

Company number 11707219

BHL (SA) Holdings Limited

Annual Report and Financial Statements

Year ended 30 June 2019



BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

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Directors	S Klinkert (appointed 3 December 2018) I Leech (appointed 3 December 2018) S James (appointed 3 December 2018)
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Company secretary	L Sinfield (appointed 3 December 2018)
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Registered office	Bath House 16 Bath Row Stamford Lincolnshire PE9 2QU
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Auditors	KPMG LLP 15 Canada Square London E14 5GL
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BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

Strategic report

The directors present the strategic report for the year ended 30 June 2019.

BHL (SA) Holdings Limited (the "Company" or the "Group") was incorporated in England and Wales on 3 December 2018.

On 28 December 2018, its parent company, BHL Holdings Limited, transferred to it the ordinary shares held by it in Telesure Investment Holdings Proprietary Limited. In return for the transfer, the Company allotted and issued 707,999,999 ordinary shares (of £1 each) in the capital of the Company to BHL Holdings Limited, credited as fully paid.

Results and dividends

The annual results for BHL (SA) Holdings Limited, company number 11707219, (the "Company" or the "Group") in relation to the Company and its active subsidiaries, are set out on page 10 and show a consolidated profit for the year after taxation of R571,195k. The directors are pleased with the underlying trading performance for the year and are confident of future prospects.

No dividends were declared or paid to the shareholder during the current year.

Trading review and future developments

The Group's principal activities comprise its insurance and financial services interests.

Telesure Investment Holdings (Pty) Ltd ("TIH") group owns and operates several of South Africa's leading insurance brands and stands out with its multiple-channel, multiple-brand approach through direct sales, broker sales, aggregator sales and affinity partnerships. All of the companies in the TIH group target different segments of the insuring public and are geared to assess the needs of the market they service and provide products and distribution channels to best suit those needs.

Key performance indicators

Net premium income earned	R2,624,605k
Profit before tax	R831,788k
Minimum solvency capital requirement	1.35

Principal risks and uncertainties

Effective risk management is fundamental to the business activities of the group and seeks to achieve an appropriate balance between risk and reward, and assists in delivering on its strategy and growth plans in a controlled environment. The Telesure Investment Holdings Proprietary Limited Board of Directors ("TIH Board") has overall responsibility for the South African group's system of internal control and is accountable for reviewing its effectiveness.

Risk is inherent in the business and the identification and management of risk is central to delivering on the strategic objectives set by the Board. By understanding and managing risk, the group provides greater certainty and confidence to the shareholders, employees, customers and suppliers, and to the communities in which it operates.

The group's risk appetite and capital management strategy are reviewed on a continuous basis. The risk appetite references financial and non-financial risk categories and indicates how much risk the group is willing to take in the pursuit of achieving its strategic and operational goals. Risks that have the potential to impact the reputation, regulatory, solvency, environment, community, operational and financial performance of the group and, thereby, the achievement of the strategic objectives are managed. As such, strategic business decisions are taken in accordance with a board approved risk appetite statement with the executive and risk committees closely monitoring risk profiles against this appetite.

Internal control systems are designed to manage risks within the business and inevitably, they can provide only reasonable and not absolute assurance against material misstatement or loss. The Board is conscious of the importance of the group's risk management process and system of internal controls and attaches a high priority to monitoring the effectiveness and continued developing of it in line with good practice.

The TIH Board has delegated the oversight of the various control functions and processes to the various committees (Risk, Audit and Actuarial, Social and Ethics, Remuneration).

BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

Strategic report (continued)

Principal risks and uncertainties (continued)

The TIH Board's oversight of the risk management process and the systems of internal general control are delegated to the Risk Committee. The Risk Committee is responsible for providing reasonable assurance that adequate mechanisms and procedures are established, implemented and maintained to:

- identify the individual and aggregated risks (current and emerging) the group faces;
- assess, monitor and help manage identified risks effectively;
- gain and maintain an aggregated view of the risk profile of the group; and
- establish a forward-looking assessment of the risk profile and financial position of the group, including the conducting of regular stress testing and scenario analyses as defined in GOI 3.1 (Own Risk and Solvency Assessment (ORSA) for Insurers), against the risk appetite and risk limits of the insurer.

The risk management function:

- regularly provides written reports to senior management, other key persons in control functions and the Risk Committee on the group's risk profile and details on the risk exposures facing the group and related mitigation actions;
- documents and reports material changes affecting the group's risk management system to the Risk Committee to help ensure that the system is maintained and improved; and
- has access to and report to the Board or appropriate sub-committee on the strategy of the risk management function and information on its resources, including an analysis on the appropriateness of those resources.

The TIH Board has delegated the requirement for oversight, establishment and implementation of appropriate and effective systems of internal financial control to the Audit and Actuarial Committee. The internal financial control systems are continually enhanced and encompasses suitable policies, processes, tasks and behaviours.

The internal financial control system is monitored and supported by Internal Audit and the Compliance Function who report on the group's operations to the Audit and Actuarial Committee and Risk Committee respectively. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the group's operations.

The Audit and Actuarial Committee has reviewed and approved the Internal Audit Charter. Internal audit has responsibility for the following key activities in terms of the approved the Internal Audit Charter:

- develop a risk based internal audit plan, on a three year rolling basis. The internal audit plan is presented to the Audit and Actuarial Committee annually for approval;
- execution of the work in accordance with the approved plan;
- regular reporting to relevant stakeholders;
- review and evaluate the adequacy, effectiveness and compliance with the group's policies as well as documented processes and controls;
- evaluating controls and processes in place to ensure safeguarding of assets; and
- ensure that material areas of risk and obligations of the group are subject to an appropriate audit or review within a reasonable timeframe.

Group Compliance fulfils a critical function within the group's overall risk management framework. Group Compliance:

- monitors and reports on compliance with regulatory requirements;
- monitors that systems and controls are in place to ensure that the group's exposure to compliance risk is minimised;
- coordinates the group's relationship with its regulators;
- evaluates the impact of forthcoming regulatory changes and provides advice on potential process and control changes required; and
- assists management with the objective of embedding risk management within the business units.

The focus on risk management and a system of internal controls enables the group to identify, evaluate, monitor, respond, mitigate and manage risks that could affect its ability to achieve the strategic objectives.

BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

Strategic report (continued)

Principal risks and uncertainties (continued)

Management is accountable to the TIH Board and the relevant committees for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities. Management is responsible for the identification, assessment and control of all key risks facing the operations, functions and processes under their control and is required to monitor the status of risks, and report on any material changes to the risk profile, and risk materialisation/losses. Management is also expected to put in place appropriate controls for those risks, and to provide assurance that such controls perform as intended.

For the year ended 30 June 2019, management has ensured continual review of the systems of internal control, risk identification and mitigation. The ongoing review covered all material controls, including financial and operational controls. The principal risks are described in note 29, risk management.

The Group has performed a review of its operations in the light of the planned exit of the United Kingdom from the European Union and does not foresee any significant direct impact on the Group's businesses.

On behalf of the board



I Leech
Director

Date: 5 March 2020

BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

Directors' report

The directors present their report together with the audited financial statements for the year ended 30 June 2019.

Results, dividends and future developments

Details of the Group results, dividends and future developments are set out in the strategic report.

Going concern

The financial statements have been prepared on the going concern basis.

At 30 June 2019, the Group has net current assets of R2,370,144k. The directors have reviewed the budget and cash flow forecasts of the Group for a period of not less than 12 months from the date of approving these financial statements and are confident that they show the Group will have sufficient resources to meet its liabilities as they fall due.

The Group is in a strong position to support the liquidity requirements of the business for the foreseeable future. Accordingly, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Notwithstanding net current liabilities of R32,084k as at 30 June 2019 and a loss for the year then ended of R32,084k the financial statements of the company have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared company cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its intermediate parent company to meet its liabilities as they fall due for that period.

Those forecasts are dependent on BHL Holdings Limited and its subsidiaries not seeking repayment of the amounts currently due to the group, which at 30 June 2019 amounted to R31,860k, and providing additional financial support during that period. BHL Holdings Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Directors

The directors who held office during the year were as follows:

S Klinkert (appointed 3 December 2018)

I Leech (appointed 3 December 2018)

S James (appointed 3 December 2018)

In the case of each of the persons who are directors of the company at the time when this report is approved:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the Company's auditor is aware of that information.

BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

Directors' report (continued)

Auditor

In accordance with section 487 of the Companies Act 2006, the auditor will be deemed reappointed, and KPMG LLP will therefore continue in office.

Directors' indemnity provision

In accordance with the Company's Articles of Association, the Company has indemnified the directors of the Company and all its subsidiaries against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the period and is still in place as at the date of this report.

Corporate governance

The Group is committed to high standards of corporate governance appropriate to the size and nature of the business.

Telesure Investment Holdings Proprietary Limited ("TIH" or the South African holding company) is the intermediate parent company of all the BHL (SA) Holdings Limited group subsidiaries. The TIH board of directors is the governing body of TIH and its subsidiaries (the "TIH Group") and is responsible for the strategic management of the business and all operational matters.

The TIH Group maintains a comprehensive level of monitoring, compliance, assurance and risk assessment in relation to all of its entities, as specified in the strategic report.

The Audit and Actuarial Committee is the Group Audit and Actuarial Committee of Telesure Investment Holdings Proprietary Limited and its subsidiaries and is a committee of the TIH Board of Directors ("TIH Board"). In addition to having specific statutory responsibilities in terms of the South Africa Companies Act, it assists the TIH Board through advising and making recommendations on financial reporting, oversight of internal financial controls, external and internal audit functions and statutory and regulatory compliance of the company and the group including tax compliance and congruence with corporate citizenship and stakeholder considerations.

The objectives and functions of the Group Audit and Actuarial Committee are set out in its charter which include inter alia:

- assessment of the capability and effectiveness of Internal Audit;
- agreement of the planned program for internal and external assurance activity and reporting;
- selection, assessment and analysis of assurance provided by external auditors, to include an assessment of the independence thereof; and
- consideration and recommendation to the Board of the company and group's annual financial statements.

The effectiveness of the Audit and Actuarial Committee and its individual members are assessed by the shareholder or its representative on an annual basis.

The South Africa Prudential Authority has given dispensation to the subsidiaries not to have an audit committee as the Group Audit and Actuarial Committee will be accountable to fulfil the statutory audit committee functions, duties and oversight for the TIH Group.

Financial instruments

Details of the Group's financial risk objectives and policies, and of the Group's exposure to liquidity risk, market risk, equity risk, interest rate risk, credit risk, currency risk, insurance risk and capital risk are included in note 29 to the consolidated financial statements.

BHL (SA) Holdings Limited

Year ended 30 June 2019

Annual report and financial statements for the year ended 30 June 2019

Directors' report (continued)

Employee involvement

The Group holds regular meetings for its employees with the aim of disseminating financial and non-financial information on matters of concern and of interest to them as employees. These meetings also give the employees the opportunity to make their views known so that they can be taken into account in making decisions which are likely to affect their interests.


The Group endeavours to provide equality of opportunity in recruiting, training, promoting and career development to all, irrespective of race, ethnicity, religion, sexual orientation, gender or age. The Group gives full consideration to applications for employment from a person with a disability, where a person with a disability can adequately fulfil the requirements of the role and workplace adjustments can be made to facilitate this appointment.

Where existing employees become disabled it is the Group's policy, wherever practicable, to provide workplace adjustments to ensure continuing employment under normal terms and conditions, and to provide training and career development and promotion opportunities, wherever appropriate.

Events since the reporting date

The board of directors are not aware of any events after the reporting date requiring disclosure in these financial statements.

On behalf of the board:



I Leech
Director

Date: 5 March 2020

Statement of directors' responsibilities in respect of the strategic report, directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of BHL (SA) Holdings Limited

Opinion

We have audited the financial statements of BHL (SA) Holdings Limited ("the company") for the year ended 30 June 2019 which comprise the consolidated statement of profit and loss and comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the recoverability of debtors and the valuation of intangibles, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period.

We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Independent auditor's report to the members of BHL (SA) Holdings Limited (continued)

Strategic report and Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

Date: 5 March 2020

BHL (SA) Holdings Limited
Year ended 30 June 2019

Consolidated statement of profit or loss and other comprehensive income

	Notes	2019 R'000
Insurance income		
Gross premium written		7 982 077
Insurance premium ceded to reinsurers		(5 347 247)
Movement in unearned premium provision		(10 225)
Total net premium income earned		2 624 605
Finance income	24	316 542
Other income	21	2 991 912
Total revenue net of reinsurance		5 933 059
Gross insurance claims incurred		(3 322 057)
Reinsurers' share of claims incurred		2 263 618
Total net claims incurred	20	(1 058 439)
Net operating expenses	11 23	(4 027 926)
Finance expense	24	(14 906)
Total charges, net of reinsurance		(5 101 271)
Profit before tax	22	831 788
Taxation	25	(260 593)
Profit for the year		571 195
Other comprehensive income		-
Total comprehensive income for the year		571 195
Attributable to:		
Owners of the Company		586 459
Non-controlling interests		(15 264)
		571 195

The notes on pages 15 to 76 form part of these consolidated financial statements.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Consolidated statement of financial position

Company registration number: 11707219

		2019
	Notes	R'000
Assets		
Computer software	8	239 145
Goodwill	5	153 357
Investments in participating interests	14	96 124
Loans to related parties	15	1 999 995
Other financial investments	14	2 931 860
Policyholders assets arising from long-term insurance contracts	9	1 523 615
Financial assets backing investment contract liabilities	10	1 158 542
Reinsurers' share of long-term business provision	12	123 724
Reinsurers' share of provision for claims incurred but not reported	12	159 849
Insurance receivables	16	210 286
Expected insurance salvages and recoveries	13	198 660
Current tax receivable		54 116
Other receivables	16	140 847
Plant and equipment	7	147 569
Cash and cash equivalents	17	1 156 913
Deferred tax	6	182 330
Deferred acquisition costs	11	14 825
Prepayments	16	68 916
Total assets		10 560 673
Liabilities		
Provision for unearned premiums	12	358 434
Long-term business provision	12	222 778
Claims outstanding	12	810 646
Reinsurers' share of policyholder asset arising from long-term insurance	9	19 757
Investment contract liabilities	10	1 157 160
Deferred tax	6	369 620
Provisions	18	446 077
Insurance payables	19	616 334
Reinsurers' share of expected insurance salvages and recoveries	13	145 044
Loans from related parties	15	39 300
Current tax payable	27	55 651
Other payables	19	316 205
Accruals	19	86 130
Total liabilities		4 643 136

BHL (SA) Holdings Limited
Year ended 30 June 2019

Consolidated statement of financial position (continued)

Company registration number: 11707219

	2019
Equity	R'000
Equity attributable to equity holders of parent	
Share capital	12 744 000
Retained earnings	283 938
Merger reserve	(7 072 551)
Equity attributable to equity holders of parent	<u>5 955 387</u>
Non-controlling interests	(37 850)
Total equity	<u><u>5 917 537</u></u>
Total equity and liabilities	<u><u>10 560 673</u></u>

The financial statements were approved by the board of directors on 5 March 2020 and signed on its behalf by:

I Leech
Director



The notes on pages 15 to 76 form part of these consolidated financial statements.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Consolidated statement of changes in equity

	Number of shares authorised & issued	Share capital	Merger reserve	Retained earnings	Non- controlling interest	Total
		R'000	R'000	R'000	R'000	R'000
Balance at 1 July 2018	708 000 000	12 744 000	(7 072 551)	(299 085)	(22 586)	5 349 778
Total comprehensive income for the year	-	-	-	586 459	(15 264)	571 195
Change in accounting policies relating to prior periods (refer to note 2)	-	-	-	(3 436)	-	(3 436)
Balance at 30 June 2019	708 000 000	12 744 000	(7 072 551)	283 938	(37 850)	5 917 537

The notes on pages 15 to 76 form part of these consolidated financial statements.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Consolidated statement of cash flows

	Notes	2019 R'000
Cash flows generated from operating activities		
Cash generated from operations	26	555 199
Interest income	24	123 732
Dividends received		-
Interest expense	24	(14 906)
Tax paid	27	(288 915)
Net cash generated from operating activities		375 110
Cash flows used in investing activities		
Purchase of property, plant and equipment		(82 475)
Sale of property, plant and equipment		2 324
Purchase of other intangible assets		(73 046)
Increase in loans with related parties		(362 978)
Interest received on investments	24	192 810
Decrease in investments		139 572
Net movement in endowment policy		-
Net cash inflow on acquisition of subsidiary		(16 451)
Net cash used in investing activities		(200 244)
Cash flows used in financing activities		
Movement in loans due to related parties		17 832
Net cash generated from financing activities		17 832
Total cash movement for the year		192 698
Cash and cash equivalents at the beginning of the year		964 215
Cash and cash equivalents at the end of the year	17	1 156 913

The notes on pages 15 to 76 form part of these consolidated financial statements.

