRENT LIABILITIES		**788,184**	**545,611**
Liabilities due to cell shareholders	10	680,078	423,888
Reinsurance contract liability	13	107,748	121,542
Deferred taxation liability	11	358	181
CURRENT LIABILITIES		**402,085**	**272,097**
Reinsurance contract liability	13	52,849	58,045
Policyholder liabilities under insurance contracts	5	120,916	82,007
Income tax liability		3,324	-
Policyholder liabilities under investment contracts	12	-	1,898
Insurance and other payables	14	224,996	118,488
Provisions	15	-	200
Amounts owing to group companies	25	-	11,459
TOTAL EQUITY AND LIABILITIES		**1,223,354**	**846,065**

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Notes	2020 R'000	2019 R'000
Gross written premiums		2,594,508	1,553,256
Less: reinsurance premium		(2,578,730)	(1,545,555)
Net written premium		15,778	7,701
Fees and commission income	16	104,352	114,868
Revenue from contracts with customers	17	75	181
Investment income and net gains on financial assets	18	48,049	37,726
Net income		168,254	160,476
Gross claims and benefits incurred (including change in insurance contracts provisions)		(1,196,831)	(501,669)
Reinsurers' share of claims and benefits incurred (including change in insurance contracts provisions)		1,191,355	495,991
Net policyholder claims and benefits incurred	19	(5,476)	(5,678)
Expenses for the acquisition of insurance contracts		(79,595)	(94,771)
Investment return allocated to cell shareholders		(31,680)	(28,581)
Fair value movement for investment contract liabilities		2,724	983
Marketing and administration expenses	20	(29,113)	(13,970)
Expenses		(143,140)	(142,017)
Operating Profit		25,114	18,459
Income tax recovered from Cells		241,536	143,979
Profit before tax		266,650	162,438
Total tax expense	21	248,568	149,147
Tax expense allocated to shareholders		7,032	5,168
Tax expense allocated to cell shareholders		241,536	143,979
Profit for the year		**18,082**	**13,291**
Other comprehensive income		-	-
Total comprehensive income for the year		**18,082**	**13,291**
Attributable to			
– equity holders of the Company		**18,082**	**13,291**

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Ordinary share capital	Retained income	Total equity shareholders interest
	R'000	R'000	R'000
Balance at 01 January 2019	**15,000**	**15,366**	**30,366**
Total comprehensive income for the year	-	13,291	13,291
Dividend paid to ordinary shareholders	-	(15,300)	(15,300)
Balance at 31 December 2019	**15,000**	**13,357**	**28,357**
Balance at 01 January 2020	**15,000**	**13,357**	**28,357**
Total comprehensive income for the year	-	18,082	18,082
Dividend paid to ordinary shareholders	-	(13,354)	(13,354)
Balance at 31 December 2020	**15,000**	**18,085**	**33,085**

STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Notes	2020 R'000	2019 R'000
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES			
Cash generated from operations	22	959,140	587,080
Interest received	18	45,612	37,387
Taxation paid	23	(243,894)	(150,595)
Purchase of investments		(2,539,596)	(2,014,731)
Proceeds on investments matured and disposed		2,103,522	1,870,956
Net cash generated from operating activities		**324,784**	**330,097**
CASH UTILISED IN FINANCING ACTIVITIES			
Proceeds from issue of financial instruments to cell shareholders		23,000	5,000
Repayment of liabilities due to cell shareholders		(2,000)	(610)
Dividend paid to cell shareholders		(385,902)	(209,391)
Dividend paid to shareholders		(13,354)	(15,300)
Cash utilised in finance activities		**(378,256)**	**(220,301)**
Net change in cash and cash equivalents		(53,472)	109,796
Cash and cash equivalents at beginning of the year		150,738	40,942
Cash and cash equivalents at end of the year	8	**97,266**	**150,738**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 years presented and are consistent with the previous year unless otherwise stated.

1.1. Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and are in compliance with the requirements of the Companies Act of South Africa. The financial statements have been prepared under the historical cost convention, modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2, critical accounting estimates and judgements in applying accounting policies.

The Company did not early adopt any of the IFRS standards.

All amounts in the financial statements are shown in South African Rands, rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1.1. International Financial Reporting Standards and amendments effective for the first time for 31 December 2020 year-end

IFRS	Effective date	Executive summary
Amendment to IFRS 3, 'Business combinations' Definition of a business.	Annual periods on or after 1 January 2020 (Published October 2018)	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.
Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	Annual periods beginning on or after 1 January 2020 (Published October 2018)	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs: • use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting; • clarify the explanation of the definition of material; and • incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."
Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosure' – Interest rate benchmark reform (Phase 1)	Annual periods beginning on or after 1 January 2020 (early adoption is permitted) (Published September 2019)	These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1.2. International Financial Reporting Standards and amendments issued but not effective for 31 December 2020 year-end

Number	Effective date	Executive summary
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 June 2020 (early adoption is permitted) (Published June 2020)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)	Annual periods beginning on or after 1 January 2021 (Published August 2020)	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published January 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).
Amendment to IFRS 3, 'Business combinations'	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the the contract.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1.2. International Financial Reporting Standards and amendments issued but not effective for 31 December 2020 year-end (continued)

Number	Effective date	Executive summary
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	These amendments include minor changes to: • IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. • IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value.
IFRS 17, 'Insurance contracts' Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and several proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.

Changes for this financial year are not expected to have a material impact on the Company's financial reporting or disclosures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.1.3. Discussion of impact of initial application of changes to standards and interpretations that are not yet effective and have not been early adopted by the Company

IFRS 17 – Insurance contracts

IFRS 17 Insurance contracts was issued in May 2017 and will be effective for annual periods beginning on or after 1 January 2023. The previous IFRS Standard on insurance contracts, IFRS 4, was an interim standard that allowed entities to use a wide variety of accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements. In contrast to the requirements of IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct and reinsurance), regardless of the type of entity that issue those contracts. The General Model (also referred to as building block approach) forms the core of IFRS 17. It is supplemented by:

- A specific adaption for contracts with direct participation features ("the variable fee approach"); and
- A simplified approach ("the premium allocation approach") mainly for short-duration contracts.

The implementation of IFRS 17 will have different financial and operational implications for each entity that adopts the standard. It is, however, expected that fundamental changes will be required in the following areas:

- Liability measurement
- Data requirements
- Operations and the underlying systems
- Management reporting

The Company does not expect that the remaining statements will have a significant impact of the financial results and disclosures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2. **Insurance contracts**

1.2.1. **Classification of contracts**

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

A risk is a significant risk if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance and is assessed on a contract by contract basis except in circumstances where there is a relatively homogeneous book of small contracts which are known to transfer risk.

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

1.2.2. **Cell insurance**

The Company offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the Company with a cell shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders agreement. There are currently two distinct types of cell captive arrangements a) first party and b) third party.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2. **Insurance contracts (continued)**

1.2.2. **Cell insurance (continued)**

a) **First party** – where the risks that are being insured relate to the cell shareholders' own operations or operations within the cell shareholders' group of companies.

The cell shareholder and the policyholder are considered the same person. Where more than one contract is entered into with a single counterparty, it shall be considered a single contract, and the shareholder and insurance agreement are considered together for risk transfer purposes. As these contracts are a single contract there is no significant risk transfer and such cell captive facilities are accounted for as investment contracts.

b) **Third party** – where the cell shareholder provides the opportunity to its own client base to purchase branded insurance products. The Company is the principal to the insurance contract, although the business is underwritten on behalf of the cell shareholder. The shareholder's agreement however determines that the cell shareholders remain responsible for the solvency of the cell captive arrangement. In substance the Company therefore reinsurers this business to the cell shareholder as the cell shareholder remains responsible for the solvency of the cell captive arrangement.

The cell shareholder's interest represents the cell shareholder's funds held by the insurer and is included under liabilities due to cell shareholders. The carrying value of amounts due to cells is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayments to cells.

1.2.3. **Long-term insurance in these cell structures**

Long-term insurance provides benefits under long-term policies, which include assistance, life and investment or a contract comprising a combination of any of those policies. Long-term insurance contracts are further classified into group, individual and fund.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2. **Insurance contracts (continued)**

1.2.4. **Policyholder liabilities under insurance contracts**

The liabilities under life insurance contracts are valued in terms of the Financial Soundness Valuation ("FSV") basis contained in Standards of Actuarial Practice ("SAP") 104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts" in the statement of financial position. The operating surpluses or losses arising from life insurance contracts are determined by the annual actuarial valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unmatured policies, provisions for profit commissions accrued and adjustments to other reserves within the policyholder liabilities.