Notes forming part of the consolidated financial statements

1. Significant accounting policies

A summary of the significant accounting policies are set out below. Detailed information of the elections and applications under these policies are set out under Appendix A - Significant accounting policies.

Corporate information

Reporting entity

BHL (SA) Holdings Limited is a private company limited by shares incorporated and domiciled in England and Wales.

Reporting period end

Financial year ended 30 June.

Basis of preparation

The financial statements have been prepared on the historical cost basis except where assets and liabilities have been presented at fair value or amortised cost.

On 28 December 2018, its parent company, BHL Holdings Limited, transferred to it the ordinary shares held by it in Telesure Investment Holdings Proprietary Limited ("TIH"). In return for the transfer, the Company allotted and issued 707,999,999 ordinary shares (of £1 each) in the capital of the Company to BHL Holdings Limited, credited as fully paid.

Since this was a common control transaction, accounted using book value accounting, these financial statements have been prepared on the basis that TIH was already owned by BHL (SA) Holdings at the start of the period. Comparatives are not however required to be reported.

Materiality

International Financial Reporting Standards ("IFRS") is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.

Prepared in accordance with

- IFRS as adopted by the EU ("Adopted IFRSs") and
- The requirements of the Companies Act 2006.

Functional and presentation currency

BHL (SA) Holdings Limited does not trade, and all of its activities are undertaken through its principal subsidiaries. These subsidiaries operate mainly in South Africa and their functional currency is South African Rand. In due course, BHL (SA) Holdings Limited will generate cash in Rand, through dividends receivable. For these reasons, the functional and presentational currency is the South African Rand.

Rounding policy

- All amounts are presented in Rand thousands (R '000); and
- The group and company has a policy of rounding in increments of R1 000. Amounts less than R500 will therefore be round down to R Nil and are presented as a dash.

Consolidation

- Group and company financial statements incorporate the financial statements of the company and all investees which are controlled by the company;
- All intra-group transactions, balances, income and expenses are eliminated in full, on consolidation;
- Non-controlling interest in the net assets of consolidated subsidiaries are identified and recognised separately from the group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised; and
- The company has control of an investee when it has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the investor's return.

Notes forming part of the consolidated financial statements (continued)

1. Significant accounting policies (continued)

Included below is a list of the significant accounting policies applicable to the company and group financial statements. These accounting policies are the material accounting policies which may include the areas in IFRS where elections have been made or policy choices exercised (including the choice or election made) as well as measurement criteria applied. The accounting policies also include information where it will assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and position, and was included based on the materiality as determined by management.

For detail on the below accounting policies please refer to Appendix A.

Summary of significant accounting policies		
Insurance contracts		
Premiums	Claims	Salvages and third party recoveries
Unearned premium provision	Reinsurance	Incurred but not reported claims and outstanding claims
Net policyholder asset	Insurance receivables	Insurance payables
	Commission incurred	
Financial instruments		
Investments	Financial assets	Financial liabilities
Cash and cash equivalents	Investment contracts	Impairment
Intellectual property		
Goodwill	Intangible assets	
Fixed assets		
Plant and equipment		
Capital and reserves		
Stated capital and equity		
Other income, expenses and provisions		
Interest income and expense	Other income	Taxation
Leases	Employee benefits	Provisions
Share based payment arrangement		

Notes forming part of the consolidated financial statements (continued)

2. Changes in accounting policies

The group adopted new standards and any amendments to other standards, with a date of initial application of 1 July 2018 unless otherwise stated, as follows:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

The nature and effects of the key changes in the group's accounting policies resulting from its adoption of the new standards are summarised below.

2.1 IFRS 9 Financial Instruments

Classification of financial assets and financial liabilities

Financial assets

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of: held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

Financial liabilities

IFRS 9 has not had a significant effect on the group's accounting policies for financial liabilities and classification has remained unchanged.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost and debt investments at fair value through other comprehensive income. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied prospectively, taking into consideration the below:

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 July 2018:
 - the determination of the business model within which a financial asset is held; and
 - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

2. Changes in accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Effect of initial application

Classification of financial assets and financial liabilities

The following table shows the original measurement category and carrying amount under IAS 39 and the new measurement category and carrying amount under IFRS 9 for each class of the group and company's financial assets and financial liabilities as at 1 July 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 R'000	New carrying amount under IFRS 9 R'000	Expected credit loss adjustment in retained earnings R'000
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortised cost	964 215	964 215	-
Investments - Underlying items					
En commandite partnership	Fair value through profit or loss	Fair value through profit or loss	72 958	72 958	-
Open Window Growth Partners Proprietary Limited	Available-for-sale	Fair value through profit or loss	14 338	14 338	-
Shares in IGF	Available-for-sale	Fair value through profit or loss	9	9	-
Loans	Loans and receivables	Amortised cost	1 390	567	823
Fixed deposits	Loans and receivables	Amortised cost	2 947 501	2 947 501	-
Advance to strategic partnership	Loans and receivables	Amortised cost	7 132	7 132	-
Treasury bills	Fair value through profit or loss	Fair value through profit or loss	96 302	98 302	-

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

2. Changes in accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9	Expected credit loss adjustment in retained earnings
Financial assets backing investment contracts - underlying products					
Endowment policy - Product 1	Loans and receivable	Amortised cost	54 590	54 590	-
Endowment policy - Product 2	Fair value through profit or loss	Fair value through profit or loss	263 030	263 030	-
Living annuity	Fair value through profit or loss	Fair value through profit or loss	137 618	137 618	-
Loans to related parties	Amortised cost	Amortised cost	1 623 403	1 623 403	-
Trade and other receivables	Loans and receivables	Amortised cost	55 863	53 250	2 613
Financial liabilities					
Investment contract liabilities - underlying products					
Endowment policy - product 1	Amortised cost	Amortised cost	54 455	54 455	-
Endowment policy - product 2	Fair value through profit or loss	Fair value through profit or loss	263 030	263 030	-
Living annuity	Fair value through profit or loss	Fair value through profit or loss	137 618	137 618	-
Loans due to related parties	Amortised cost	Amortised cost	21 468	21 468	-
Trade and other payables	Amortised cost	Amortised cost	143 309	143 309	-

Notes forming part of the consolidated financial statements (continued)

2. Changes in accounting policies (continued)

2.2 IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when non-insurance revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control - at a point in time or over time - requires judgement.

The group has adopted IFRS 15 using the cumulative effect method. The change in the standard did not have a material impact on the revenue streams recognised in the group.

3. Significant judgements and estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgements are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Accounting estimates that change are recognised in the period in which they are revised and in any future periods affected. Significant judgements include:

3.1 Fair value estimation of assets and liabilities

A number of the group's accounting policies and disclosures require the measurement of fair values, for financial assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of an asset or a liability, the group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as priced) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3.2 Cash-settled share based payment

The Chairman and executive directors of the South African group participate in cash-settled share based incentivisation plans. The value of the incentives, which consist of an annual and exit amount, are a product of the value of the group, or components of the group as contractually determined. The calculation of the value does contain elements that are subject to judgement and estimation.

Notes forming part of the consolidated financial statements (continued)

3. Significant judgements and estimates (continued)

3.3 Valuation of insurance policy liabilities and assets

The determination of the liabilities and assets under insurance contracts is dependent on estimates and assumptions made by the group. The value of the insurance policy liabilities and assets, has been determined as set out below. Please refer to note 29.3.7 and 29.3.8 for further details.

In respect of the short-term insurers:

Claims incurred but not yet reported (IBNR) provision

The provision is estimated for claims incurred at year end but that have not yet been reported to the group, as well as the potential shortfall in the outstanding claims provisions in respect of claims reported by year end. The provision is estimated by making assumptions about future trends in reporting of claims. Development patterns are reviewed and improvements in efficiencies are considered.

Unearned premium provision

The provision represents a liability for premium already collected which is yet to be earned for risks to which the group is exposed in the future. The provision also includes an estimate of the current liability for the cashback bonus product where policyholders are entitled to have premiums refunded after four years of uninterrupted claims free cover. The provision is based on estimates of expected benefit payments, bonus duration and premium revenue amongst others. Also included in the unearned premium provision is the portion of premiums of multi-year warranty contracts that relate to unexpired coverage.

Expected salvages and recoveries

An asset is raised for expected salvages and recoveries from claims that occurred, at a 75% confidence level based on past experience. The ultimate amounts recovered will vary as a result of subsequent information and events and may result in significant adjustments to the amounts estimated. The method used to determine salvages and recoveries are reviewed regularly by management.

Outstanding claims

The outstanding claims provision indicates the outstanding value of claims reported and not yet settled. Until claims have been formally assessed, they are included in the provision at the best estimate of the value of the reported loss.

In respect of long-term insurers:

Policyholder assets arising from long-term insurance contracts

The determination of the liabilities and assets under insurance contracts is dependent on estimates and assumptions made by the company. In determining the value of the long term insurance policy assets and liabilities assumptions regarding mortality, persistency, non-collection rates, investment returns, expense level, inflation and taxation have been made. These liabilities are derived from estimates of the net present value of future claims and benefits under existing contracts offset by future premiums to be received. The key assumptions have been detailed in note 9 to the financial statements.

Claims incurred but not yet reported (IBNR)

The group adds incurred but not reported (IBNR) claims provision including compulsory margins to the total incurred claims experience. This is achieved by applying IBNR factors to paid and provided claims. The group's IBNR factors are based on the group's historical experience.

Outstanding claims

The outstanding claims provision indicates the value of claims reported and not yet settled. The calculation allows for the ultimate expected claims after allowing for repudiation factors and IBNR provisions. The repudiation factors are based on the group's historic actual experience.

Notes forming part of the consolidated financial statements (continued)

4. New Standards and Interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the group are set out below. The group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 16 Leases

IFRS 16, published in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial Position. No significant changes have been included for lessors.

The effective date of the standard is for financial years beginning on or after 1 January 2019, the group expect to adopt the standard for the first time in the 2020 financial statements. The transitional requirements are different for lessees and lessors. The group is assessing the potential impact on the financial statements resulting from the application of IFRS 16 by considering all current lease agreements held by the group and the impact.

The standard is expected to result in a restatement of certain operating leases to recognise the "right of use assets" together with the related lease liabilities, and in additional disclosures.

Telesure Group Services Proprietary Limited has signed an addendum to an existing lease agreement and are currently investigating whether this addendum constitutes a contract modification or a new contract.

IFRS 17 Insurance contracts

The standard supersedes IFRS 4 Insurance contracts.

IFRS 17 addresses the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features. The standard contains guidance on when to separate components in an insurance contract and account for them in terms of another standard. The components that have to be separated (subject to certain criteria) are embedded derivatives, distinct investment components and distinct goods and non-insurance services.

The standard requires an entity to identify portfolios of insurance contracts and to group them into the following groups at initial recognition:

- contracts that are onerous;
- contracts that have no significant possibility of becoming onerous subsequently; and
- the remaining contracts in the portfolio.

At initial recognition groups of insurance contracts should be measured at the total of the following:

- the fulfilment cash flows which comprise estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks and a risk adjustment for non-financial risk; and
- the contractual service margin which represents the profit in the group of insurance contracts that will be recognised in future periods.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

- the liability for remaining coverage (fulfilment cash flows related to future service and the contractual service margin); and
- the liability for incurred claims (fulfilment cash flows related to past service).

An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach if certain criteria are met.

The new standard will have a significant impact on the financial statements when it is initially applied which will include changes to the measurement of insurance contracts issued and the presentation and disclosure.

The effective date of the standard is for financial years beginning on or after 1 January 2022 and has to be applied retrospectively. Early adoption is permitted.

Notes forming part of the consolidated financial statements (continued)

4. New Standards and Interpretations

IFRS 17 Insurance contracts (continued)

The group expects to adopt the standard for the first time in the 2023 financial statements.

The standard is expected to result in various additional disclosures required by IFRS 17 not required previously by IFRS 4. Additional disclosures include reconciliations of:

- estimates of the present value of future cash flows;
- risk adjustment for non-financial risk;
- contractual service margin; and
- insurance contract liability.

The group commenced a business impact assessment to understand the current capabilities and to perform a gap analysis. It is anticipated that the profit or loss recognition pattern for some of the group's insurance contracts underwritten will change with the release of the contractual service margin, as benefits are provided over the coverage period.

An IFRS 17 implementation road map plan has been prepared and an IFRS 17 Steering Committee has been constituted to oversee the implementation process and report on progress to the Audit and Actuarial Committee.