1.2.5. **Gross written premiums**

Gross premiums exclude value added tax. Premiums are accounted for as income when the risk related to the insurance policy incepts. All premiums are shown before deduction of commission payable to intermediaries.

1.2.6. **Expenses for the acquisition of insurance contracts**

Commission and other acquisition costs that vary with and are related to securing new contracts and renewing existing insurance contracts are recognised as expenses when incurred.

1.2.7. **Claims incurred**

Claims incurred comprise claims and related expenses paid in the year and charges for outstanding claims, as well as the movement in policyholder liabilities under insurance contracts, together with adjustments to claims from previous years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2. **Insurance contracts (continued)**

1.2.8. **Provision for outstanding claims**

Provision is made for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. Provision for outstanding claims is estimated using the assessments on individual cases reported to the Company. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges. Claims provisions are not discounted as it is not expected to make a material impact to the estimate result.

1.2.9. **Reinsurance contracts held**

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short–term balances due from reinsurers (classified within insurance receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are dependent on the gross outstanding claims and policyholder liabilities. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

1.2.10. **Financial reinsurance**

The amounts the Company is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities ("reinsurance contract liability").

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2. Insurance contracts (continued)

1.2.11. Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and are included under insurance receivables and insurance and other payables.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. Objective evidence that an insurance receivable is impaired includes observable data that comes to the attention of the Company about one or more of the following events:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in payments;
(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisations;
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:

- adverse changes in the payment status of issuers or debtors in the Company; or
- national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for insurance receivables that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.2. **Insurance contracts (continued)**

1.2.12. **Liability adequacy test**

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the Company recognises the shortfall in income for the year.

1.2.13. **Investment return allocated to cell shareholders**

Investment return allocated to cell shareholders relate to investment returns earned on cell shareholder's funds which are payable to cell shareholders in terms of the shareholders' agreement between the insured and the cell shareholder.

1.3. **Provisions**

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

1.4. **Taxation**

Income tax on the profit or loss for the year 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.

1.4.1. **Current tax**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.4. Taxation (continued)

1.4.2. Deferred tax

Deferred income tax is provided in full, using the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for.

Enacted tax rates or substantially enacted rates at the statement of financial position date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit 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.

1.5. Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit and loss, and at amortised cost. Management determines the classification of its financial assets at initial recognition and re–evaluates this at every reporting date.

1.5.1. Classification

i. Financial assets at fair value through profit and loss

The following is classified as financial assets at fair value through profit or loss ("FVPL"):

- debt investments that do not qualify for measurement at either amortised cost or fair value through other comprehensive income ("FVOCI");
- equity investments that are held for trading, and
- equity investments for which the Company has not elected to recognise fair value gains and losses through OCI.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.5. **Financial assets (continued)**

1.5.1. **Classification (continued)**

ii. Financial assets at amortised cost

The following is classified as financial assets at amortised cost:

Other loans and receivables consisting of:

- Other receivables and prepayment; and
- Amounts due to group companies.

The financial assets are non–derivative financial assets with fixed or determinable payments and the Company intends to hold the financial asset to collect the contractual cash flows which represent principal and interest.

iii. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks. Cash on hand and deposits held on call with banks are carried at cost which is deemed to be the fair value.

1.5.2. **Recognition and measurement**

Purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are recognised in the statement of comprehensive income. Investments are derecognised when the rights to receive cash flows from the investments have expired and where the Company has also transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit and loss are subsequently carried at fair value. Movements arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the statement of comprehensive income in the period in which they arise.

Other loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective-interest method, less provision for impairment. The carrying amount is considered to be the same as fair value due to the short term duration of the financial assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.5. **Financial assets (continued)**

1.5.3. **Determination of fair value**

The fair values of quoted investments are based on current stock exchange close prices on the statement of financial position date. If the market for a financial asset is not active or if it is unquoted, the Company establishes fair value by using valuation techniques. These include discounted cash flow analysis, recent market related transactions, premium/discount to net asset value and price–earnings techniques. The Company's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data. Debt securities are measured at fair value based on the market rate of an equivalent non-convertible bond. Unit trusts are measured at fair value based on the quoted repurchase price.

1.5.4. **Derecognition of financial assets**

Financial assets are derecognised when the Company loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered.

1.6. **Impairment**

1.6.1. **Financial assets carried at amortised cost**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.6. **Impairment (continued)**

1.6.1. **Financial assets carried at amortised cost (continued)**

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

1.6.2. **Other non–financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit to which it belongs.

1.7. **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.8. **Share capital**

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

1.9. **Trade and other payables**

Trade and other payables are recognised when the Company has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the Company.

Trade and other payables are recognised initially at fair value, net of transaction costs incurred and are carried at amortised cost.

1.10. **Liability due to cell shareholders**

Liability due to cell shareholders is measured in accordance with the requirement set out in IFRS 4 detailed in the accounting policy under "Cell Insurance" (refer to accounting policy note (1.2.2)).

Liabilities due to cell shareholders represent the cells' funds in respect of the insurance business conducted in the cell structures. The premiums and claims relating to first party cells have been excluded from the statement of comprehensive income and are accounted for directly in the liability. The premium and claims payments relating to contracts in third party cells have been included in the statement of comprehensive income but as the third party cell, in substance, is the reinsurer the net result is accounted for as part of the liability.

Fees earned from the contracts are disclosed separately.

1.11. **Investment contracts**

Long term insurance policies are disclosed as investment contracts in the following instances:

1.11.1. **First party cells**

First-party cells are disclosed in accordance with the requirement detailed in the accounting policy under "First party" (refer to accounting policy note (1.2.2(a))).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.11. **Investment contracts (continued)**

1.11.2. **Policies with no significant risk transfer**

A risk is a significant risk if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding those that lack commercial substance and is assessed on a contract by contract basis except in circumstances where there is a relatively homogeneous book of small contracts which are known to transfer risk. Should an insurance contract not result in significant risk transfer, the contract will be accounted for as an investment contract.

1.12. **Financial liabilities**

1.12.1. **Financial liabilities at amortised cost**

Financial liabilities at amortised cost include interest–bearing loans and borrowings and are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the year of the borrowings on an effective interest basis.

1.12.2. **Derecognition of financial liabilities**

A financial liability is derecognised when it is legally extinguished.

1.13. **Other revenue**

1.13.1. **Interest income on financial assets held as investment**

Interest income from financial assets that are classified as at through profit and loss and cash and cash equivalents is recognised using the effective interest rate method.

1.13.2. **Fees and commission income**

Fee income comprises of management fees charged to cells and are contractually agreed. Fee income is recognised when services are rendered.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

1.13. **Other revenue (continued)**

1.13.3. **Revenue from contracts with customers**

Revenue is recognised when services are rendered i.e. investment contract is effective and is a contracted rate of premium. A receivable is recognised when an investment contract is effective as this is the point in time that the consideration is unconditional because only the passage of time is required before payments is due.
There were no significant judgements in recognising revenue.
There are no:

- significant payment terms;
- obligations for returns, refunds and other similar obligations; and
- no types of warranties or related obligations.

2. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Preparing financial statements in accordance with IFRS requires that management make use of estimates, assumptions and judgements that affect the application of the accounting principles and reported amounts of assets, liabilities and contingent liabilities at the reporting date as well as the reported income and expenses for the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although estimates are based on management's best knowledge, experience, insight and judgement of current facts at the reporting date, the actual outcome may deviate from these estimates, possibly significantly.

2.1. **Policyholder liabilities**

Reserves are in general set using a combination of loss ratios and discounted cashflow techniques. Loss ratios are set with reference to historic claims level and involve a measure of judgement. Allowance has also been made for the current outbreak of Coivd-19 in setting these assumptions, specifically in relation to mortality and retrenchment. Loss ratios used range from 2.3% to 100% of gross premiums.

The reserve set for the cancer protection products was established on an individual member basis. The cashflows were projected for each active policyholder and a discounted reserve established. A mortality rate, including an AIDS loading and cancer rates were used. Due to the small number of lives, there is no past data to support these assumptions, thus these assumptions were based on the statutory actuary's best estimate of the insured lives.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

2.1. Policyholder liabilities (continued)

The reserve for credit life, funeral, level term assurance, decreasing term assurance and whole life products is calculated on an individual member basis by projecting the cashflows. The mortality assumption was set using past experience analysis and the expected impact of COVID-19 while the expense assumption was based on the estimated policy renewal fees. These assumptions were reviewed and signed off by the head of actuarial function. Moreover, one of the cells writing most of this type of business is 100% reinsured therefore no net reserves are required.

A discounted cashflow method is also used to calculate the reserve for future expected claims related to disability income benefits. The termination rates (i.e. the estimated probabilities of death or recovery) used for the calculation have been set with reference to standard Group Long-Term Disability ("GLTD") tables.

2.1.1. Changes in assumptions

The loss ratio assumptions changed for a number of cells, based on historic claims experience, the impact of COVID-19 and judgment about future expected experience. The impact of these changes to the Company's profitability has not been significant because only a small portion of business is retained by the Company.

2.2. Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There might be transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

2.2. Taxation (continued)

Deferred income tax is provided in full, using the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Assessing the recoverability of deferred income tax assets requires the Company to make estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ from estimates, the ability of the Company to realise the net deferred tax assets recorded at the statement of financial position date could be impacted.

2.3. Financial assets

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and assumptions that are mainly based in market conditions existing at each reporting date.

3. INSURANCE AND FINANCIAL RISK MANAGEMENT

3.1. Insurance risk

3.1.1. Objectives for risk management and controls for mitigating risk

The Company's main insurance activity involves the provision of structured insurance solutions to corporate clients that adopt good risk management principles. The Company also assumes the risk of loss from persons that are directly subject to the risk. Most of these insurance solutions are provided by way of first and third party cell captives.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.1. **Insurance risk (continued)**

3.1.1. **Objectives for risk management and controls for mitigating risk (continued)**

For the cell captive business, policy wordings are designed specifically for the type of cover being provided within the cells.

The Company has ensured the successful implementation of Board Notice 158 of 2014 – Governance and Risk Management Framework for Insurers. The required framework was incorporated within all levels of the business and all Committee and Subcommittee Charters were aligned accordingly.

The board of directors has granted the management of the Company a general authority to conduct the business affairs of the Company subject to levels of authority.

3.1.2. **Terms and conditions of insurance contracts**

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

3.1.3. **Features of contracts written**

a) **Assistance business (Individual)**
Provides a benefit in the event of death of the insured and possibly the insured's dependants. The benefit is meant to cater for the funeral expenses. The insured lives may not necessary have any common link, i.e. offered to members of the public on a voluntary basis.

b) **Assistance business (Group)**
Provides a benefit in the event of death of the insured and possibly the insured's dependants. The insured lives would necessarily have a common link, e.g. employer, church group, union, etc. Cover is often arranged on a compulsory basis, but voluntary options may be offered as well. Cover for the group is normally arranged on annually renewable terms.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.1. **Insurance risk (continued)**

3.1.3. **Features of contracts written (continued)**

c) **Life (Individual)**

Provides a benefit in the event of death, disability (as a result of injury or illness), or upon diagnosis of a defined illness (e.g. cancer) of the insured. The insured lives may not necessarily have any common link, i.e. offered to members of the public on a voluntary basis. The benefit is paid to the nominated beneficiary as stated by the insured when the policy was bought.

d) **Life (Group)**

Provides a benefit in the event of death, disability (as a result of injury or illness), or upon diagnosis of a defined illness of a member of the group. The group will typically be an employer who arranges a scheme to cover all employees. Cover for any employee ceases upon leaving employment. The death benefit is paid to the nominated beneficiary as stated by the member when the member joined the scheme.

A scheme could also be structured to provide similar benefits to a credit holder. The benefit is based on the outstanding balance at the time of the insured event and is meant to settle the outstanding balance. For these types of schemes, cover is given on annually renewable terms.

3.1.4. **Insurance risks in the Company and how these are mitigated**

For each of the above classes of business, the following insurance risks could result in underwriting losses:

a) **Assistance business (Individual) and Life (Individual)**

The main risks associated with these contracts are mortality and morbidity risks. These risks are on actual mortality or morbidity turning out to be higher than that assumed in the pricing. The mortality and morbidity assumptions in the pricing are based on historical experience on the said classes of contracts. Premium rates are annually renewable and this allows the Company to review the experience and adjust rates if necessary.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.1. **Insurance risk (continued)**

3.1.4. **Insurance risks in the Company and how these are mitigated (continued)**

a) **Assistance business (Individual) and Life (Individual) (continued)**

Geographical concentration is not a major risk under these contracts because policies are written on individual basis across the country. This ensures sufficient geographical spread, reducing the risk of several claims arising from a single event (i.e. catastrophe). Other risks such as withdrawals, new business mix and volumes, expenses and capital requirements are monitored regularly.

b) **Assistance business (Group) and Life (Group)**

As for Individual business above, the main risks with these contracts relate to mortality and morbidity where higher mortality or morbidity is experienced than that assumed in the pricing. Premium rates are annually renewable, allowing the Company to review and adjust rates if necessary.

Geographical concentration risk is possible, especially where employer groups are concerned. Several claims could result from a single catastrophic event because the insured lives are located in the same area. This risk is mitigated by buying an appropriate level of catastrophe reinsurance.

Other risks such as withdrawals, new business mix and volumes, expenses and capital requirements are monitored regularly.

3.1.5. **Underwriting strategy**

It is the Company's philosophy to accept only those risks that yield an acceptable rate of return on the capital exposed to risk and to an extent that limits the exposure to loss to an acceptable amount and where required, within regulated prudential limits. The net retention is therefore based on individual small occurrences exposing the Company mainly to attritional losses and reinsuring individual large loss, catastrophe and volatility exposures. All exposures in excess of the Company's individual risk appetite are either mitigated by client capital through cell captive arrangements or reinsurance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.1. **Insurance risk (continued)**

3.1.5. **Underwriting strategy (continued)**

Policy and claims administration for volume business is generally outsourced to independent administrators and the Company performs regular actuarial evaluations of the risk written through these arrangements. The evaluations include reviewing the pricing, individual risk exposures and accumulation risk exposures to ensure that the particular facility is able to produce the required return on capital. The Company generally purchases excess of loss reinsurance cover on a per loss basis for each facility to ensure that the Company is not adversely exposed to large individual losses.

The Company uses a balance of traditional insurance underwriting expertise and actuarial input to price its underwriting risk. Outsourced underwriting risk is further monitored by regular reviews by the client service teams, audits and detailed contractual mandates.

3.1.6. **Reinsurance strategy**

The Company reinsures a portion of the risks it underwrites in order to control its exposure to losses and to protect capital resources. The Company purchases individual proportional and non-proportional reinsurance on a per deal basis, thereby ring-fencing the exposures and profit share arrangements per client. The Company also purchases group catastrophe reinsurance to protect its net account.

In addition, underwriters and actuarial staff are also permitted to purchase facultative reinsurance from a pre-approved list of reinsurers up to the mandated amounts. The mandates prescribe that underwriters and actuarial staff may not cede more than a specific percentage to any one reinsurer without prior approval to ensure diversification.

Reinsurers are generally pre-approved. Non-approved reinsurers must go through an approval process and if necessary, risk mitigating factors such as premium retention and pay as paid clauses are applied.

The Company also monitors the concentration of risks to single reinsurers and risk exposures to the reinsurers. The risk exposures are calculated using default probabilities based on the respective reinsurer's credit rating as allocated by recognised rating agencies. The risk exposure is fairly sensitive to the reinsurer's credit rating, for example if the credit rating of the reinsurer with the biggest exposure was downgraded the Company's overall exposure to reinsurers after applying the probabilities of default would increase concomitantly.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.1. **Insurance risk (continued)**

3.1.7. **Concentration risk**

Within the insurance process, concentration risk may arise where a particular event or series of events could cause significant insurance losses that could impact heavily on the Company's financial resources. For this reason the Company monitors its net exposure to these events by identifying the concentration of risk by geographical area. The objective of this process is to source sufficient catastrophe cover in order to protect the Company's net retained position against these events.

3.1.8. **Pricing risk**

For third party cells and underwriting management agencies, the Company bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and brokers to ensure that this policy is consistently applied. The Company also has the right to re-price and change the conditions for accepting risks on renewal.