The gap analysis has been completed during the current year, identifying a detailed list of the various work packages that need to be completed in the different areas of business. Each of the workstream packages have been allocated to various people within the organisation and work continues to the extent that the new IFRS 17 draft financial statements and detailed ledger analysis, as well as the product assessments for the group have been completed. The IFRS 17 Steering Committee has been regularly active with a detailed oversight of the project progress, providing relevant key decisions.

During the upcoming months activities include data to source mapping to identify IFRS 17 data requirements, providing insights in determining the required optimal IFRS 17 solution for the group.

5. Goodwill

	2019
	R'000
Cost	
Opening balance	158 235
Additions through business combinations	392
Write off	(2 270)
At 30 June 2019	156 357
Accumulated impairment	
At 1 July 2018 and 30 June 2019	3 000
Carrying amount	
At 30 June 2019	153 357

Recognition and allocation to cash generating units

Of the goodwill held at 30 June 2019 R152 965 000 related to Auto and General and R392 000 related to One Call Insurance. When assessing the recoverability of goodwill the liquidity position of the company was considered.

The full R3 000 000 for Hippo Advisory Services was impaired in the prior year as the company is currently showing a negative NAV.

One Call was newly acquired during the year and it was not considered for impairment during the current financial year. The value will however be considered for impairment in the next financial periods.

Notes forming part of the consolidated financial statements (continued)

6. Deferred tax

	2019
	R'000
Deferred tax asset:	
Plant and equipment	(21 549)
Provisions	138 614
Straight lining of leases	2 038
Prepayments	(11 270)
Share in partnership	(14 000)
Income received in advance	88 256
Impairment of financial assets	241
	182 330
Deferred tax liability:	
Net policyholder asset	(379 761)
Calculated loss - special transfer credits	10 141
	(369 620)
Total net deferred tax liability	(187 290)

There will be future profits to utilise the deferred tax asset.

	2019
	R'000
Reconciliation of net deferred tax liability	
At the beginning of the year	(256 653)
Movement in plant and equipment	(9 214)
Movement in provisions	22 509
Movement in prepayments	(9 091)
Movement in straight lining of leases	1 171
Movement in income in advance	86 744
Movement in warranty business premium provision	71
Movement in deferred acquisition costs	4 078
Movement in intangible assets	273
Movement in net policyholder asset	(25 806)
Movement in calculated long term insurance tax loss and special transfers	(1 613)
Movement in impairment of financial assets	241
At the end of the year	(187 290)

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Notes forming part of the consolidated financial statements (continued)

7. Plant and equipment

	Furniture, fixtures & equipment	Motor vehicles	Computer equipment	Leasehold improve- ments	Total
	R'000	R'000	R'000	R'000	R'000
Cost					
Balance at 1 July 2018	77 739	3 659	239 392	37 917	358 707
Additions	12 480	2 227	60 674	6 918	82 299
Additions through business combinations	371	-	413	-	784
Disposals	-	-	(2 922)	-	(2 922)
Balance at 30 June 2019	90 590	5 886	297 557	44 835	438 868
Accumulated depreciation					
Balance at 1 July 2018	47 367	1 790	170 173	25 372	244 702
Charge for the year	9 623	855	31 392	4 833	46 703
Additions through business combinations	158	-	268	-	426
Disposals	-	-	(532)	-	(532)
Balance at 30 June 2019	57 148	2 645	201 301	30 205	291 299
Net book value					
At 30 June 2019	33 442	3 241	96 256	14 630	147 569

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Notes forming part of the consolidated financial statements (continued)

8. Intangible assets

	Computer software, developed	Computer software, purchased	Total
	R'000	R'000	R'000
Cost			
Balance at 1 July 2018	305 540	39 530	345 070
Additions	55 893	17 183	73 076
Transfer	-	2 036	2 036
Balance at 30 June 2019	361 433	58 749	420 182
Accumulated amortisation			
Balance at 1 July 2018	58 437	30 952	89 389
Charge for the year	32 235	10 784	43 019
Impairment	47 004	-	47 004
Transfer	-	1 625	1 625
Balance at 30 June 2019	137 676	43 361	181 037
Net book value			
At 30 June 2019	223 757	15 388	239 145

Notes forming part of the consolidated financial statements (continued)

9. Policyholders assets arising from long-term insurance contracts

The value of insurance assets and liabilities is based on the prudent best estimate assumptions of future expectations plus/less compulsory margins as required by SAP104, plus/less additional values from assumptions made by the Head of the Actuarial Function as set out below:

9.1 Lapses

Lapse assumptions are based on the group's actual experience and has followed the agreed assumption setting methodology. 1Life Insurance (RF) Limited has elected to use all experience since the start of the business to increase the volume and confidence levels of the data on which the analysis is based. Lapse rates at shorter durations, however, are based on more recent experience only. A compulsory margin of 25% is held on top of these assumptions. The margin for the funeral product on lapse rates for years five to nine was changed from -25% to 25%, since this gives a more onerous result.

9.2 Mortality

Mortality assumptions reflect the group's long-term expected experience plus additional margins for conservatism and adverse deviation. These assumptions make an allowance for deteriorating AIDS mortality in line with the model produced by the Actuarial Society of South Africa. The assumptions used are 92.5% of the reinsurer's mortality table, except for Funeral business which is held at 68%. A compulsory margin of 7.5% is held on top of these assumptions.

9.3 Morbidity

Morbidity assumptions reflect the group's long-term expected experience plus additional margins for conservatism and adverse deviation. The assumptions used are 90% of the reinsurer's morbidity tables. A compulsory margin of 10% is held on top of this assumption.

9.4 Investment return

The assumed future investment returns used as the discount rate, are based on the nominal bond yields supplied by the Prudential Authority for use in the Solvency Assessment and Management framework. The 10-year spot rate is 9.26% per annum. A compulsory margin of 0.25% is held on top of these rates. The margin on the funeral product was changed from 0.25% to -0.25%.

9.5 Expense inflation

Expense inflation rates are based on the differential between the nominal and real bond yields supplied by the Prudential Authority for use in the Solvency Assessment and Management framework. The 10-year spot inflation rate is 5.84% per annum. A compulsory margin of 10% is held on top of these rates.

9.6 Maintenance expenses

Maintenance expense assumptions reflect the group's long-term expected experience plus additional margins for conservatism and adverse deviation. The assumptions used for maintenance expenses are R366.15 for the life business, R326.71 for the funeral business and R164.11 for the broker business. A compulsory margin of 10% is held on top of these rates.

Notes forming part of the consolidated financial statements (continued)

9. Policyholders assets arising from long-term insurance contracts (continued)

9.7 Premium collection rates

The premiums collection rates reflect the group's long-term expectation of the level of premiums that will not be collected. This assumption was introduced during 2019 and is set at:

- 10.7% for elevated and age rated elevated policies;
- 18.9% for accidental and age rated accidental policies;
- 6.7% for POD;
- 20.1% for EPOD;
- 23.2% for funeral;
- 9.9% for All Woman product; and
- 33% for broker business.

No margin is held on this assumption.

	2019
	R'000
Net assets at the beginning of the year	1 264 126
Movement for the year:	
Expected movement in policy assets	(240 589)
Unwinding of discount rate	100 361
New business written	220 863
	<u>80 635</u>
 Experience variance	 <u>46 711</u>
	<u>46 711</u>
 Changes in assumptions	
- Persistency	(35 323)
- Mortality	99 162
- Economic	174 651
- Expenses	23 850
- Non-collections rates	(79 140)
- Margin reset	(26 706)
	<u>156 494</u>
 Changes in modelling and method	 <u>(44 108)</u>
Total change	<u>239 732</u>
 Net assets at the end of the year	 <u><u>1 503 858</u></u>

The model amendments made during the current financial year include:

- the removal of an implicit discretionary margin allowed for in the model;
- the removal of an additional lapse rate assumption on policies in arrears at the valuation date; and
- the addition of a non-collections rate assumption that allows for premiums that will not be collected.

Notes forming part of the consolidated financial statements (continued)

9. Policyholders assets arising from long-term insurance contracts (continued)

9.7 Premium collection rates (continued)

	2019
	R'000
Assets arising from long-term insurance contracts - gross	1 523 615
Portion attributable to reinsurers	(19 757)
	<u>1 503 858</u>

10. Investment contracts

	2019
	R'000
Financial assets backing investment contract liabilities	1 158 542
Investment contract liabilities	(1 157 160)
	<u>1 382</u>

1Life Insurance (RF) Limited ("1Life") offers a linked endowment policy with a fixed period to maturity of 5 years. The product contains two product offerings referred to as product 1 and product 2 below. Investment contracts also include a living annuity referred to below.

10.1 Endowment policies - product 1

	2019
	R'000
Policy assets	289 849
Policy liabilities	(288 467)
	<u>1 382</u>

The return that the policyholder will earn is linked to an underlying investment that 1Life holds with a third party. Product 1 is shown at amortised cost.

The carrying amount of financial instruments not held at fair value approximates their fair value.

10.2 Endowment policies - product 2

	2019
	R'000
Policy assets	657 125
Policy liabilities	(657 125)
	<u>-</u>

Notes forming part of the consolidated financial statements (continued)

10. Investment contracts (continued)

10.2 Endowment policies - product 2 (continued)

This product comprises 50% fixed income returns and 50% equity based returns from the underlying investment that 1Life holds with a third party.

The fair value calculation at reporting date is performed by a third party. The third party provides the group with the bid price of the underlying assets at reporting date. The fair value of the notes is calculated by taking the number of units multiplied by the unit price less transaction fees relating to redeeming and unwinding the notes. The unit price is determined with reference to bid prices for equity linked components, yield curves for fixed interest components as well as the fair value using various valuation methods of call options that were placed by the third party.

Level 3

The endowment products in product 2 are categorised as a level 3 instrument, as there are valuation techniques using significant unobservable inputs when valuing the call options.

10.3 Living annuity policies

	2019
	R'000
Policy assets	211 568
Policy liabilities	(211 568)
	<u>-</u>

The fair value calculation at reporting date is performed by a third party. The third party provides the group with the bid price of the underlying assets at the reporting date. The fair value of the notes are calculated by taking the number of units multiplied by the unit price less transaction fees relating to redeeming and unwinding the notes. The unit price is determined with reference to bid prices for equity linked components.

Level 2

The living annuity products are categorised as a level 2 instrument, as the valuation techniques uses observable market inputs when valuing the products.

10.4 Reconciliation of assets and liabilities

A reconciliation is performed for policies measured at fair value through profit and loss. The values below therefore excludes the endowment product 1 values as this product is measured at amortised cost.

	2019
	R'000
Reconciliation of financial assets backing investment contract liabilities	
Balance at the beginning of the year	455 238
Additions during the year	642 476
Investment returns during the year	20 198
Surrenders and annuity payments during the year	(15 019)
Fair value adjustment during the year	55 649
	<u>1 158 542</u>

Notes forming part of the consolidated financial statements (continued)

10. Investment contracts (continued)

10.4 Reconciliation of assets and liabilities (continued)

	2019
	R'000
Reconciliation of investment contract liabilities	
Balance at the beginning of the year	(455 103)
Additions during the year	(642 477)
Interest accrued during the year	(18 950)
Surrenders during the year	15 019
Fair value adjustment during the year	(55 649)
	(1 157 160)

11. Deferred acquisition costs and commission incurred

	2019
	R'000
Analysis of movement in deferred acquisition costs	
Balance at the beginning of the year	14 538
New business written	90 051
Deferred acquisition cost recognised in profit or loss	(89 764)
Balance at the end of the year	14 825

	2019
	R'000
Commission incurred	
Commission incurred - deferred acquisition costs	(287)
Commission paid - other	503 362
	503 075

12. Liabilities for insurance contracts

Short-term insurance contracts:

	Gross	Reinsurance	Net
	R'000	R'000	R'000
June 2019			
Claims outstanding	602 936	-	602 936
Claims incurred but not reported	207 710	(159 849)	47 861
Unearned premiums	358 434	-	358 434
	1 169 080	(159 849)	1 009 231

No reinsurance recovery applies to the unearned premiums as the reinsurers do not accept responsibility for settling any portion of the cash-back liability. The unearned premium relating to non-monthly business is not reinsured as the reinsurance is ceded on an earned premium basis.

Recoveries on claims are settled by the reinsurer when the gross claim is paid. At year end the reinsurance recovery of the outstanding claims provision is netted off the reinsurance payable disclosed in note 19. The R159,849,000 reinsurance asset is in respect of claims incurred but not yet reported only (see note 13 for the expected insurance salvages and recoveries on outstanding claims).

Notes forming part of the consolidated financial statements (continued)

12. Liabilities for insurance contracts (continued)

Long-term insurance contracts

	Gross	Reinsurance	Net
June 2019	R'000	R'000	R'000
Outstanding claims	149 148	(105 875)	43 273
Claims incurred but not reported	73 630	(17 849)	55 781
	222 778	(123 724)	99 054

Liabilities for insurance contracts represent an undiscounted value for claims reported to the group as well as incurred but not reported (IBNR) claims, reduced by a factor for expected repudiations.

The calculation of the incurred claims is based on assumptions made. Actual experience will differ from these estimates and will impact profit or loss in the post calculation period.

A sensitivity analysis on the repudiation factor used in calculating outstanding claims shows that a reduction in the repudiation factor of 20% will result in an increase in the gross outstanding claims reserve of R17 393 871. The net outstanding claims reserve will increase by R9 888 663. See note 29 for further detail on the sensitivity analysis.

Included in the outstanding claims are notified claims which at 30 June 2019 have been approved for payment. In excess of 80% of those claims are expected to be settled within the next 12 months with the remaining balance in the 12 months following that.

Analysis of movement for short-term insurance contracts:

	2019
	R'000
Analysis of movement in gross outstanding claims and claims incurred but not reported	
Balance at the beginning of the year	(859 097)
Current year claims incurred	(3 538 116)
Change in previous year claims estimated	(181 471)
Current year claims paid	3 170 082
Previous year claims paid	597 956
Balance at the end of the year	(810 646)

	2019
	R'000
Analysis of movement in reinsurers' share of claims incurred but not reported	
Balance at the beginning of the year	117 271
Claims incurred but not yet reported provision utilised	(96 137)
Claims incurred but not yet reported provision created	138 715
Balance at the end of the year	159 849

Notes forming part of the consolidated financial statements (continued)

12. Liabilities for insurance contracts (continued)

Analysis of movement for short-term insurance contracts (continued):

	<u>2019</u> <u>R'000</u>
Analysis of movement in gross unearned premium liability	
Balance at the beginning of the year	(348 209)
Additional provision raised during the year	(178 593)
Paid against provision	167 066
Premium recognised in profit or loss	<u>1 302</u>
Balance at the end of the year	<u>(358 434)</u>

Maturity analysis of short-term insurance liabilities

Based on actuarial modelling of historical and future expected trends, the group has estimated the probable cash outflows associated with short-term insurance liabilities. The maturity analyses of the gross insurance liabilities is set out below. The maturity profile of the related reinsurance asset is expected to be similar to the profile of the liabilities.