Through the use of extensive expertise, well–maintained data resources, selective underwriting practices and pricing techniques the Company is able to produce appropriate and competitive premium rates.

3.1.9. **Sensitivity analysis**

The loss ratio method of reserving can sometimes be quite sensitive to the assumed loss ratio. However, for the business written by the Company, historical loss ratios per scheme were used and these were not very sensitive to changes. On average, a 1% change in each scheme's loss ratio could result in approximately a 1.090% change in overall net non-linked reserves.

For the policyholder liabilities, where discounted cash flow techniques were used, interest rate shocks were applied as described below. The resulting change in net non-linked liabilities were not very significant, mainly because only two schemes has positive liabilities (in respect of permanent health insurance "PHI" claims) whilst the liabilities in other schemes were negative (and therefore zeroised) both before and after the shocks.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.1. **Insurance risk (continued)**

3.1.9. **Sensitivity analysis (continued)**

a. 50% increase in interest rates – this resulted in approximately a 5.28% decrease in overall policyholder liabilities.

b. 35% decrease in interest rates – this resulted in approximately a 2.88% increase in overall policyholder liabilities.

The impact of these shocks on the Company's profitability would be insignificant because less than 1% of premiums are retained by the Company.

3.1.10. **Reserving**

An extensive reserving exercise is carried out annually by the Company's actuaries. Each scheme is analysed individually and the results aggregated for the Company, the cells and the reinsured portion.

Following the annual reserving exercise, a reserving basis is set for each scheme, and this basis is used to update the reserves on a quarterly basis during the subsequent year. This ensures that the reserves are largely up to date and any discernible trends are appropriately factored in during the year.

3.1.11. **Claims development**

In terms of IFRS 4: Insurance Contracts, an insurer should disclose claims run-off information where uncertainty exists about the amount and timing of claims payments not resolved within one year. Generally, most of the Company's business is short-tailed i.e. any claim is generally settled within 12 months of the date of loss, and the claim benefit amounts are fixed. Consequently, detailed claims run-off information is not presented.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk

3.2.1. Risk management framework

The Company has established an enterprise risk management framework that is designed to identify, assess, measure and manage exposure to risk. Its primary objective is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities.

For the discussions below, the following financial instruments and insurance balances are disclosed in classes based on their similar characteristics.

Financial and insurance assets	2020 R'000	2019 R'000
Quoted debt securities	150,055	62,194
Unquoted debt securities	621,368	330,145
Short-term money market instruments	96,907	37,497
Total investments	**868,330**	**429,836**
Cash and cash equivalents	97,266	150,738
Total financial assets	**965,596**	**580,574**
Insurance and other assets		
Insurance and other receivables	70,735	63,558
Reinsurance assets	26,426	21,173
Deposit held with cell owner	160,597	179,587
Total insurance and other assets	**257,758**	**264,318**
Total financial and insurance assets	**1,223,354**	**844,892**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk (continued)

3.2.1. Risk management framework (continued)

Financial and insurance liabilities	2020 R'000	2019 R'000
Liabilities due to cell shareholders	680,078	423,888
Policyholder liabilities under investment contracts	-	1,898
Amounts due to group companies	-	11,459
Financial liabilities	**680,078**	**437,245**
Policyholder liabilities under insurance contracts	120,916	82,007
Insurance and other payables	224,996	118,488
Provisions	-	200
Reinsurance contract liability	160,597	179,587
Total insurance liabilities	**506,509**	**380,282**
Total financial and insurance liabilities	**1,186,587**	**817,527**

3.2.2. Regulatory impact on risk and risk assessments

The Company's insurance operations are subject to regulatory requirements that prescribe the type, quality and concentrations of investments, and the level of assets to be maintained in local currency to meet insurance liabilities. These requirements help to maintain the Company's market risk at an acceptable level.

In monitoring risks, the Company makes use of compiled information on all material risks, along with information on likelihood and severity of risks, and the mitigating actions taken or planned. This enables the Company to assess its overall risk exposure and to develop a risk map, identifying any concentration of risk that may exist, and to define which risks and what level of risk the Company is prepared to accept.

3.2.3. Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in economic factors such as interest rates, equity prices and foreign currency exchange rates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk

3.2.3. Market risk (continued)

Market risk arises due to fluctuations in both the value of financial liabilities and the value of investments held.

The Company has established a Risk Appetite Statement and an Investment Policy which management utilises in the management of the key market risks to which the Company is exposed. Adherence to the Risk Appetite Statement and Investment Policy is monitored and reviewed through the Investment Committee. For each of the major components of market risk, described in more detail below, the Company has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

3.2.4. Price risk

The Company is subject to price risk due to daily changes in the market values of its equity and debt securities portfolios.

The Company's objective is to earn competitive relative returns by investing in a diverse portfolio of high–quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively monitored and managed by the Investment Committee. The Company's holdings are diversified across companies, and concentrations in any one company are limited by parameters established by management and statutory requirements.

3.2.5. Interest rate risk

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates. Exposure to interest rate risk is monitored and managed by the Investment Committee.

The fair value of amounts due to cells is not sensitive to changes in interest rates as the amounts are undiscounted and the cash component of the amounts earn interest at market related rates.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.2. **Financial risk (continued)**

3.2.5. **Interest rate risk (continued)**

An increase or decrease of 1% (100 basis points) in the interest rates relating to floating debt securities and cash and cash equivalents would result in an increase in total investment income of R829,846 (2019: R369,490) or a decrease of R1,115,591 (2019: R550,172) respectively of which approximately R 143,585 (2019: R 50,434) is attributable to profit before tax.

3.2.6. **Credit risk**

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations.

Key areas where the Company is exposed to credit risk are:

- investments in debt securities and cash and cash equivalents;
- amounts due from insurance policyholders;
- amounts due from group companies;
- amounts due from insurance contract intermediaries; and
- reinsurance contracts and receivables.

Deposits held with cell owners have minimal credit risk exposure.

The credit ratings provided were determined as follows: Sanlam Investment Management ("SIM") provided management with reports generated from their credit system on a quarterly basis, detailing all counterparty duration and credit risk. These reports include international, national and internal ratings. SIM also provides management with a conversion table that is then applied to standardise the ratings to the equivalent Standard & Poors international long-term rates. The Company seeks to avoid concentration of credit risk to groups of counterparties, to business sectors and product types.

Financial assets are graded according to current credit ratings issued and are classified as above. Financial assets which fall outside this range are classified as not rated. Credit limits for each counterparty, are set based on default probabilities that are in turn based on the ratings of the counterparty concerned.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.2. **Financial risk (continued)**

3.2.6. **Credit risk (continued)**

Credit risk is managed on a client by client basis. Credit risk procedures are performed for new clients at inception and for existing clients at renewal. In addition, credit risk is re–evaluated on an exception basis if a client's solvency declines to an unacceptable level in management's view. Below are the controls that have been implemented to monitor and mitigate our credit risk:

1. A credit risk analysis is performed per client to assess the level of exposure that the Company faces.

2. If the analysis reflects an unacceptable level of risk, further steps are put in place to mitigate this risk. This is done through the engagement of a specialist attorney to secure the assets of certain individuals, for example by obtaining pledges, notarial bonds, suretyships, etc.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk (continued)

3.2.6. Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at 31 December 2020

R'000	Credit rating										
	AA-	A	A-	A+	BB+	B-	B+	BB-	BB	Not rated	Carrying value in SOFP
Debt securities – quoted	-	-	-	-	-	3,951	8,530	29,976	107,598	-	150,055
Debt securities-unquoted	-	-	-	-	-	-	-	1,004	620,364	-	621,368
Short term money market instruments	-	-	-	-	-	-	6,015	6,282	84,610	-	96,907
Cash and cash equivalents	-	-	-	42	-	-	14,592	82,632		-	97,266
Total financial assets	-	-	-	**42**	-	**3,951**	**29,137**	**119,894**	**812,572**	-	**965,596**
Receivables due from contract holders	-	-	-	-	-	-	-	-	-	58,167	58,167
Receivables due from intermediaries	-	-	-	-	-	-	-	-	-	1,510	1,510
Reinsurance receivables	519	57	-	-	-	-	-	-	-	105	681
Reinsurance assets	-	-	-	-	-	-	-	-	-	26,426	26,426
Other loans and receivables	-	-	-	-	-	-	-	-	-	10,377	10,377
Amounts owed by group companies	-	-	-	-	-	-	-	-	-	-	-
Deposit held with cell owner	-	-	-	-	-	-	-	-	-	160,597	160,597
Total insurance assets and other receivables	**519**	**57**	-	-	-	-	-	-	-	**257,182**	**257,758**
Total	**519**	**57**	-	**42**	-	**3,951**	**29,137**	**119,894**	**812,572**	**257,182**	**1,223,354**

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk (continued)

3.2.6. Credit risk (continued)

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at 31 December 2019

	Credit rating										
R'000	A	AA-	A-	B+	B	BBB-	BB+	BB	BB-	Not rated	Carrying value in SOFP
Debt securities – quoted	-	-	-	4,524	-	36,669	2,055	3,541	15,405	-	62,194
Debt securities-unquoted	-	-	-	1,012	-	314,927	-	-	14,206	-	330,145
Short term money market instruments	-	-	-	-	1,003	22,308	5,071	2,053	7,062	-	37,497
Cash and cash equivalents	-	-	-	94,291	-	23,534	32,913	-	-	-	150,738
Total financial assets	-	-	-	**99,827**	**1,003**	**397,438**	**40,039**	**5,594**	**36,673**	-	**580,574**
Receivables due from contract holders	-	-	-	-	-	-	-	-	-	57,602	57,602
Receivables due from intermediaries	-	-	-	-	-	-	-	-	-	1,049	1,049
Reinsurance receivables	651	-	2,691	-	-	-	-	-	-	1,564	4,906
Reinsurance assets	-	-	-	-	-	-	-	-	-	21,173	21,173
Other loans and receivables	-	-	-	-	-	-	-	-	-	1-	1-
Amounts owed by group companies	-	-	-	-	-	-	-	-	-	-	-
Deposit held with cell owner	-	-	-	-	-	-	-	-	-	179,587	179,587
Total insurance assets and other receivables	**651**	-	**2,691**	-	-	-	-	-	-	**260,976**	**264,318**
Total	**651**	-	**2,691**	**99,827**	**1,003**	**397,438**	**40,039**	**5,594**	**36,673**	**260,976**	**844,892**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.2. **Financial risk (continued)**

3.2.6. **Credit risk (continued)**

a) **Reinsurance credit exposures**

Reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The Company has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract.

The Company only reinsures with companies that have an investment grade credit rating (AAA to BBB). Reinsurers with a rating less than A- and whose risk of default is in excess of 2% are approved by the Board of directors. Where a reinsurer has a relatively lower credit rating, the Company will insist on a pay as paid clause in the reinsurance agreement.

b) **Cell shareholders' interest**

The Company is exposed to credit risk in relation to cell captive arrangements. Management has established and implemented credit risk evaluation procedures that are followed for all new and existing cells. These evaluation procedures involve the analysis of the cells' individual financial statements with a focus on solvency. Actuarial techniques are applied on the available information to determine the extent of underwriting risk.

Where underwriting risk is considered to be excessive, third party reinsurance is utilised to mitigate this risk. Where excessive underwriting losses are incurred by a client cell facility, the facility is either recapitalised, cancelled and a claim instituted for any residual losses or the facility is restructured to reduce on-going exposures and corrective underwriting measures are implemented to trade out of the loss position. In addition to this, the insurance product is structured in a manner that will minimise underwriting risk to levels appropriate for the credit risk extent.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk (continued)

b) Cell shareholders' interest (continued)

In the event that claims incurred by the cell captive exceed the related assets, the Company will be exposed to the credit risk of the related cell shareholders until the solvency requirements of the cell captives have been met by the cell shareholder. The solvency of all new and existing cells are monitored by management on a monthly basis.

Cell captives identified as having insufficient capital are reviewed by the Executive committee and where appropriate additional capital is requested from the cell captive owner.

c) Impairment history

The following tables provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Impairment	Carrying value
	Neither past due nor impaired	0-3 months	3-6 months	6 months – 1 year	Greater than 1 year			
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
31 December 2020:								
Quoted-debt securities	150,055	-	-	-	-	-	-	**150,055**
Unquoted-debt securities	621,368	-	-	-	-	-	-	**621,368**
Short-term money market instruments	96,907	-	-	-	-	-	-	**96,907**
Deposit held with cell owner	160,597	-	-	-	-	-	-	**160,597**
Receivables due from contract holders	31,710	12,180	403	73	13,801	-	-	**58,167**
Receivables due from intermediaries	919	88	(108)	(423)	1,034	-	-	**1,510**
Reinsurance receivables	337	365	8	(2)	(27)			**681**
Other loans and receivables	10,377	-	-	-		-	-	**10,377**
Cash and cash equivalents	97,266	-	-	-	-	-	-	**97,266**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. **INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)**

3.2. **Financial risk (continued)**

c) **Impairment history (continued)**

	Financial assets that are past due but not impaired							
	Neither past due nor impaired	0-3 months	3-6 months	6 months – 1 year	Greater than 1 year	Financial assets that have been impaired	Impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
31 December 2019:								
Quoted-debt securities	62,194	-	-	-	-	-	-	**62,194**
Unquoted-debt securities	330,145	-	-	-	-	-	-	**330,145**
Short-term money market instruments	37,497	-	-	-	-	-	-	**37,497**
Deposit held with cell owner	179,587	-	-	-	-	-	-	**179,587**
Receivables due from contract holders	29,908	12,094	15,600	-	-	200	(200)	**57,602**
Receivables due from intermediaries	924	125	-	-	-	-	-	**1,049**
Reinsurance receivables	806	2,038	550	1,389	123	-	-	**4,906**
Other loans and receivables	1	-	-	-	-	-	-	**1**
Cash and cash equivalents	150,738	-	-	-	-	-	-	**150,738**

No terms have been renegotiated. The impairment of financial assets was based on a high degree of uncertainty to recover the amounts that are due.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk (continued)

3.2.7. Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

The Company is exposed to daily calls on its available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company actively manages its cash resources, split between short–term and long–term to ensure sufficient cash is at hand to settle insurance liabilities, based on monthly float projections. The Company has significant liquid resources to cover its obligations. For the purposes of the maturity analysis below, financial instruments are presented on an undiscounted, contractual and worse case basis while insurance assets and liabilities are presented based on expected cash flows.

The following maturity analysis provides details on the expected realisation of Financial and Insurance assets recognised at reporting date:

2020				
R'000	**Within 1 year**	**1-5 years**	**>5 years**	**Total**
Deposit held with cell owner	52,849	99,830	7,918	**160,597**
Debt securities	-	771,423	-	**771,423**
Short term money market instruments	96,907	-	-	**96,907**
Cash and cash equivalents	97,266	-	-	**97,266**
Insurance and other receivables	70,735	-	-	**70,735**
Reinsurance assets	26,426	-	-	**26,426**
Total	**344,183**	**871,253**	**7,918**	**1,223,354**

2019				
R'000	**Within 1 year**	**1-5 years**	**>5 years**	**Total**
Deposit held with cell owner	58,045	116,975	4,567	**179,587**
Debt securities	8,010	384,329	-	**392,339**
Short term money market instruments	37,497	-	-	**37,497**
Cash and cash equivalents	150,738	-	-	**150,738**
Insurance and other receivables	63,558	-	-	**63,558**
Reinsurance assets	21,173	-	-	**21,173**
Total	**339,021**	**501,304**	**4,567**	**844,892**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

3.2. Financial risk (continued)

3.2.7. Liquidity risk (continued)

The Financial assets at fair value through profit and loss that have been allocated in the 1 to 5 years maturity classification based on the contractual maturity date can be sold immediately.