	Maturity in less than 3 months	Maturity between 3 months and 1 year	Maturity between 1 year and 5 years	Total
2019	R'000	R'000	R'000	R'000
Claims incurred but not yet reported	127 055	48 387	32 268	207 710
Outstanding claims	455 552	122 561	24 823	602 936
Unearned premiums	<u>80 187</u>	<u>145 490</u>	<u>132 757</u>	<u>358 434</u>
	<u>662 794</u>	<u>316 438</u>	<u>189 848</u>	<u>1 169 080</u>

Claims development tables:

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

Notes forming part of the consolidated financial statements (continued)

12. Liabilities for insurance contracts (continued)

Claims development tables (continued):

Gross claims incurred:

	Development period					2014 and prior years	Total
	2019	2018	2017	2016	2015		
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Financial period							
2019	3 554 866	142 578	12 801	6 315	(1 035)	4 062	3 719 587
2018	-	3 874 260	129 916	14 725	3 906	1 229	4 024 036
2017	-	-	3 782 580	114 873	7 916	1 683	3 907 052
2016	-	-	-	3 346 098	94 819	12 077	3 452 994
2015	-	-	-	-	3 178 236	197 590	3 375 826
2014	-	-	-	-	-	3 297 855	3 297 855
	<u>3 554 866</u>	<u>4 016 838</u>	<u>3 925 297</u>	<u>3 482 011</u>	<u>3 283 842</u>	<u>3 514 496</u>	<u>21 777 350</u>

Gross claims paid:

	Development period					2014 and prior years	Total
	2019	2018	2017	2016	2015		
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Financial period							
2019	3 170 082	540 302	28 830	17 051	6 070	5 703	3 768 038
2018	-	3 338 347	605 022	27 349	9 756	9 669	3 990 143
2017	-	-	3 276 719	501 260	30 664	20 085	3 828 728
2016	-	-	-	2 972 344	451 313	61 854	3 485 511
2015	-	-	-	-	2 887 492	477 672	3 365 164
2014	-	-	-	-	-	3 257 624	3 257 624
	<u>3 170 082</u>	<u>3 878 649</u>	<u>3 910 571</u>	<u>3 518 004</u>	<u>3 385 295</u>	<u>3 832 607</u>	<u>21 695 208</u>

Analysis of movement for long-term insurance contracts:

	Gross R'000	Reinsurance R'000	Net R'000
2019			
Analysis of outstanding claims and claims incurred but not reported			
Balance at the beginning of the year	(237 723)	144 974	(92 749)
Incurred during the year	(526 634)	110 661	(415 973)
Paid/(recovered) during the year	541 579	(131 911)	409 668
Total	<u>(222 778)</u>	<u>123 724</u>	<u>(99 054)</u>

BHL (SA) Holdings Limited
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Notes forming part of the consolidated financial statements (continued)

13. Expected insurance salvages and recoveries

	Gross R'000	Reinsurance R'000	Net R'000
2019			
Expected salvage on insurance contracts	102 971	(71 639)	31 332
Expected third party recoveries on insurance contracts	95 689	(73 405)	22 284
Total	198 660	(145 044)	53 616

13.1 Analysis of movement in expected insurance salvages

	Gross R'000	Reinsurance R'000	Net R'000
2019			
Balance at the beginning of the year	101 889	(48 485)	53 404
Recognised in profit or loss	330 909	(262 071)	68 838
Cash receipts	(329 827)	238 917	(90 910)
Balance at the end of the year	102 971	(71 639)	31 332

13.2 Analysis of movement in expected insurance recoveries

	Gross R'000	Reinsurance R'000	Net R'000
2019			
Balance at the beginning of the year	101 933	(55 232)	46 701
Recognised in profit or loss	116 035	(102 759)	13 276
Cash receipt	(122 279)	84 586	(37 693)
Balance at the end of the year	95 689	(73 405)	22 284

14. Investments

	2019
	R'000
Investments at fair value through profit or loss	122 601
Investments at amortised cost	2 905 383
Total investments	3 027 984

14.1 Investments at fair value through profit or loss

	2019
	R'000
Treasury bills	-
En commandite partnership	96 124
Investment in shares	26 477
	122 601

Notes forming part of the consolidated financial statements (continued)

14. Investments (continued)

14.1 Investments at fair value through profit or loss (continued)

14.1.1 Treasury bills

	<u>2019</u>
	R'000
Reconciliation of treasury bills	
Balance at the beginning of the year	98 302
Invested during the year	139 590
Matured during the year	(241 880)
Interest received during the year	<u>3 988</u>
	<u><u>-</u></u>

The average and effective interest rates earned on the treasury bills are as follows:

	<u>2019</u>
	%
Average effective interest rate, %	8.67%
Year-end effective interest rate, %	8.52%

14.1.2 En commandite partnership

On 26 May 2015 the Group made an advance to a strategic partner in an en commandite partnership. The advance bears interest at the prime rate and has no fixed repayment terms.

The share of profit consists of 50% of the partnership accumulated profit for the year.

The instrument is classified as a level 3 instrument. There have been no transfers between the levels stated in note 3.1.

The fair value of the partnership was determined on a discounted cash flow method.

The principle assumptions and significant unobservable inputs used in the valuation of the financial asset were as follows:

- Growth in revenue of 4.0%
- Growth in margin of 21.4%
- Fair rate of return of 19.6%

Sensitivity analysis:

Changes in the above assumptions could have the following impact on the profit or loss of the group:

- 2% increase in growth of revenue, effect of R7 246 000
- 2% growth in margin, effect of R10 263 000
- 1% decrease in fair rate of return, effect of R7 675 000

	<u>2019</u>
	R'000
Analysis of movement in valuation of partnership	
Balance at the beginning of the year	72 958
Share of profit from the partnership	23 166
Balance at the end of the year	<u><u>96 124</u></u>

Notes forming part of the consolidated financial statements (continued)

14. Investments (continued)

14.1 Investments at fair value through profit or loss (continued)

14.1.3 Investment in shares

	<u>2019</u> R'000
Level 3	
Open Window Growth Partners Proprietary Limited	24 438
Nesibindi Capital Proprietary Limited	<u>2 039</u>
	<u>26 477</u>

Open Window Growth Partners Proprietary Limited ("Open Window")

The group subscribed for shares in Open Window as follows:

2017: 10 000 shares of R1 000 each (R10 million);
2018: 3 470 shares of R1 250 each (R4.3 million); and
2019: 8 080 shares of R1 250 each (R10.1 million).

As Open Window is a South African Revenue Service ("SARS") Section 12J company the full subscription price is deductible from taxable income. Open Window invests in qualifying start-up businesses.

Nesibindi Capital Proprietary Limited ("Nesibindi")

The group subscribed for shares in Nesibindi as follows:
2019 - 2 039 shares of R1 000 each (R2.039 million)

As Nesibindi is a SARS Section 12J company the full subscription price is deductible from taxable income. Nesibindi invest in qualifying start-up businesses.

	<u>2019</u> R'000
Balance at the beginning of the year	14 346
Purchase of additional shares	12 139
Facility shares	<u>(9)</u>
	<u>26 476</u>

Valuation technique

The fair value of these investments are valued using a combination of techniques (adjusted earnings, EBITDA and net asset values). In the current period there was no movement in the fair value. These companies carry all investments at fair value in their financial statements.

14.2 At amortised cost

	<u>2019</u> R'000
Loans	4 637
Fixed deposits	2 892 329
Advance to strategic partnership	<u>8 417</u>
	<u>2 905 383</u>

Notes forming part of the consolidated financial statements (continued)

14. Investments (continued)

14.2 At amortised cost (continued)

14.2.1 Loans

	2019
	R'000
Tekton Autobody Repairs Paarl Proprietary Limited	
The loan is unsecured, interest free for the first 36 months whereafter it will bear interest at the prime lending rate calculated from time to time. The loan is repayable on demand. The loan is partially impaired.	800
Silver Solutions 2474 Close Corporation	
The loan is unsecured, bears interest after 24 months at the prime lending rate and is repayable in 36 equal monthly installments commencing after 60 months of granting the loan with the first installment due in December 2016.	106
Dube Autobody Proprietary Limited	
The loan is unsecured, interest free for 24 months whereafter it will bear interest at the prime lending rate calculated from time to time. The loan is repayable over a period not exceeding 24 months effective from 10 May 2021. The loan is partially impaired.	901
Quicker Trading Proprietary Limited t/a Renew-IT	
The loan is unsecured, interest free and has no fixed repayment terms. The loan is fully impaired.	5 627
Namola EMS Group Proprietary Limited	
The loan is unsecured, bears interest after 24 months at the prime lending rate and is effective for 36 months. The loan is repayable in equal monthly installments not exceeding 60 months.	3 400

Notes forming part of the consolidated financial statements (continued)

14. Investments (continued)

14.2 At amortised cost (continued)

14.2.1 Loans (continued)

	<u>2019</u> R'000
Enterprise and supplier development loans	
These loans are divided into two types of loans.	
<i>Loans directly to enterprises:</i>	
These loans are unsecured, interest free for the first 24 months whereafter it bears interest at the prime lending rate. The loan is repayable in equal installments after 36 months from the commencement date.	
<i>Loans for towing trucks:</i>	
These loans are interest free and repayable in equal monthly installments not exceeding 60 months.	
 These loans are fully impaired	 <u>20 373</u> 31 207
 Impairment of loans	 <u>(26 570)</u>
Total loans	<u>4 637</u>

Notes forming part of the consolidated financial statements (continued)

14. Investments (continued)

14.2 At amortised cost (continued)

14.2.1 Loans (continued)

Reconciliation of provision for impairment of loans and other receivables

	2019
	R'000
Balance at the beginning of the year	(644)
Impairment raised during the year	(26 000)
Impairment released during the year	<u>74</u>
	<u>(26 570)</u>

14.2.2 Fixed deposits

Fixed deposits held for more than 3 months from initial date are classified as investments. Below is the maturity analysis of the fixed deposits remaining after 30 June 2019.

	2019
	R'000
0 - 3 months	700 118
3 - 6 months	602 895
6 - 9 months	761 217
9 - 12 months	<u>828 099</u>
	<u>2 892 329</u>

The average and effective interest rates earned on the fixed deposits are as follows:

	2019
	%
Average effective interest rate, %	6.60%
Year-end effective interest rate, %	6.45%

BHL (SA) Holdings Limited
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Notes forming part of the consolidated financial statements (continued)

14. Investments (continued)

14.2 At amortised cost (continued)

14.2.3 Advance to strategic partnership

	2019
	R'000
Analysis of movement in advance to strategic partnership	
Balance at the beginning of the year	7 132
Advancement during the year	5 000
Interest on loan	1 285
Repayment of loan	<u>(5 000)</u>
Balance at the end of the year	<u>8 417</u>

15. Loans to/(from) related parties

15.1 Fellow subsidiaries

	2019
	R'000
Steyn City Properties Proprietary Limited	2 000 000
Expected credit loss adjustment of loan to fellow subsidiary	(540)
BHL (UK) Holdings Limited	<u>(31 860)</u>
	<u>1 967 600</u>

The Steyn City Properties loan is payable on demand, is interest free and guaranteed by BHL Holdings Limited in full.

The BHL (UK) Holdings loan is payable on demand and is interest free.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

15. Loans to/(from) related parties (continued)

15.2 Other related parties

	2019
	R'000
1 Life Trust	
The amount is unsecured, interest free and has no fixed repayment term. The loan has been impaired based on the liquidity position of 1Life Trust. The loan has been subordinated by 1 Life Insurance (RF) Limited in favour of third party creditors.	
	535
First for Women Trust	
The amount is unsecured, interest free and has no fixed repayment term.	(8)
Die Virseker Trust	
The amount is unsecured, interest free and has no fixed repayment term.	(1 211)
Harbour Private Clients Proprietary Limited	
The amount is unsecured, interest free and has no fixed repayment term.	(6 221)
	(6 905)
Impairment of loans to other related parties and amortised cost adjustment	-
	(6 905)
	2019
	R'000
Loans consisted of:	
Fellow subsidiaries	1 968 140
Other related parties	(6 905)
Expected credit loss adjustment of loan to fellow subsidiary	(540)
	1 960 695

Notes forming part of the consolidated financial statements (continued)

16. Insurance and other receivables

	2019
	R'000
Insurance receivables	
Gross premium receivables	99 640
Gross reinsurance receivables	108 627
Commission clawback receivable	8 097
Impairment provision	<u>(6 078)</u>
	210 286
Other receivables	
Trade receivables	62 631
Prepayments	68 916
Deposits	3 698
Value added tax receivable	<u>74 518</u>
Total other receivables	209 763
Total insurance and other receivables	420 049

During the 2019 financial year, Insure Group Managers (Pty) Ltd "IGM" (the premium collection agency used to collect the premiums written by MUA Insurance Acceptances Proprietary Limited) was placed under curatorship. An impairment of R22.5 million has been raised against premium receivables for the outstanding amount as the curator did not give any positive indication that these amounts will be recovered during the current financial year.

All other receivables have been assessed as neither past due nor impaired.

	2019
	R'000
Reconciliation of movement in gross premium receivables	
Balance at the beginning of the year	155 671
Recognised in profit or loss	8 939 646
Cash receipts	(8 968 032)
Allowance for doubtful debt	(22 523)
Provision for premium refund	(694)
Reclassification to insurance payables	<u>(4 428)</u>
Balance at the end of the year	99 640

	2019
	R'000
Reconciliation of movement in gross reinsurance receivables	
Balance at the beginning of the year	118 771
Recognised in profit or loss	(78 245)
Cash payments	64 607
Reclassified from insurance payable	<u>3 494</u>
Balance at the end of the year	108 627

	2019
	R'000
Reconciliation of impairment provision	
Balance at the beginning of the year	4 545
Increase in provision	<u>1 533</u>
	6 078

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

17. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019
	R'000
Cash on hand	65
Bank balances	353 040
Short-term deposits	803 808
	<u>1 156 913</u>

Included in the short-term deposits balance is a cash equivalent balance of R600 900 000 which is invested in the Nedgroup Investments Corporate Money Market Fund. The total exposure is limited to the balance invested, and the balance is subject to interest rate risk as disclosed in note 29.2.4.

18. Provisions

	Executive and management bonus	Cash settled share based payments	Clawback activations	Total
	R'000	R'000	R'000	R'000
Opening balance 2018	94 574	273 602	134	368 310
Utilised during the year	(98 972)	(38 511)	-	(137 483)
Under/(over) provided from the prior year	12 041	(13 038)	-	(997)
Provisions made during the year	81 711	134 485	51	216 247
Balance at 30 June 2019	89 354	356 538	185	446 077

All provisions other than cash settled share based payments are expected to be settled in the next 12 months.