The following maturity analysis provides details on the expected settlement of financial and insurance liabilities recognised at reporting date:

2020

R'000	Within 1 year	2-5 years	>5 years	Total
Reinsurance contract liability	52,849	99,829	7,918	**160,597**
Liabilities due to cell shareholders	-	680,078	-	**680,078**
Policyholder liabilities under insurance contracts	120,916	-	-	**120,916**
Insurance and other liabilities	224,996	-	-	**224,996**
Total	**398,762**	**779,907**	**7,918**	**1,186,587**

2019

R'000	Within 1 year	2-5 years	>5 years	Total
Reinsurance contract liability	58,045	116,975	4,567	**179,587**
Liabilities due to cell shareholders	-	423,888	-	**423,888**
Amounts due to Group companies	11,459	-	-	**11,459**
Policyholder liabilities under insurance contracts	82,007	-	-	**82,007**
Policyholder liabilities under investment contracts	1,898	-	-	**1,898**
Provisions	-	200	-	**200**
Insurance and other liabilities	118,488	-	-	**118,488**
Total	**271,897**	**541,063**	**4,567**	**817,527**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3.2. **Financial risk (continued)**

3.2.8. **Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted 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)
- Level 3: inputs for assets or liability that are not based on observable market data (unobservable inputs)

31 December 2020	**Level 1 R'000**	**Level 2 R'000**	**Level 3 R'000**	**Total R'000**
Financial assets at fair value through profit or loss	-	771,423	-	771,423
Short term money market instruments	-	96,907	-	96,907
Total financial assets	**-**	**868,330**	**-**	**868,330**
Liabilities due to cell shareholders	-	680,078	-	680,078
Total financial liabilities	**-**	**680,078**	**-**	**680,078**

31 December 2019	**Level 1 R'000**	**Level 2 R'000**	**Level 3 R'000**	**Total R'000**
Financial assets at fair value through profit or loss	-	392,339	-	392,339
Short term money market instruments	-	37,497	-	37,497
Total financial assets	**-**	**429,836**	**-**	**429,836**
Liabilities due to cell shareholders	-	423,888	-	423,888
Policyholder liabilities under investment contracts	-	1,898	-	1,898
Total financial liabilities	**-**	**425,786**	**-**	**425,786**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3.2. **Financial risk (continued)**

3.2.9. **Legal risk**

Legal risk is the risk that the Company will be exposed to contractual obligations which have not been provided for. The risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of the Company's clients and counterparties, including contractual provisions intended to reduce credit and product exposure by providing for the netting of mutual obligations. During the development stage of any new products and for material transactions entered into by the Company, the legal resources of the Company monitor the drafting of the contract document to ensure that rights and obligations of all parties are clearly set out.

3.2.10. **Reputation risk**

Reputation risk is the risk that the Company's brand may be negatively affected due to business practices of third parties who distribute insurance products and solutions on behalf of the Company.

Take-on procedures for new business partners involve a thorough review of their history and the industry reputation of their principal members. The existing business partners are regularly reviewed to ensure that amongst other things no reputation risk to the Company arises.

3.2.11. **Operational risk**

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. These risks are mitigated through a comprehensive system of internal controls, comprising policies and standards, procedures, systems and information to assist in achieving established objectives and goals.

This definition is intended to include all risks to which the Company is exposed, other than the strategic, legal and financial risks considered elsewhere. Hence, operational risks include for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks.

The Company is exposed to operational risk due to its outsourced business model whereby the UMA ("Underwriting Managing Agent")/Non-mandated intermediary performs binder functions relating to the insurance products sold. This operational risk is mitigated by contracting the UMA's/Non-mandated intermediary through binder agreements which stipulate the terms and conditions of the arrangement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

3.2. **Financial risk (continued)**

3.2.11. **Operational risk (continued)**

Periodic reviews and monitoring of operational activities at the UMA/Non-mandated intermediary are also performed, which further mitigates the company's operational risk.

The Company's management has the responsibility for the effective identification, management, monitoring and reporting of operational risks.

3.2.12. **Capital management**

The Company's capital management philosophy is to maximise the return on shareholder's capital within an appropriate risk framework. Two sources of capital are used in the business, being ordinary shareholder capital and preference shareholder capital. The aim of the capital management process is to increase shareholder wealth through optimal allocation of capital to the business. Preference share capital is used to underwrite insurance policies issued under cell captive arrangements.

Ordinary shareholder capital is used to write insurance policies for the Company's net account and at the option of the Company, to provide solvency capital to cell shareholders where the cell has insufficient capital. In accordance with the New Insurance Act, a long term insurer is required to maintain an amount of capital as determined by its Head of Actuarial function. In calculating this capital, the Head of Actuarial function applies guidelines as set by the Actuarial Society of South Africa taking cognisance of the minimum requirements set in the New Insurance Act. An actuarial valuation is carried out at the end of every financial year to determine the required capital. At 31 December 2020, the solvency capital required was R535,1m (2019:(CAR) R456,9m) per statutory requirements but the actual published capital held to support the business was R562,6m (2019: (CAR) R483,0m), representing a ratio of own funds to solvency capital requirement of 1.05 (2019: 1.06).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2020 R'000	2019 R'000
INVESTMENTS		
Debt securities – fixed rate		
Quoted redeemable after 1 year	56,676	1,052
Quoted redeemable within 1 year	-	2,077
Unquoted redeemable after 1 year	4,095	23,691
	60,771	26,820
Debt securities – floating rate		
Quoted redeemable after 1 year	93,379	53,132
Quoted redeemable within 1 year	-	5,933
Unquoted redeemable after 1 year	617,273	306,454
	710,652	365,519
Total non-current debt securities	**771,423**	**384,329**
Total current debt securities	**-**	**8,010**
Short term money market instruments	**96,907**	**37,497**
Financial assets at fair value through profit and loss	**868,330**	**429,836**
The movements in investments are as follows:		
Balance at beginning of year	429,836	285,722
Additions	2,539,596	2,014,731
Sales and redemptions	(2,103,522)	(1,870,956)
Fair value realised gain	2,205	282
Fair value unrealised gain	215	57
Balance at end of year	868,330	429,836

Debt securities comprises of investments in domestic corporate bonds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

5. POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS

	2020	2019
Gross	**R'000**	**R'000**
Outstanding claims provision	73,051	37,090
Policyholder liabilities for insurance contracts	47,865	44,917
	120,916	82,007
Analysis of movements in outstanding claims		
Balance at beginning of year	37,090	31,854
Claims paid	(1,157,922)	(492,608)
Movement in claims reported	1,193,883	497,844
Balance at end of year	73,051	37,090
Analysis of movements in policyholder liabilities for insurance contracts		
Balance at beginning of year	44,917	41,092
Change in mortality assumptions	3,266	(9,015)
Change in morbidity assumptions	1,027	13,229
Change in economic assumptions	(1,345)	(389)
Balance at end of year	47,865	44,917
Reinsurance assets		
Reinsurers' portion of outstanding claims provision	12,338	9,949
Reinsurers' portion of policyholder liabilities for insurance contracts	14,088	11,224
	26,426	21,173
Analysis of movements in reinsurers' portion of outstanding claims provision		
Balance at beginning of year	9,949	13,934
Movement for the year	37,018	4,883
Transfer to cell owners' interest	(34,629)	(8,868)
Balance at end of year	12,338	9,949

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

5. POLICYHOLDER LIABILITIES AND REINSURANCE ASSETS (continued)

	2020 R'000	2019 R'000
Analysis of movements in reinsurers' portion of policyholder liabilities for insurance contracts		
Balance at beginning of year	11,224	10,430
Movement for the year	3,216	3,012
Transfer to cell owners' interest	(352)	(2,218)
Balance at end of year	14,088	11,224

5.1. **Assumptions**

At inception of the contract, the Company determines the mortality, morbidity and economic assumptions in relation to future deaths, disabilities and the rate at which policyholders are expected to recover from disability, retrenchments and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. Allowance has also been made for the current outbreak of Coivd-19 in setting these assumptions, specifically in relation to mortality and retrenchment. A margin for risk and uncertainty is added to these assumptions in accordance with the Standards of Actuarial Practice ("SAP") 104 issued by the Actuarial Society. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in light of the latest current estimates.

The table below summarises the margins applied by the Company in the valuation of their liabilities:

	Mortality	Accelerator	Lapse	Expense	Risk Discount Rate	Inflation
Compulsory	7.50%	10%	-25.00%	10%	0.25%	10.00%

The above margins are as prescribed by SAP104.