For details on the cash settled share based payment liability refer to note 31.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

19. Insurance and other payables

	2019
	R'000
Insurance payables	
Reinsurance payables	171 932
Deposit held in respect of reinsurance	102 581
Insurance payables	23 952
Premiums received in advance	317 869
	616 334

Other payables	
Trade payables	173 299
Amounts received in advance	7 356
Deposits received	120
Operating lease payables	11 268
Value added tax payable	32 332
Employee remuneration benefits payable	91 830
Accrued leave pay	64 930
Accrued audit fees	11 351
Other accrued expenses	9 849
	402 335
	1 018 669

Reconciliation of movement of reinsurance payables

Balance at the beginning of the year	194 574
Recognised in profit or loss	657 749
Cash payments	(680 190)
Reallocation to insurance receivables	(201)
Balance at the end of the year	171 932

R'000

Reconciliation of movement in deposits held in respect of reinsurance

Balance at the beginning of the year	92 011
Movement in deposit - Exotics quota share	(21 836)
Movement in deposit - Jacana quota share	33 336
Movement in deposit - Commercial quota share	(930)
Balance at the end of the year	102 581

R'000

Reconciliation of movement in insurance payables

Balance at the beginning of the year	17 745
Recognised in profit or loss	1 779
Reclassified from insurance receivables	4 428
Balance at the end of the year	23 952

Notes forming part of the consolidated financial statements (continued)

19. Insurance and other payables (continued)

	<u>2019</u>
	<u>R'000</u>
Reconciliation of premiums received in advance	
Movement relating to current year	317 869
	<u>317 869</u>

The premium collection process was previously administered through one of the non-insurance subsidiaries, IS Services Proprietary Limited ("IS Services"). Premiums collected prior to the commencement of the risk were retained by IS Services and only paid to the insurance subsidiaries on commencement of the risk.

20. Insurance claims

	<u>2019</u>
	<u>R'000</u>
Gross	
Claims paid	(3 830 943)
Movement in incurred but not reported claims liability	13 510
Movement in outstanding claims liability	49 886
Salvages and recoveries	445 490
	<u>(3 322 057)</u>
Reinsurers' share	
Claims paid	2 619 867
Movement in outstanding claims and incurred but not reported claims	21 328
Salvages and recoveries	(377 577)
	<u>2 263 618</u>
	<u>(1 058 439)</u>

BHL (SA) Holdings Limited
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Notes forming part of the consolidated financial statements (continued)

21. Other income

	2019
	R'000
Reinsurance commission income	2 221 925
Transfer to life fund	239 732
Fees for ancillary insurance services	182 818
Commission received	66 633
Value added products income	21 986
Sundry income	161 661
Other income on policy cancellations	57 784
Advertising partner income	30 906
Administration and management fees received	8 401
Gains on disposal of assets	66
	<u>2 991 912</u>

22. Profit before tax

Profit before tax for the year is stated after accounting for the following disclosable items:

	2019
	R'000
Operating lease charges	
Premises - rental expense	103 402
Equipment - rental expense	11 718
Other disclosable charges	
Gain on deregistration/sale of businesses	(444)
Impairment on intangible assets	47 004
Loss on exchange differences	401
Amortisation on intangible assets	43 019
Depreciation on plant and equipment	46 703
Research and development costs	1 779
Consulting and professional fees	96 115
Fines and penalties	241
Auditor fees – fees for the audit of the Company	224
Auditor fees – fees for the audit of the Company's subsidiaries	14 527
Auditor fees – tax services	4 542
Auditor fees – other services	394

Notes forming part of the consolidated financial statements (continued)

23. Fair value adjustments

	<u>2019</u>
	<u>R'000</u>
Investment in subsidiaries, loans to group companies and related parties	63
Trade and other receivables and investments	65
Expected credit loss adjustment on trade and other receivables	(1 831)
Expected credit loss adjustment on loans	<u>54</u>
	<u>(1 649)</u>

	<u>2019</u>
	<u>R'000</u>
Gains	137
Losses	<u>(1 786)</u>
	<u>(1 649)</u>

24. Finance income and expense

	<u>2019</u>
	<u>R'000</u>
Interest received from banks	101 736
Interest received from investments	192 810
Interest received from South African Revenue Service	1 212
Interest received from treasury bills	4 260
Interest received from related parties and other loans	128
Interest accrued on endowment policy asset	15 391
Interest on reinsurance received	<u>1 005</u>
Finance income	<u>316 542</u>

	<u>2019</u>
	<u>R'000</u>
Interest paid to other payables	96
Interest on other financial liabilities	1
Interest on reinsurance payables	574
Other interest paid	86
Interest accrued on endowment policy liabilities	<u>14 149</u>
Finance expense	<u>14 906</u>

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

25. Taxation

Major components of the tax expense

	<u>2019</u>
	R'000
Current	
Foreign corporation tax	328 879
Recognised in current period for prior periods	670
Other	<u>59</u>
	<u>329 608</u>
 Deferred	
Charged to the statement of profit and loss	<u>(69 015)</u>
	<u>(69 015)</u>
	 <u>260 593</u>

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

25. Taxation (continued)

Reconciliation tax expense

	2019
	R'000
Profit before tax	831 788
Tax payable at the domestic rate of 19%	<u>158 040</u>
Effect of tax rates in foreign jurisdictions	<u>77 748</u>
Effects of:	
Non-taxable income	
Exempt income	<u>(124)</u>
Additional allowances	
Learnership allowance	(2 959)
Section 12J deduction	(3 399)
Tax rate adjustment for Individual Fund	172
Alignment to adjusted IFRS tax basis for S29A	<u>(9 987)</u>
	<u>(16 173)</u>
Non-deductible expenses	
Prior year adjustments	298
Deferred tax on policyholder credit transfers	113
Tax loss not utilised	8 004
Deferred tax asset not recognised	1 243
Deferred tax raised on share in partnership profits	6 569
Consulting, legal and professional fees	4 715
Donations	2 512
Other expenses	4 399
Securities transfer tax	59
Impairment of intangibles	13 161
Impairment of financial assets	<u>29</u>
Tax expense at effective rate	<u>260 593</u>

The South African corporation tax rate in the year was 28% and for capital gains tax transactions an effective rate of 22.4% (2018: 28% and 22.4%). The deferred tax asset and liability at 30 June 2019 has been calculated based on 28% for South African entities, with regards to capital gains tax transactions an effective rate of 22.4% was used.

The deferred tax asset at each reporting date has been measured at the tax rates that are expected to apply in the year when the asset is realised, based on the rates substantively enacted at the reporting date.

Notes forming part of the consolidated financial statements (continued)

26. Cash flows generated from/(used in) operations

Cash generated from operations are calculated below:

	2019
	R'000
Profit for the year before taxation	831 788
Adjustments for:	
Depreciation and amortisation	89 722
Profit on sale of assets	(66)
Interest income	(316 542)
Interest expense	14 906
Fair value adjustment	(128)
Loss on exchange differences	401
Impairment loss	47 004
Movement in provisions	77 767
Movement in expected salvages and recoveries	5 162
Movement in liabilities for insurance contract liabilities	(53 171)
Movement in reinsurers' share of insurance contract liabilities	(21 328)
Movement in reinsurers' share of expected salvages and recoveries	41 327
Net movements in assets and liabilities from insurance contracts and outstanding claims	(239 732)
Movement in deferred acquisition costs	(287)
Expected credit loss adjustment relating to prior periods	(3 436)
Profit of limited partnership	(23 166)
	<u>450 221</u>
Changes in working capital	
Movement in insurance and other receivables	25 314
Movement in insurance and other payables	<u>79 664</u>
	<u>104 978</u>
Total cash generated from/(used in) operations	<u>555 199</u>

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Notes forming part of the consolidated financial statements (continued)

27. Tax paid

	2019
	R'000
Balance at the beginning of the year	39 065
Acquisition of subsidiary	93
Current tax for the year recognised in profit or loss	(329 608)
Balance at the end of the year	<u>1 535</u>
Total tax paid during the year	<u>(288 915)</u>

28. Related parties

Relationships	Country of incorporation	
Ultimate holding company	Guernsey	BHL Holdings Limited
To 26 June 2019, fellow subsidiary; From 27 June 2019, common shareholder	Australia	Auto and General Holdings Limited
Fellow subsidiaries	South Africa	Douw Steyn Properties Proprietary Limited and its subsidiaries Napier Gardens Proprietary Limited and its subsidiary
Subsidiaries	South Africa	1 Life Insurance (RF) Limited Auto and General Insurance Company (RF) Limited Budget Insurance Company (RF) Limited Dial Direct Insurance (RF) Limited Digital Comparison Services Proprietary Limited First for Women Insurance Company (RF) Limited Hippo Advisory Services Proprietary Limited Hippo Comparative Services Proprietary Limited IS Services Proprietary Limited One Call Insurance Brokers Proprietary Limited Rockport Capital Proprietary Limited Telesure Group Services Proprietary Limited Telesure Investment Holdings Proprietary Limited Unity Financial Services Proprietary Limited Upstream Advertising Proprietary Limited Wealthport Nominees Proprietary Limited Wealthport Proprietary Limited

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

28. Related parties (continued)

Other related parties	South Africa	1 Life Trust First for Women Trust Harbour Private Clients Proprietary Limited Jenus Marketing Proprietary Limited Nesibindi Capital Proprietary Limited Open Window Growth Partners Proprietary Limited Die Virseker Trust
	Guernsey	Jacana Re Limited
	Turkey	Koalay Com Sigorta VE Reassurans Brokerligi A.S.

Related party balances

Please also refer to note 15 for analysis of loan accounts with related parties.

	2019
	R'000
Amounts included in trade receivables/(trade payables) regarding related parties	
Auto and General Holdings Limited	14 252
Auto and General Holdings Limited	(1 499)
1 Life Trust	255
First for Women Trust	(8)
Die Virseker Trust	(1 187)
Napier Gardens Proprietary Limited	2 699
Steyn City Properties Proprietary Limited	192
Koalay Com Sigorta VE Reassurans Brokerligi A.S.	262
Saxon Hotel Proprietary Limited	9
	14 975

Notes forming part of the consolidated financial statements (continued)

28. Related parties (continued)

Related party balances (continued)

	2019
	R'000
Investments with related parties	
Open Window Growth Partners Proprietary Limited	24 438
Nesibindi Capital Proprietary Limited	<u>2 039</u>
	<u>26 477</u>

Reinsurance share of incurred but not reported provision from related party

Jacana Re Limited	<u>101 641</u>
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Reinsurance deposit payable to related party

Jacana Re Limited	<u>(101 641)</u>
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Reinsurance payable to related party

Jacana Re Limited	<u>(67 803)</u>
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Expected recoveries and salvages payable to related party

Jacana Re Limited	<u>(89 732)</u>
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Related party transactions

Reinsurance commission received from related party

Jacana Re Limited	<u>(2 142 836)</u>
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Reinsurance premiums paid to related party

Jacana Re Limited	<u>4 709 529</u>
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Reinsurance claims received from related party

Jacana Re Limited	<u>(2 242 114)</u>
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Notes forming part of the consolidated financial statements (continued)

28. Related parties (continued)

Related party transactions (continued)

	<u>2019</u> R'000
Actual recoveries and salvages paid to related party	
Jacana Re Limited	<u>325 774</u>
 Expected recoveries and salvages paid to related party	
Jacana Re Limited	<u>30 462</u>
 Reinsurance share of incurred but not reported claims paid to related party	
Jacana Re Limited	<u>(42 635)</u>
 Administration fees received from related parties	
1Life Trust	<u>(379)</u>
 Rent paid to related party	
Napier Gardens Proprietary Limited	<u>62 587</u>
 Utilities paid to related party	
Napier Gardens Proprietary Limited	<u>683</u>

Notes forming part of the consolidated financial statements (continued)

28. Related parties (continued)

Related party transactions (continued)

Donations paid to related parties

First for Women Trust	9 195
Die Virseker Trust	13 378
1 Life Trust	9 747
	<u>32 320</u>

Consulting fees paid to related parties

Jenus Marketing Proprietary Limited	293
Auto and General Holdings Limited	1 499
BHL Holdings Limited	4 320
	<u>6 112</u>

Call centre expenses recovered from related party

Auto and General Holdings Limited	<u>(85 598)</u>
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Entertainment and other related costs paid to related parties

Steyn City Properties Proprietary Limited	128
Saxon Hotel Proprietary Limited	810
	<u>938</u>

Repairs and maintenance paid to related parties

Steyn City Properties Proprietary Limited	<u>288</u>
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Notes forming part of the consolidated financial statements (continued)

28. Related parties (continued)

Related party transactions (continued)

	2019 R'000
Advisory service fee income received from related party	
Koalay Com Sigorta VE Reassurance	
Brokerligi A.S	<u>(2 528)</u>

Risk is inherent in the business and the identification and management of risk is central to delivering on the strategic objectives set by the Board. By understanding and managing risk, the group provides greater certainty and confidence to the shareholders, employees, customers and suppliers, and to the communities in which it operates.

29. Risk management

29.1 General

Key management of the Group is comprised of the directors and prescribed officer of TIH. Amounts paid to key management are as follows:

	2019 R'000
Key management emoluments	
Short-term employee benefits	72 706

Effective risk management is fundamental to the business activities of the group and seeks to achieve an appropriate balance between risk and reward, and assists in delivering on its strategy and growth plans in a controlled environment. The TIH Board of Directors ("TIH Board") has overall responsibility for the group's system of internal control and is accountable for reviewing its effectiveness.

Risk is inherent in the business and the identification and management of risk is central to delivering on the strategic objectives set by the TIH Board. By understanding and managing risk, the group provides greater certainty and confidence to the shareholders, employees, customers and suppliers, and to the communities in which it operates.

The group's risk appetite and capital management strategy are reviewed on a continuous basis. The risk appetite references financial and non-financial risk categories and indicates how much risk the group is willing to take in the pursuit of achieving its strategic and operational goals. Risks that have the potential to impact the reputation, regulatory, solvency, environment, community, operational and financial performance of the group and, thereby, the achievement of the strategic objectives are managed. As such, strategic business decisions are taken in accordance with a board approved risk appetite statement with the executive and risk committees closely monitoring risk profiles against this appetite.

Internal control systems are designed to manage risks within the business and inevitably, they can provide only reasonable and not absolute assurance against material misstatement or loss. The TIH Board is conscious of the importance of the group's risk management process and system of internal controls and attaches a high priority to monitoring the effectiveness and continued developing of it in line with good practice.

The TIH Board has delegated the oversight of the various control functions and processes to the various committees (Risk, Audit and Actuarial, Social and Ethics, Remuneration).

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.1 General (continued)

The TIH Board's oversight of the risk management process and the systems of internal general control are delegated to the Risk Committee. The Risk Committee is responsible for providing reasonable assurance that adequate mechanisms and procedures are established, implemented and maintained to:

- identify the individual and aggregated risks (current and emerging) the group faces;
- assess, monitor and help manage identified risks effectively;
- gain and maintain an aggregated view of the risk profile of the group; and
- establish a forward-looking assessment of the risk profile and financial position of the group, including the conducting of regular stress testing and scenario analyses as defined in GOI 3.1 (Own Risk and Solvency Assessment (ORSA) for Insurers), against the risk appetite and risk limits of the insurer.

The risk management function:

- regularly provides written reports to senior management, other key persons in control functions and the Risk Committee on the group's risk profile and details on the risk exposures facing the group and related mitigation actions;
- documents and reports material changes affecting the group's risk management system to the Risk Committee to help ensure that the system is maintained and improved; and
- has access to and report to the Board or appropriate sub-committee on the strategy of the risk management function and information on its resources, including an analysis on the appropriateness of those resources.

The TIH Board has delegated the requirement for oversight, establishment and implementation of appropriate and effective systems of internal financial control to the Audit and Actuarial Committee. The internal financial control systems are continually enhanced and encompasses suitable policies, processes, tasks and behaviours.

The internal financial control system is monitored and supported by Internal Audit and the Compliance Function who report on the group's operations to the Audit and Actuarial Committee and Risk Committee respectively. Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the group's operations.

The Audit and Actuarial Committee has reviewed and approved the Internal Audit Charter. Internal audit has responsibility for the following key activities in terms of the approved the Internal Audit Charter:

- develop a risk based internal audit plan, on a three year rolling basis. The internal audit plan is presented to the Audit and Actuarial Committee annually for approval;
- execution of the work in accordance with the approved plan;
- regular reporting to relevant stakeholders;
- review and evaluate the adequacy, effectiveness and compliance with the group's policies as well as documented processes and controls;
- evaluating controls and processes in place to ensure safeguarding of assets; and
- ensure that material areas of risk and obligations of the group are subject to an appropriate audit or review within a reasonable timeframe.

Group Compliance fulfils a critical function within the group's overall risk management framework. Group Compliance:

- monitors and reports on compliance with regulatory requirements;
- monitors that systems and controls are in place to ensure that the group's exposure to compliance risk is minimised;
- coordinates the group's relationship with its regulators;
- evaluates the impact of forthcoming regulatory changes and provides advice on potential process and control changes required; and
- assists management with the objective of embedding risk management within the business units.

The focus on risk management and a system of internal controls enables the group to identify, evaluate, monitor, respond, mitigate and manage risks that could affect its ability to achieve the strategic objectives.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.1 General (continued)

Management is accountable to the TIH Board and the relevant committees for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities. Management is responsible for the identification, assessment and control of all key risks facing the operations, functions and processes under their control and is required to monitor the status of risks, and report on any material changes to the risk profile, and risk materialisation/losses. Management is also expected to put in place appropriate controls for those risks, and to provide assurance that such controls perform as intended.

For the year ended 30 June 2019, management has ensured continual review of the systems of internal control, risk identification and mitigation. The ongoing review covered all material controls, including financial and operational controls.

29.2 Financial risk management

Financial risk is generally defined as the risk of financial loss to the group as a result of either a negative change in the value of assets or the deviation of financial results from that expected. The approach of the group towards financial risk management is to limit risk exposures within acceptable parameters while optimising returns through specifying allowable asset classes. The group's Financial Risk Policy defines its practices and procedures for managing financial risk. These activities provide reasonable, but not absolute, assurance that these risks are adequately managed.

The group is exposed to the following financial risks: liquidity risk, market risk, interest rate risk, credit risk and currency risk.

29.2.1 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet current and/or future cash-flow requirements in respect of its business obligations as they fall due, resulting in assets being sold at inappropriate times and at excessive cost. The risk arises from potential mismatches in timing of cash inflows from revenue and of operational outflows, as well as from inflows out of investment portfolio transactions. The group's approach to managing liquidity risks is to ensure, as far as possible, that it will always have sufficient liquid assets to meet its liabilities when they are expected to fall due under normal and under stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.2 Financial risk management (continued)

29.2.1 Liquidity risk (continued)

The table below analyses the group's financial and insurance assets and liabilities into maturity groupings based on the remaining period from the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3 - 6 months	6 - 12 months	Greater than 12 months	Total
	R'000	R'000	R'000	R'000	R'000	R'000
At June 2019						
Assets						
Other receivables	49 979	9 463	2 614	320	256	62 632
Cash and cash equivalents	1 156 913	-	-	-	-	1 156 913
Investments	358 986	442 719	589 265	1 488 683	148 331	3 027 984
Insurance receivables	171 114	4 307	4 713	604	29 548	210 286
Loans to related parties *	-	-	-	-	1 999 995	1 999 995
Reinsurance share of insurance contracts	69 016	63 864	65 578	35 243	49 872	283 573
Policyholder assets arising from insurance contracts	55 403	83 106	110 808	55 404	1 218 894	1 523 615
Expected recoveries and salvages	45 902	68 239	32 967	22 687	28 866	198 661
Financial assets backing investment contract liabilities	839	1 687	2 567	5 545	1 377 377	1 388 015
Total assets	1 908 152	673 385	808 512	1 608 486	4 853 139	9 851 674

* In terms of the contract this amount is payable on demand but the intention is not to require payment within the next twelve months.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.2 Financial risk management (continued)

29.2.1 Liquidity risk (continued)

	Within 1 month	1-3 months	3 - 6 months	6 - 12 months	Greater than 12 months	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Liabilities						
Other payables	141 952	24 326	5 683	1 562	-	173 523
Loans from related parties#	39 300	-	-	-	-	39 300
Insurance payables	508 503	55 304	37 890	14 637	-	616 334
Reinsurers share of policyholder assets arising from insurance contracts	718	1 078	1 437	718	15 807	19 758
Liabilities for insurance contracts	423 030	295 986	250 942	177 118	244 782	1 391 858
Reinsurers share of expected recoveries and salvages	32 393	47 793	25 307	17 606	21 944	145 043
Investment contract liabilities	839	1 687	2 567	5 545	1 377 377	1 388 015
Total liabilities	1 146 735	426 174	323 826	217 186	1 659 910	3 773 831

The R31 860k loan within this balance is payable on demand but BHL (UK) Holdings Limited's intention is not to require payment within the next twelve months.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.2 Financial risk management (continued)

29.2.2 Market risk

Market risk refers to the sensitivity of an asset or portfolio of financial instruments to overall market price movements such as interest rates, inflation, equity prices and foreign exchange rates during the time required to liquidate or offset positions. The impact of market movements on both assets and liabilities exposes the group to the potential of adverse financial impact. In the context of the group, these risks are regarded as Asset Liability Matching 'ALM' Risks (in a broad sense) or 'mismatch risks', i.e. risks arising from differences in the sensitivity of investments and other assets as well as insurance liabilities, to changes in the return on investments. The group's approach to market risk management is to limit risk exposures within acceptable parameters while optimising returns through specifying allowable asset classes. Currently the group does not follow a hedging strategy to manage market risks.

The endowment products and the living annuity products assets and liabilities are linked, thus the policyholder bears the market risk. We have therefore not performed a sensitivity analysis on these assets and liabilities.

29.2.3 Equity risk

Equity risk is the risk of losses resulting from fluctuations in the market value of equities and other assets. The group limits exposure to equity risk by specifying the allowable investments (as per the Investment Policy) and setting upper limits for the percentage of assets investible in equity. The risk attached to investing in equities is further managed by monitoring the performance of the entities and any underlying investments of that company.

The only equity risk that the group is exposed to during the year and at year end are the investments in Open Window Growth Partners Proprietary Limited and Nesibindi Capital Proprietary Limited detailed in note 14. The risk attached to these investments are managed by monitoring the underlying investments made by Open Window Growth Partners Proprietary Limited and Nesibindi Capital Proprietary Limited and participation in its Board and investment committee.

29.2.4 Interest rate risk

Interest rate risk is the risk that the group may suffer a financial loss as a result of fluctuations in market interest rates. The group is exposed to interest rate risk to the extent that it holds variable interest rate instruments in the form of cash and cash equivalents and fixed deposits.

Fluctuations in interest rates impact on the value of these investments and the interest income earned on them. Sensitivity analysis for interest rate risk is performed to determine how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management also monitors interest rate assumptions used during the budgeting process against actual interest rates prevailing at respective reporting dates. The group does not use hedging instruments to manage interest rate risk but provides for duration limits in the Financial Risk Policy.

The group and company have no fixed interest investments with maturity periods longer than 1 year. Hence fair value interest rate risk in respect of interest-bearing assets is not significant. A 100 basis point reduction in interest rate on offer by the market will reduce group interest income by approximately R40 million and company interest income by less than R1.6 million. This excludes interest relating to policyholder assets arising from long term insurance contracts.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.2 Financial risk management (continued)

29.2.5 Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable or unwilling to meet their financial obligations to the group.

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

- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries and third party recoveries;
- investments, endowment policy assets, living annuity assets and cash and cashequivalents;
- reinsurers' share of insurance contract liabilities; and
- amounts due from other third parties.

Credit risk is managed on a group basis. The group limits the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty or groups of counterparties. The levels are subject to at least annual reviews. Reputable financial institutions are used for investing and cash handling purposes and credit and concentration risk limits are strictly enforced.

The group enters into reinsurance agreements to spread the insurance risk and minimise the effect of underwriting losses. Agreements are entered into with approved reinsurers only who are independently rated at a minimum equivalent A- rating. Under the terms of reinsurance agreements, reinsurers agree to pay a portion of claims paid to policyholders, by the group. Consequently the group is exposed to credit risk. When selecting a reinsurer the group considers its security. The group held deposits of R102 581 000 as security for reinsurers' share of insurance contract liabilities at the reporting date.

Outstanding salvages and third party recoveries are followed up regularly by a dedicated department allocated to this function.

Credit exposure

The group assets subject to credit risk comprise the balances below which are rated as follows:

	P-1 or equivalent*	P-2*	P-3 or equivalent*	NP	Carrying value
	%	%	%	%	R'000
2019					
Financial instruments and other assets					
Policyholders assets arising from long term insurance contracts	-%	-%	-%	100%	1 523 615
Reinsurers' share of liabilities for insurance contract	24%	-%	57%	19%	283 573
Expected insurance salvages and recoveries	-%	-%	-%	100%	198 660
Investments	80%	-%	3%	17%	3 027 984
Loan to related parties	-%	-%	-%	100%	1 999 995
Insurance receivables	10%	3%	-%	87%	210 286
Other receivables	-%	-%	-%	100%	62 631
Cash and cash equivalents	100%	-%	-%	-%	1 156 913

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.2 Financial risk management (continued)

29.2.5 Credit risk (continued)

The credit risk ratings used above are national short-term Moody's ratings. Where national ratings ("za") are not applicable, international ratings are applied. Where short-term ratings are not available, the financial instrument is categorised according to long-term ratings. The ratings are defined as follows:

Moody's rating

P-1 - Highest credit quality: The rating demonstrates a superior ability to repay short-term debt obligations.

P-2 - Very high credit quality: The rating demonstrates a strong ability to repay short-term debt obligations.

P-3 - High credit quality: The rating demonstrates an acceptable ability to repay short-term debt obligations.

NP - Credit quality: The rating do not fall within any of the prime rating categories

29.2.6 Currency risk

Currency risk is the risk that relative changes in currency values will result in the depreciation of assets or escalation of liabilities denominated in foreign currencies. The group has limited dealings in foreign currency and had no foreign currency exposure at year-end.

29.3 Insurance risk management

The group issues contracts that transfer significant insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. As such the group is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

Short-term risks include perils around fire, motor accident and weather related damage that may give rise to an insurable event.

Long-term risks include mortality and the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS), economic conditions or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in higher morbidity risk and earlier or more claims than expected. All claims received are assessed. Repetitive and large claims are investigated further before being paid.

29.3.1 Exposure to insurance risk

The group underwrites both short-term risks and long-term risks that natural persons, corporate entities and other entities wish to transfer to an insurer.

The product features of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash are set out below:

Property

Provides indemnity for loss of or damage to immovable property sustained through perils such as fire, storm, wind, water or earthquakes. The properties insured are residential and commercial.

Household contents and business insurance

Provides indemnity for loss of or damage to household goods, personal possessions and office content caused by similar perils as well as theft.

Motor

Provides indemnity for loss or damage in relation to all types of insured motor vehicles. The cover is normally on a comprehensive basis providing a wide scope of cover following an accident or a theft of the vehicle but the insured can select restricted forms of cover such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of motor vehicles, excluding liability that is covered in terms of the Road Traffic Act, are also covered under this class of business.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.1 Exposure to insurance risk (continued)

Healthcare

Medical insurance in the form of gap cover. Gap cover is a medical top-up insurance product, which offers cover for medical procedures or emergency surgeries which are not covered by the customer's medical aid.

Individual life

This product pays out a lump sum in the event of policyholder deaths. Cover can be taken out on a Whole of Life or term assurance basis. In addition to annual premium increases, premium rates are reviewed every five years across all policies, and if necessary, premium rates are increased. The first five yearly increase is guaranteed not to exceed 15%.

Group life

Group funeral business comprise policies that pay a lump sum in the event of the death of the life assured. The groups of policies under these schemes are associated to each other by a common aspect for example they may all be sold by a specific funeral parlour. Premiums are payable monthly and are usually not guaranteed for a period exceeding 6 months. The contract term is therefore not more than one month, allowing pricing adjustments to be made readily.

Disability insurance

Disability insurance pays out a lump sum in the event of the disablement of the life assured. There are two types of disability insurance available, namely occupation-based disablement which pays out when the life assured is permanently and totally disabled and can no longer work and event-based disablement which pays out a percentage of the cover amount depending on the cause of disablement. Once 100% of the total assured benefit has been paid out, cover will cease. Premiums are fixed for the first 24 months and thereafter will increase by a stated percentage per annum.

Credit life

This product is designed to pay off the borrower's debt in the event that the borrower dies, is disabled or retrenched. The face value of the credit life insurance policy decreases proportionately with an outstanding loan amount as the loan is paid off over time until both reach zero value.

Funeral

This product pays out in the event of the death of the insured persons, providing the beneficiaries of the policy with the funds they need to pay the funeral expenses of the deceased. Immediate and extended family members can be included on the same policy.

Dread disease

This product pays out a percentage of cover as a lump sum in the event of the insured person suffering a serious illness as listed in the policy document. This pay-out can be used to cover medical expenses not covered by a medical aid, especially out of hospital expenses, or to pay basic living expenses while the insured recuperates. Premiums are fixed for the first 24 months and thereafter will increase by a stated percentage per annum.