The economic assumptions risk discount rates used are based on the SA government bonds yield curve at 30 November 2020 as developed for the SAM Comprehensive Parallel Run. The inflation is assumed to be 4.6% (2019: 4.4%), the average nominal interest rate of the SAM yield curve over the next year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

6. DEPOSIT HELD WITH CELL OWNER

	2020 R'000	2019 R'000
Balance at the beginning of the year	179,587	190,771
Movement during the year	(18,990)	(11,184)
Balance as at the end of the year	160,597	179,587
Non-Current portion of deposit held with cell owner	107,748	121,542
Current portion of deposit held with cell owner	52,849	58,045

The Company entered into a Financial Reinsurance agreement whereby the profit in respect of the book of business reinsured was paid upfront by the reinsurer to the cell owner. The Company's reinsurance liability due to the reinsurer was recognised as "Reinsurance contract liability" in the Statement of Financial Position. The payment made to the cell owner is regarded by the Company as the upfront payment of profits to the cell owner in terms of the cell shareholder agreement and is therefore recognised as a deposit with the cell owner in the Statement of Financial Position. These liabilities unwind through policy lapses and claims payment. (Refer to Note 13).

7. INSURANCE AND OTHER RECEIVABLES

	2020 R'000	2019 R'000
Receivables arising from insurance contracts		
- contract holders	68,544	57,602
- agents and intermediaries	1,510	1,049
Reinsurance contract receivables	681	4,906
Other receivables and prepayments	-	1
	70,735	63,558

Insurance and other receivables are carried at amortised cost, which approximates fair value.

8. CASH AND CASH EQUIVALENTS

Bank and cash balances	97,266	150,738

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

9. ORDINARY SHARE CAPITAL

	2020 R'000	2019 R'000
Authorised		
- 136 000 000 (2019: 136 000 000) ordinary shares of 50 cents each	68,000	68,000
- 30 000 (2019: 30 000) class B ordinary shares of 50 cents each	15	15
Issued		
- 30 000 000 (2019: 30 000 000) ordinary shares of 50 cents each	15,000	15,000

The unissued shares are under the control of the directors until the next annual general meeting.

10. LIABILITIES DUE TO CELL SHAREHOLDERS

The preference shares are redeemable, non-convertible, participate in the profits and losses of the company on a basis agreed with the preference shareholder at the time of issue, and are preferred to the ordinary share capital in respect of capital and dividends in the event of liquidation.

The preference shares are issued to parties in order to provide the risk capital to underpin the insurance business introduced to the Company by that party. The shares are eligible to receive dividends based on the profitability of the business introduced. In the event that the business is not profitable the amounts at which the preference shares are redeemed are adjusted accordingly.

The preference shares are issued for an indefinite period and have no fixed redemption date. Should the preference shareholders cease to introduce insurance business to the Company, and once all related risks have expired, the preference shares are either redeemed or acquired by a company in the Centriq Group. However, the shareholders' agreements do provide the right to the cell shareholders to put the shares to the Company. As a result of this put option the preference shares are recognised as liabilities, as opposed to equity.

	2020 R'000	2019 R'000
Issued share capital		
2020: 361 (2019: 327) variable rate cumulative redeemable preference shares of 1 cent each	-	-
Share premium	51,525	30,525
	51,525	30,525

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

10. LIABILITIES DUE TO CELL SHAREHOLDERS (continued)

During the year the Company issued 40 (2019: 2) non–convertible redeemable preference shares at par value of 1 cent each and at a premium of R 23,000,000 (2019: R5,000,000) to entities which entered into cell arrangements with the Company.

Furthermore, 6 (2019:11) non-convertible redeemable preference shares at par value of 1 cent and at a premium of R 2,000,000 (2019: R610, 000) were redeemed and dividends of R 385,902,875 (2019: R209,391,156) were declared and paid.

	2020	2019
	R'000	R'000
Reconciliation of cell shareholders interest		
Balance at beginning of year	423,888	258,658
Proceeds from issue of financial instruments	23,000	5,000
Repayment of liabilities due to cell shareholders	(2,000)	(610)
Dividends paid	(385,903)	(209,391)
Movement in amounts due to cell shareholders	621,093	370,231
	680,078	423,888

11. DEFERRED TAXATION LIABILITY

Balance at beginning of year	(181)	(2)
Statement of comprehensive income charge	(177)	(179)
	(358)	(181)
Comprising:		
Opening Balance	(181)	(2)
Unrealised investment gains	(65)	(73)
Temporary difference allowance claimed (s24j)	(56)	(162)
Provisions	(56)	56
	(358)	(181)

CENTRIQ

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

12. POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS

	2020 R'000	2019 R'000
Balance at beginning of the year	1,898	1,898
Receipts from investment contracts	3,019	7,245
Payments relating to investment contracts	(2,193)	(6,262)
Fair value adjustment on investment contracts	(2,724)	(983)
	-	1,898

13. REINSURANCE CONTRACT LIABILITY

	2020 R'000	2019 R'000
Balance at beginning of the year	179,587	190,771
Impact of discounting over the period (unwinding)	6,749	10,344
Variance of exits during the period (lapses and deaths)	1,202	(10,868)
Repayments	(58,045)	(56,576)
New discount curve	5,843	4,187
New tranches written during the period (as at the end of the period)	-	41,362
Impact of change in basis	26,387	(6,558)
Impact of estimation	(1,126)	6,925
Balance as at the end of the year	160,597	179,587
Non-Current portion of reinsurance contract liability	107,748	121,542
Current portion of reinsurance contract liability	52,849	58,045

The Company entered into a Financial Reinsurance agreement whereby the profit in respect of the book of business reinsured was paid upfront by the reinsurer to the cell owner. The Company's reinsurance liability due to the reinsurer was recognised as "Reinsurance contract liability" in the Statement of Financial Position. The payment made to the cell owner is regarded by the Company as the upfront payment of profits to the cell owner in terms of the cell shareholder agreement and is therefore recognised as a deposit with the cell owner in the Statement of Financial Position.

14. INSURANCE AND OTHER PAYABLES

	2020 R'000	2019 R'000
Direct insurance contract payables	6,923	3,149
Reinsurance contract payables	192,669	110,805
Other payables and accrued expenses	25,404	4,534
	224,996	118,488

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	2020	2019
	R'000	R'000

15. PROVISIONS

	2020 R'000	2019 R'000
Provision for excess payable on professional indemnity insurance		
Balance at beginning of year	200	200
Provision reversed during the year	(200)	-
Balance at end of year	-	200

16. FEES AND COMMISSION INCOME

	2020 R'000	2019 R'000
Premium based fees	24,993	19,758
Fund management based fees	461	409
Reinsurance commission	78,898	94,701
	104,352	114,868

17. REVENUE FROM CONTRACTS WITH CUSTOMERS

17.1. Disaggregation of revenue from contracts with customers

The Company derives revenue by providing insurance services at a point in time through the following solutions:

	Cell captive insurance	Own Risk Assumption	Alternative Risk Transfer	Total
2020	**R'000**	**R'000**	**R'000**	**R'000**
Management fee	75	-	-	**75**
Total	**75**	-	-	**75**

2019	**R'000**	**R'000**	**R'000**	**R'000**
Management fee	181	-	-	**181**
Total	**181**	-	-	**181**

17.2. Assets and liabilities related to contracts with customers

Refer to note 7 for receivables recognised in relation to revenue from contracts with customers

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

18. INVESTMENT INCOME AND NET GAINS IN FINANCIAL ASSETS

	2020 R'000	2019 R'000
Interest income	44,692	36,466
Interest income – SARS	4	-
Interest income – Current Accounts	916	921
Realised gain on disposal of investments	2,205	282
Unrealised gain on revaluation of investments	232	57
	48,049	37,726

19. NET POLICYHOLDER CLAIMS AND BENEFITS INCURRED

	2020 R'000	2019 R'000
Current year claims and loss adjustment expenses	1,157,922	492,608
Movement in gross outstanding claims	35,961	5,236
Movement in gross policyholder liabilities for insurance contracts	2,948	3,825
Gross claims and benefits	**1,196,831**	**501,669**
Reinsurance recoveries from reinsurers	(1,151,121)	(488,096)
Movement in reinsurers' share of outstanding claims	(37,018)	(4,883)
Movement in reinsurers' share of policyholder liabilities for insurance contracts	(3,216)	(3,012)
Reinsurers' share of claims and benefits incurred	**(1,191,355)**	**(495,991)**
Net policyholder claims and benefits incurred	**5,476**	**5,678**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