Expense protector

Expense protector is a form of income protection that will pay out a monthly income if the insured person becomes temporarily disabled through illness or injury. The benefit will continue until the insured person is able to return to work or reaches retirement age.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.1 Exposure to insurance risk (continued)

Endowment policies

This product pays out the guaranteed maturity value when the policy matures. At early surrender the market value is paid. This policy provides a saving vehicle to customers seeking certain returns.

Living annuity policies

This product pays a regular income to policyholders who are in retirement. Income is not guaranteed for life and depends on the balance of the policyholder's retirement savings invested in the product. The level of income paid depends on the drawdown rate selected by the policyholder as well as the market performance of the underlying assets.

29.3.2 Concentration of insurance risk

The group's largest portfolio of insurance risks consists of the motor risk that it underwrites. The concentration of motor risks is managed by different levels of diversification mainly through the types of vehicles that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country.

Motor risks are accepted and rated based on a number of different rating factors. Different premium levels for different geographical areas enhance diversification and the loss experience in different areas is closely monitored with the rating appropriately adjusted as and when required. Whilst exposure is higher in certain areas, the group is satisfied that these exposures are managed in the context of the entire portfolio and the exposure to single events such as hailstorms in specific areas is thereby mitigated. Catastrophe reinsurance is in place to reduce the potential impact of single events causing severe losses above the group's risk appetite.

29.3.3 Limiting exposure to insurance risk

The group limits its exposure to insurance risk through setting a clear defined underwriting strategy and limits, adopting appropriate risk assessment techniques and the reinsurance of risks that exceed its risk appetite. The group's underwriting strategy seeks diversity to ensure a balanced portfolio of insurance risk. The strategy also aims to establish a sufficiently large portfolio of risks to reduce the variability of the outcome.

Each of these risk management aspects is dealt with below in more detail.

(i) Underwriting strategy

Short-term insurance strategy:

Underwriting risk in terms of short-term insurance is the risk that the actual exposure to policyholder claims will exceed expectations and is controlled by applying sound underwriting principles.

The following policies and practices are used by the group as part of its underwriting strategy to mitigate underwriting risk:

- monitoring of actual versus expected margins and penetration/retention of new and existing business;
- monthly inflationary adjustments to premium based on actual trends in claim frequency and claim severity;
and
- system limits of exposure per individual insurance line of business.

Half yearly actuarial valuations are performed to assist in the timely identification of trends in claims development.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.3 Limiting exposure to insurance risk (continued)

(i) Underwriting strategy (continued)

Long-term insurance strategy:

Underwriting risk in terms of long-term insurance is the risk that the actual mortality, morbidity and medical claims will exceed prudent exposure and timing calculations. The risk is controlled by underwriting principles and managed through:

- its product development process where all new or product additions and alterations are required to pass through an approval framework;
- the requirement for the statutory actuary to approve policy conditions and premium rates of new and revised products;
- underwriting policy to prevent anti-selection and ensure appropriate premium rates (loadings) for substandard risks e.g. specific testing for HIV/Aids is carried out in all cases where the application for risk cover exceed a set limit and product pricing and reserving policies include specific allowance for the risk of HIV/AIDS;
- review of policy applications by experienced underwriters and implementing of retention limits per individual life as well as using the experience of reinsurers to review substandard risks;
- adequate reinsurance arrangements to limit exposure per individual and to manage concentration of risks;
- its claims handling policy; and
- testing the adequacy of pricing and reserving against past experience and adjusting the risk premiums for the in-force individual risk business should claims experience deteriorate, and for individual life business premiums can be re-rated after a period of five years following an insurance contract being issued.

Half yearly actuarial valuations are also performed to assist in the timely identification of experience variances using appropriate base tables of standard mortality and morbidity rates for individual life policies. An investigation into the actual experience of the company over the last year is carried out to produce a best estimate of the expected mortality and morbidity for the future. The best estimate of future mortality is standardised based on the reinsurers' tables and statistical methods are used to determine appropriate termination rates. An allowance is made for any trends in the best estimate of future termination rates.

On an annual basis, the group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years. The underwriting strategy is updated for changes in the underwriting results of the group and the industry, the group's available risk capital and available reinsurance capacity as well as existing concentration of insurance risk.

(ii) Risk assessment

The group follows an underwriting process before accepting any proposed insurance risk.

(iii) Reinsurance strategy

The group has an extensive proportional and non-proportional reinsurance program in place to limit the group's liability. There is a Board approved reinsurance strategy in place which is regularly reviewed for its ongoing appropriateness. The group reinsures a portion of the risk it underwrites in order to control its exposures to losses to within its risk appetite and to protect capital resources.

The reinsurance program through a combination of treaty and facultative contracts limits the group's exposure in each of its classes of business.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.3 Limiting exposure to insurance risk (continued)

(iv) Exposure relating to catastrophe events

The group purchases catastrophe reinsurance to protect itself from extraordinary losses. The level of catastrophe reinsurance purchased is based on the group's estimation of its expected losses from low frequency high severity events.

The aggregate catastrophe exposure position is reviewed annually. The group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programs and the net exposure of the group.

(v) Liability adequacy test

At each reporting date, a liability adequacy test is required to ensure the adequacy of the insurance contract liabilities. In performing this test, current best estimates of future premiums, claims and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is charged to profit or loss by establishing a provision for unexpired risks.

Since the long-term insurance policy liabilities are calculated in terms of the financial soundness valuation basis as prescribed in SAP 104, which meets the minimum requirements of the liability adequacy test, it is not necessary to perform an additional liability adequacy test.

29.3.4 Claims development

The principal risk that the group faces under its insurance contracts is that the actual claims payments exceed the expected claims. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amounts of claims will vary from year to year and from the estimate.

The development of claims liabilities provides a measure of the group's ability to estimate the ultimate value of claims incurred but not yet settled. The majority of the group's insurance contracts are classified as short-tailed, meaning that claims are settled within a year after the loss date. The group underwrites a limited portion of long-tail risks and consequently the uncertainty about the amount and timing of claims payments a year after the loss event is limited. Regular estimates of claims development are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary.

29.4.5 Fraudulent claims risk

Training of staff takes place to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems and performs forensic investigations on suspected fraudulent claims.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.6 Product and pricing risk

A key aspect of insurance risk is that products and risk pricing could be unsuitable or inaccurate resulting in insufficient premiums being charged for the amount of claims experienced.

Some of the mitigating measures in place to address the risk include:

- ongoing analysis of risk experience;
- use of reinsurance - this protects the insurer in that some of the risks of insufficient rates is passed onto a reinsurer;
- margins in the premium rates - generally additional margins are included in the setting of premium rates to arrive at a more prudent set of rates to protect against experience being worse than anticipated; and
- the thorough upfront testing of proposed products, including testing expected expenses and volumes of business, provides an understanding of the expected parameters within which the product pricing will remain appropriate. If expenses or volumes are significantly different from the business plan then the overall offering and position will be revisited and consideration given to making appropriate changes to remedy worsening positions.

29.3.7 Short-term insurance provisions

Process used to determine significant assumptions

Insurance risk incorporates unpredictability and the group recognises that it is impossible to predict future claims and premium refunds payable under existing insurance contracts with absolute certainty. To this end, the group has over time, developed a methodology that is aimed at establishing insurance provisions that have reasonable likelihood of being adequate to settle all its insurance obligations.

Claims provisions

The group's outstanding claims provisions include notified claims as well as incurred but not yet reported claims. Due to the short-tail nature of the business it is not considered necessary to discount any of the claims provisions.

Notified claims

Each notified claim is assessed on a separate, case by case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The group rigorously applies standardised policies and procedures around claims assessment. The provision for each notified claim includes an estimate of the associated claims handling costs.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available. Case estimates are therefore reviewed regularly and updated if new information becomes available.

Claims incurred but not yet reported (IBNR)

The IBNR provision, other than for personal accident, extended warranty and commercial non motor business, consists of a best estimate provision and an explicit risk margin. The best estimate represents the expected value of the insurance liabilities, essentially the mean in a range of possible outcomes in the development of unreported claims and the future development of notified claims. The risk margins are determined statistically such that the level of confidence on the adequacy of the provision approximates 75%, indicating a 25% probability that the provision will be inadequate. The levels of the IBNR provisions and the risk margins are assessed semi-annually by management against the group's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.7 Short-term insurance provisions (continued)

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

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

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

The sensitivity analysis illustrated below details the impact that a 10% and 5% adjustment to the projected loss ratio for June 2019 on the incurred but not reported claims (IBNR), salvages and recoveries after being adjusted for the reinsurers' share of the movement, has on profit or loss of the group.

IBNR net of reinsurance

- 10% change in IBNR net of reinsurance, effect on profit or loss R13 345 000
- 5% change in IBNR net of reinsurance, effect on profit or loss R6 673 000

Salvages IBNR net of reinsurance

- 10% change in salvages IBNR net of reinsurance, effect on profit or loss R1 356 000
- 5% change in salvages IBNR net of reinsurance, effect on profit or loss R678 000

Recoveries IBNR net of reinsurance

- 10% change in recoveries IBNR net of reinsurance, effect on profit or loss R169 000
- 5% change in recoveries IBNR net of reinsurance, effect on profit or loss R85 000

Recoveries outstanding claims provision net of reinsurance

- 10% change in recoveries OCR net of reinsurance, effect on profit or loss R312 000
- 5% change in recoveries OCR net of reinsurance, effect on profit or loss R156 000.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.7 Short-term insurance provisions (continued)

Unearned premium provision

The group raises a provision for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. The larger portion of the provision relates to the products where, if the policyholder remains claim-free for a period of four years, the policyholder will receive the lower of the following back in the form of a cashback bonus payment:

- the first twelve months' premiums, of the said four year period; or
- 25% of the total premiums paid during the four year period.

Also included in the unearned premium provision is a product offered Budget Insurance Company (RF) Limited where, if a policyholder remains claim-free for a period of two years, the policyholder will receive 15% of the total premiums paid during the two year period back in the form of a cashback payment. Furthermore, if the policyholder remains claim-free for another two years the policyholder will receive 10% of the total premiums paid during the two year period in the form of a cashback payment. The policyholder will also receive 10% of all premiums paid in every subsequent claim-free year of experience after the initial four year claim-free period.

The provision is estimated by the actuarial function, using a straight line accrual method and includes margins to the claims and lapse rates used. The methodology used to assess the required premium loadings and the required reserve levels is based on the concept of projecting future cashflows and then discounting it back to the valuation date. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires.

The circumstances under which the provision will be released are as follows:

- the policyholder cancels the policy; or
- the policyholder claims against the policy; or
- the policyholder defaults on payment of the policy; or
- the policyholder remains claim-free for a period of four years, depending on the type of cashback product.

Also included in the unearned premium provision is the portion of premiums of multi-year warranty contracts that relate to unexpired coverage, as well as annual business.

The sensitivity analysis illustrated below details the impact that a 10% and 5% adjustment to the decrement assumptions used in the calculation of the cashback bonus provision for 2019 has on profit or loss. The changed assumption is that the policy premium reverts to the base rate.

Cashback bonus provision

- 10% change in cashback bonus provision, effect on profit or loss R11 555 000.
- 5% change in cashback bonus provision, effect on profit or loss R5 884 000.

Claims and lapse rates

Claims and lapse rates calculated with reference to the duration to bonus payment were used. As far as possible the underlying experience of the cashback policies was used.

Premium increases

Premium increases occur on 1 January of every year and future premium increases are estimated to be 8%.

Notes forming part of the consolidated financial statements (continued)

29. Risk management (continued)

29.3 Insurance risk management (continued)

29.3.7 Short-term insurance provisions (continued)

Interest rates

The reserves that are held for future cashback payments will earn interest until such time as the amounts are paid to the qualifying policyholders. The assets will be invested in cash at a post-tax interest rate of 7.53%. This is based on the rate of return that the group earns on the assets backing the cashback liability.

29.3.8 Sensitivity to long-term insurance risk

The four key assumptions that impact the long term insurance contract liabilities are:

- (1) Lapse rates;
- (2) mortality and morbidity;
- (3) expenses; and
- (4) interest rates.

The sensitivity of the surplus from life insurance contracts to changes in these assumptions is presented below:

- a 20% increase in lapse rates would reduce profit before tax by R198.3 million;
- a worsening in mortality and morbidity assumptions by 20% results in profit before tax reducing by R320.5 million;
- a 20% increase in renewal expense per policy per annum would reduce profit before tax by R161.5 million; and
- a 20% increase in interest rate together with an equivalent increase in inflation would reduce profit before tax by R131.9 million

29.4 Capital management

The group recognises equity and reserves as capital. For risk management purposes the group maintains a minimum solvency capital requirement target of 1.35 and measured its risk exposures against this level.

The group submits quarterly and annual returns to the Prudential Authority in terms of the short-term and long-term insurance legislation. The group is required to at all times maintain a minimum statutory solvency capital requirement.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

30. Classes and categories of assets and liabilities

		Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at amortised cost	Other non financial assets and liabilities	Total carrying amount	Non-current
	Notes	R'000	R'000	R'000	R'000	R'000
Categories of assets and liabilities - 2019						
Assets						
Computer software	8	-	-	239 145	239 145	239 145
Goodwill	5	-	-	153 357	153 357	153 357
Investments in participating interests	14	96 124	-	-	96 124	96 124
Loans to related parties *	15	-	1 999 995	-	1 999 995	1 999 995
Other financial investments	14	26 477	2 905 383	-	2 931 860	52 207
Policyholders assets arising from long term insurance contracts	9	-	-	1 523 615	1 523 615	1 218 894
Financial assets backing investment contract liabilities	10	868 693	289 849	-	1 158 542	1 377 377
Reinsurers' share of long-term business provision	12	-	-	123 724	123 724	22 498
Reinsurers' share of provision for claims incurred but not reported	12	-	-	159 849	159 849	27 374
Insurance receivables	16	-	-	210 286	210 286	29 548
Expected insurance salvages and recoveries	13	-	-	198 660	198 660	28 866
Current tax receivable		-	-	54 116	54 116	-
Other receivables	16	-	62 631	78 216	140 847	257
Plant and equipment	7	-	-	147 569	147 569	147 569
Cash and cash equivalents	17	-	1 156 913	-	1 156 913	-
Deferred tax	6	-	-	182 330	182 330	182 330
Deferred acquisition costs	11	-	-	14 825	14 825	-
Prepayments	16	-	-	68 916	68 916	-
		991 294	6 414 771	3 154 608	10 560 673	5 575 541

* In terms of the contract this amount is payable on demand but the intention is not to require payment within the next twelve months.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the consolidated financial statements (continued)

30. Classes and categories of assets and liabilities (continued)

	Notes	Financial assets and liabilities at fair value through profit or loss R'000	Financial assets and liabilities at amortised cost R'000	Other non financial assets and liabilities R'000	Total carrying amount R'000	Non-current R'000
Categories of assets and liabilities - 2019						
Liabilities						
Provision for unearned premiums	12	-	-	358 434	358 434	132 757
Long-term business provision	12	-	-	222 778	222 778	54 934
Claims outstanding	12	-	-	810 646	810 646	57 091
Reinsurers' share of policyholder asset arising from long-term insurance	9	-	-	19 757	19 757	15 807
Investment contract liabilities	10	868 693	288 467	-	1 157 160	1 377 377
Deferred tax	6	-	-	369 620	369 620	369 620
Provisions	18	-	-	446 077	446 077	-
Insurance payables	19	-	-	616 334	616 334	-
Reinsurers' share of expected insurance salvages and recoveries	13	-	-	145 044	145 044	21 944
Loans from related parties	15	-	39 300	-	39 300	-
Current tax payable	27	-	-	55 651	55 651	-
Other payables	19	-	180 655	135 550	316 205	-
Accruals	19	-	-	86 130	86 130	-
		868 693	508 422	3 266 021	4 643 136	2 029 530

The carrying amount of financial instruments not held at fair value approximates their fair value.