		2020	2019
		R'000	R'000
20.	**MARKETING AND ADMINISTRATION EXPENSES**		
	Administration fees	7,203	8
	Audit fees	1,115	1,012
	Bad debt written off	-	39
	FSCA fees and levies	371	152
	Investment management fees	1,086	647
	Legal fees	46	31
	Management fees payable to group companies	18,383	11,459
	Other costs	385	102
	Professional fees	524	520
		29,113	13,970
21.	**INCOME TAX**		
	Normal taxation	248,391	148,968
	Current period	248,399	149,089
	Prior period	(8)	(121)
	Deferred taxation – current year	169	58
	Deferred taxation – prior year	8	121
	Total taxation as per statement of comprehensive income	248,568	149,147
	Income tax recovered from cell shareholders	(241,536)	(143,979)
	Normal Tax	(241,536)	(143,979)
	Total tax expense attributable to shareholders	7,032	5,168
	Profit before taxation per statement of comprehensive income	266,650	162,438
	[1]Adjustment for income tax recovered from cell shareholders	(241,536)	(143,979)
	Total profit before tax attributable to shareholders	25,114	18,459

[1] The company incurs taxation on behalf of cell shareholders which are fully recovered from these parties.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

21. INCOME TAX (CONTINUED)

	2020	2019
	R'000	R'000
	%	%
Normal South African taxation rate	28.00	28.00
Adjusted for:		
- Prior year tax change	-	-
Effective rate	28	28

22. CASH GENERATED FROM OPERATIONS

Profit before tax	266,650	162,438
Investment income and net gains in financial assets	(48,032)	(37,726)
Net profit before investment income	218,618	124,712
Adjustments for:		
Fair value gain on policyholder liabilities for investment contracts	(2,724)	(983)
Increase in net outstanding claims and policyholder liabilities for insurance contracts	33,656	12,252
Cash flows from investment contracts	825	983
Operating profit before working capital changes	250,375	136,964
Decrease in insurance and other receivables	(7,177)	(4,528)
(Decrease)/ increase in net amounts due to group companies	(11,459)	24,341
Increase in insurance and other payables	106,508	60,072
Decrease in provisions	(200)	-
Increase in liabilities due to cell shareholders	621,093	370,231
	959,140	587,080

23. TAXATION PAID

Amount (owing)/refundable at the beginning of the year	1,173	(454)
Tax expense	(6,855)	(5,110)
Tax expense allocated to cell shareholders	(241,536)	(143,979)
Prior year adjustment	-	121
Amount owing for the current year	3,324	(1,173)
	(243,894)	(150,595)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

24. SUBSEQUENT EVENTS

24.1. Ordinary Dividend

An ordinary shareholders' dividend payable to Centriq Insurance Holdings Limited of R18,082,134 (2019: R13,354,394) was declared on 11 February 2021.

25. GOING CONCERN

The current outbreak of coronavirus (COVID-19) has significantly affected entities and economic activity around the world. Management considered various aspects as part of the assessment for future likely impact including operational cost, investment results and the effect on going concern. Although we expect reduced investment returns the company is well diversified in terms of income streams and we don't foresee the short term volatility in investment markets to impact our going concern assessment.

In order to assess the potential impact that COVID-19 (and associated events) may have on the Company, management has performed a sensitivity analysis based on a low impact and a high impact basis for the Company. Both scenarios assume the most significant impact in 2021, with a progressively lower impact for 2022 and 2023 as we expect the economy to recover from the impact of the pandemic. Sensitivities include, but are not limited to, the adjustment of the following key items in a range approach with low impact and high impact shocks indicated:

- Underwriting profits
- Fee income
- Investment spread
- Investment income from shareholder capital
- Potential undercapitalised cells

We anticipate to meet the budgeted profit after tax for 2021 on the expected basis and on a worst case scenario, profit after tax is expected to be below budget by R3 million. In both scenarios, the capital coverage will remain above 100% and the Company remains a going concern for the foreseeable future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

26. RELATED PARTY TRANSACTIONS

26.1. Parent and ultimate holding company:

Centriq Insurance Holdings Limited is the direct holding company of Centriq Life Insurance Company Limited with a 100% (2019: 100%) shareholding of the issued ordinary shares. Centriq Insurance Holdings Limited's parent is Santam Limited who holds 100% (2019: 100%) of the issued ordinary shares. The ultimate holding company is Sanlam Limited with a 59.6% (2019:61.5%) shareholding in Santam Limited.

26.2. Fellow subsidiaries

The following companies are fellow subsidiaries:

- Centriq Insurance Company Limited
- Nova Risk Partners Limited
- Beyonda Group (Pty) Ltd
- Ground Up Risk Partners (Pty) Ltd
- Cenviro Solutions (Pty) Ltd
- Premium Finance Company (Pty) Ltd
- Insure Group managers Finance (Pty) Ltd

26.3. Key management

Key management is defined as:

- Directors and executive committee members of Centriq Insurance Holdings Limited; and
- Directors and executive committee members of Centriq Life Insurance Company Limited.
- A list of directors of the Company can be found on page 8 of the annual financial statements.

26.4. Amounts due from/(to) group companies

Amounts due from/ (to) group companies do not have fixed or determinable repayment terms, however in practice the accounts are settled on a monthly basis. No interest is charged on these amounts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

26. **RELATED PARTY TRANSACTIONS (continued)**

26.4. **Amounts due from/(to) group companies (continued)**

Other interests

	2020 R'000	2019 R'000
Centriq Insurance Company Limited		
- Management Fees paid	18,383	11,459
Sanlam Investment Managers		
- Asset management fees paid	1,086	647
Sanlam Developing Markets ("SDM")		
Reinsurance premiums	-	3,679
Santam Structured Life Limited ("SSLL")		
Reinsurance premiums	3,249	-
Reinsurance claims paid	(357)	-
Movement on RI Policyholder liabilities	(1,732)	-
	1,160	-

Balances with related parties:		
Amount owed to Centriq Insurance Company Limited	-	(11,459)
Amount owed to SDM (refer to note 14 Reinsurance contract payable)	(178,089)	(104,683)
Amount owed by SDM (refer to note 7 Receivables arising from insurance contracts with contract holders – cash float)	10,376	-
Amount owed to SSL (refer to note 14 Reinsurance contract payable)	(2,372)	-
Reinsurance asset SSL Limited (refer to note 5 Policyholder liabilities and reinsurance assets)	1,732	-

Movement on balances with related parties:

Centriq Insurance Company Limited:		
- Balance at the beginning of the year	11,459	(3,415)
- Net (advance)/repayment during the year	(29,842)	3,415
- Current year management fee raised	18,383	11,459
	-	11,459

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

26. **RELATED PARTY TRANSACTIONS (continued)**

26.4. **Amounts due from/(to) group companies (continued)**

	2020 R'000	2019 R'000
Movement on balances with related parties (continued):		
Centriq Insurance Holdings Limited:		
- Balance at the beginning of the year	-	16,297
- Net (decrease)/increase in cash held on behalf of the Company	-	(16,297)
	-	-
Sanlam Developing Markets:		
- Balance at the beginning of the year	104,683	30,073
- Reinsurance premiums payable	1,321,725	676,487
- Reinsurance receivables	(1,020,399)	(3,678)
- Net payments/receipts during the year	(227,920)	(598,199)
	(178,089)	104,683
Santam Structured Life Limited:		
- Balance at the beginning of the year	-	
- Reinsurance premiums payable	3,249	-
- Reinsurance receivables	(357)	-
- Payments during the year	(520)	-
	(2,372)	-

26.5. **Directors emoluments**

	2020	2019
Directors emoluments (executive)	12,483	10,352
Directors emoluments (non-executive)	690	438
Key management (excluding directors)	22,766	18,490

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

26. **RELATED PARTY TRANSACTIONS (continued)**

Remuneration paid to executive directors

	Salary	Performance bonus [1]	Other benefits [2]	Total
	R'000	R'000	R'000	R'000
2020				
Executive director- Paid by the Company				
MC le Roux	1,854	1,397	1,275	4,526
PA Jennett [3]	2,914	3,180	1,863	7,957
	4,768	4,577	3,138	12,483
2019				
Executive director- Paid by the Company				
MC le Roux	1,551	929	1,460	3,940
PA Jennett	2,489	1,943	1,980	6,412
	4,040	2,872	3,440	10,352

[1] Performance bonus in respect of 2019 paid in 2020 (2018 paid in 2019)

[2] Other benefits include Company contribution to retirement fund benefits, long term incentive bonus

[3] 7,424 restricted Santam Limited shares were awarded to P Jennett vesting on 30 November 2022, subject to performance.