31. Cash-settled share based payment liability

An incentive structure exists under which the chairman of the South African group and an executive director are entitled to future payments that are calculated annually based on the growth in the estimated value of the group.

The liability of R356 538 000 is included in note 18.

Notes forming part of the consolidated financial statements (continued)

32. Commitments

Telesure Group Services Proprietary Limited

- Guarantee has been issued by Nedbank Limited on behalf of the company for R1,274,000. The beneficiary is Emira Fund.
- Guarantee has been issued by Nedbank Limited on behalf of the company for R1,305,440. The beneficiary is Eskom Holdings SOC Limited.
- Guarantee has been issued by Nedbank Limited on behalf of the company for R389,070. The beneficiary is Sizanai General Trading Proprietary Limited.
- Guarantee has been issued by Nedbank Limited on behalf of the company for a bank overdraft facility to the amount of R10,000,000. The beneficiary is the en commandite partnership as disclosed in note 14.1.2.
- Local guarantee for liability with Nedbank Limited for R2,000,000. The beneficiary is the South African Post Office.

Telesure Investment Holdings Proprietary Limited

- The amounts receivable from Wealthport Proprietary Limited and Hippo Advisory Services Proprietary Limited were subordinated in favour of third party creditors.
- A guarantee has been issued by Telesure Investment Holdings Proprietary Limited on behalf of Upstream Advertising Proprietary Limited to Media Credit Co-Ordinators for all or any amounts, not exceeding R103 million, for claims which members of Media Credit Co-Ordinators may make from time to time against Upstream Advertising Proprietary Limited. This guarantee may be terminated by Telesure Investment Holdings Proprietary Limited upon 3 months written notice to all parties.

33. Employees

The average monthly number of employees (including directors) during the year was made up as follows:

	2019
	Number
Call centre staff	2 337
Management, business development and support services	1 953
Legal services	28
	4 318

The aggregate remuneration comprised:

	2019
	R'000
Wages and salaries	1 686 926

Notes forming part of the consolidated financial statements (continued)

34. Commitments under operating leases

At the year end, the Group had total future minimum lease payments under non-cancellable operating leases as set out below:

	2019
	R'000
Within one year	18 982
One to five years	77 652
	<hr/>
	96 634

Operating lease commitments relate to commitments on the various office buildings, salvages storage sites, motor vehicles and small value IT equipment. The leases run for a period of 1 to 10 years, typically with an option to renew the lease after the expiry date. Lease expiry dates range from November 2019 to 1 September 2027. The majority of the Group's property leases are subject to contracted rental increases or linked to the Consumer price Index (CPI) in accordance with the terms of the lease.

Amounts charged to the income statement during the year in respect of the above amounted to R 52 533k.

35. Ultimate and immediate parent companies

The Company's immediate and ultimate parent undertaking and controlling party is BHL Holdings Limited which is incorporated in Guernsey and registered at Second Floor, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

The largest group in which the results of the Company are consolidated is that headed by BHL Holdings Limited. The smallest group in which they are consolidated is that headed by the Company itself.

The consolidated financial statements of BHL Holdings Limited are not available to the public.

36. Post balance sheet events

The directors are not aware of any events after the reporting date requiring disclosure in these financial statements.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Company statement of financial position

Company registration number 11707219

	Note	2019 R'000
Fixed assets		
Investments in subsidiaries	2	12 744 000
Creditors: amounts falling due within one year		
Creditors	3	32 084
Net current liabilities		<u>(32 084)</u>
Total assets less current liabilities		<u>12 711 916</u>
Net assets		<u>12 711 916</u>
 Capital and reserves		
Share capital	4	12 744 000
Retained earnings		(32 084)
Total equity		<u>12 711 916</u>

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


J.R. Leech
Director
5 March 2020

The notes on pages 79 to 83 form part of these financial statements.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Company statement of changes in equity

	Share capital	Retained earnings	Total equity
	R'000	R'000	R'000
At 3 December 2018	-	-	-
Issue of new shares in the period	12 744 000	-	12 744 000
Loss for the period	-	(32 084)	(32 084)
At 30 June 2019	12 744 000	(32 084)	12 711 916

The notes on pages 79 to 83 form part of these financial statements.

Notes forming part of the company financial statements

1. Accounting policies

The Company's significant accounting policies relating to specific financial statement items, together with a description of the accounting estimates and judgements that were critical to preparing them, are set out below.

Basis of preparation

The Company, a private limited company incorporated and domiciled in England and Wales, has elected to prepare its financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel.

Unless otherwise noted, the amounts shown in these financial statements are in R 000.

As permitted under section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the period. The profit of the Company is disclosed in the Company statement of changes in equity.

The parent company audit fee is not disclosed in these accounts as it is disclosed in note 22 to the consolidated financial statements for BHL (SA) Holdings Limited Group.

Going concern

Notwithstanding net current liabilities of R32,084k as at 30 June 2019 and a loss for the year then ended of R32,084k the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its intermediate parent company to meet its liabilities as they fall due for that period.

Those forecasts are dependent on BHL Holdings Limited and its subsidiaries not seeking repayment of the amounts currently due to the group, which at 30 June 2019 amounted to R31,860k, and providing additional financial support during that period. BHL Holdings Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Notes forming part of the company financial statements (continued)

1. Accounting policies (continued)

Going concern (continued)

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Investments

In the Company's balance sheet, investments in subsidiaries are valued at cost less provision for impairment.

Impairment is measured based on the present value of expected future cash flows of the subsidiary. When a subsidiary is considered to be impaired, the profit and loss account is charged with the difference between the carrying value and the estimated recoverable amount. Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write down.

BHL (SA) Holdings Limited
Year ended 30 June 2019

Notes forming part of the company financial statements (continued)

2. Investment in subsidiaries

The following were the subsidiary undertakings at the end of the year:

Name of company	Nature of business	% holding 2019
Directly held:		
Telesure Investment Holdings Proprietary Limited	Holding company	100%
Indirectly held through Telesure Investment Holdings Proprietary Limited:		
1 Life Insurance (RF) Limited	Long-term insurance	100%
Auto and General Insurance Company (RF) Limited	Short-term insurance	100%
Budget Insurance Company (RF) Limited	Short-term insurance	100%
Dial Direct Insurance (RF) Limited	Short-term insurance	100%
Digital Comparison Services Proprietary Limited	Healthcare	100%
First for Women Insurance Company (RF) Limited	Short-term insurance	100%
Hippo Comparative Services Proprietary Limited	Insurance aggregator	100%
Hippo Advisory Services Proprietary Limited	Medical insurance broker	100%
IS Services Proprietary Limited	Collection of insurance premiums and claims settlement	100%
One Call Insurance Brokers Proprietary Limited	Insurance brokers	100%
Rockport Capital Proprietary Limited	Holding company	80%
Telesure Group Services Proprietary Limited	Administrative services	100%
Unity Financial Services Proprietary Limited	Insurance brokers	100%
Upstream Advertising Proprietary Limited	Advertising agent	100%
Indirectly held through other subsidiaries		
Rockport Capital Proprietary Limited:		
Wealthport Proprietary Limited	Administrative financial services provider	80%
Wealthport Nominees Proprietary Limited	Registered holder and custodian of the investments of clients	80%

There has been one change in shareholding during the year, One Call Insurance Brokers Proprietary Limited was acquired from a group company.

Name of company	Carrying amount
	2019
	R'000
Telesure Investment Holdings Proprietary Limited	12 744 000

All subsidiaries are incorporated in South Africa and registered at Auto and General Park, 1 Telesure Lane, Riverglen, Dainfern, 2191, South Africa.

Notes forming part of the company financial statements (continued)

2. Investment in subsidiaries (continued)

The TIH group (the CGU) has been valued on a sum-of-the-parts basis by identifying the underlying business units.

For the Short Term Insurance (STI) and re-insurance businesses, the recoverable amount was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The key assumptions have used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

	%
Discount rate	15.2
Terminal growth rate	5.2
Budgeted overall GWP growth rate	7.2
Budgeted overall net claims ratio	45.2

The discount rate was based on the rate of a South African government ten-year bond, adjusted for a risk premium to reflect both the risk of investing in equities generally and the systematic risk of the specific CGU.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate is in line with the long term expected CPI rate for South Africa.

Budgeted GWP was based on expectations for future outcomes taking into account the average growth levels experienced over the last 3 years and the estimated sales volume and price growth for the next 5 years. Claims ratios have been projected taking into account ratios experienced in the past 3 years.

For the 1 Life business, the recoverable amount is the appraisal value, calculated as embedded value plus the value of future new business. The embedded value is a measure of the consolidated value of shareholders' interest in long the insurance business and is based on the value of the assets allocated to supporting the business.

The estimated recoverable amount of the CGU is a range largely dependent on the level of the re-insurance contract. The carrying amount of the CGU is at the low end of the range and therefore we conclude that the carrying amount does not exceed the recoverable amount.

3. Creditors

	2019 R 000
Falling due within one year:	
Accruals	224
Amounts owed to related undertakings	31 860
	<u>32 084</u>

The loan is with BHL UK Holdings Limited and is interest free and repayable on demand.

Notes forming part of the company financial statements (continued)

4. Share capital

	2019
	£ 000
Allotted and called up	
Ordinary shares of £1 each	708 000

On issuance the value of the shares in Rand was R12 744 000 000.

5. Ultimate and immediate parent companies

The Company's immediate and ultimate parent undertaking and controlling party is BHL Holdings Limited which is incorporated in Guernsey and registered at Second Floor, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

The largest group in which the results of the Company are consolidated is that headed by BHL Holdings Limited. The smallest group in which they are consolidated is that headed by the Company itself.

The consolidated financial statements of BHL Holdings Limited are not available to the public.

6. Post balance sheet events

The directors are not aware of any events after the reporting date requiring disclosure in these financial statements.

Appendix A - Significant accounting policies

These accounting policies represent a summary of the significant accounting policy elections of BHL (SA) Holdings Limited and its subsidiaries. They are not intended to be a complete list of all policies.

1. Insurance contracts

Classification of insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is risk other than financial risk, transferred from the holder of the contract to the issuer. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are more than the benefits payable if the insured event did not occur. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable that the variable is not specific to a party to the contract.

Reinsurance contracts

Contracts entered into by the group with reinsurers under which the group is compensated for losses on insurance contracts issued by the group and that meet the classification requirements for insurance contracts, are accounted for as reinsurance contracts held. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are accounted for as inwards reinsurance business.

Measurement

Premiums

Net premium income is the gross written premiums for the period, net of the reinsurance premiums ceded and the movement in the unearned premium provision. Gross premiums written are recognised in profit or loss and comprise premiums on insurance contracts entered into during the year at the undiscounted amounts payable in terms of the contracts, irrespective of whether they relate in whole or in part to a later accounting period. Gross premiums written are disclosed before deductions of expenses for the acquisition of insurance contracts, commission, reinsurance premiums and exclude value added taxation. Gross premiums written include adjustments to premiums written in prior accounting periods as well as value added products and the cash back bonus expense. Reinsurance premiums ceded are recognised as an expense in profit or loss, in the same period as the gross written premium they relate to, at the undiscounted amounts payable in terms of the contracts.

Claims

Net claims incurred are the gross insurance claims incurred, net of any reinsurers' share of claims incurred. Gross insurance claims are recorded as an expense at an undiscounted amount when they are incurred, and consist of claims paid during the financial year together with the movement in the provisions for outstanding claims and IBNR and net of actual salvages and recoveries and the movement in expected salvages and recoveries. Claims handling expenses are included in the gross claims. Reinsurers' share of claims incurred are recognised in profit or loss in the same period as the related claim at the undiscounted amount receivable in terms of the contracts.

Commission incurred

These consist of commission on marketing management costs paid by the group upon the acquisition of new and additional insurance business, and are recognised in the same period as the premium to which it relates.

Appendix A - Significant accounting policies (continued)

1. Insurance contracts (continued)

Measurement (continued)

Broker commission clawback receivable

Commission is paid to brokers based on each policy sold before the first premium for a policy is collected in the event that the first premium is not collected, the commission paid on the policy sold is clawed back from the broker. This amount is recognised as a receivable in the statement of financial position and is tested annually for impairment.

Reinsurance commissions

Reinsurance commission received is measured at the fair value of the considerations received or receivable and represents the amounts receivable for services provided in the normal course of business.

Unearned premium provision

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, and probable future cash bonus payments.

Salvage and third party recoveries

Salvage and third party recoveries asset consists of all identifiable and measurable amounts that the group expects to recover in future, from past lost events. A liability is recognised for the reinsurers' share of these salvage and third party recoveries.

Incurred but not reported claims (IBNR) and outstanding claims provision (OCR)

The IBNR provision is a best estimate of claims incurred that have not yet been reported. The IBNR provision comprises the group's estimate at a 75% confidence level of the undiscounted cost of settling all claims incurred but not yet reported at the reporting date and related claims handling expenses. The IBNR provision is included in the liabilities for insurance contracts. The outstanding claims provision indicates the outstanding value of claims reported and not yet settled. Anticipated reinsurance recoveries are disclosed separately as assets.

Impairment

Reinsurance assets, salvages and recoveries as well as insurance receivables are assessed for impairment at each reporting date. Impairment losses on these assets are recognised in profit or loss for the period.

Receivables and payables related to insurance contracts

Insurance receivables and payables are recognised when due at the amount in terms of the contract.

Insurance receivables and insurance payables are treated in terms of IFRS 4. Insurance receivables comprise premium receivables and reinsurance receivables. Insurance payables comprise reinsurance payables and deposits held in respect of reinsurance.

Long-term insurance contract assets and liabilities

Long-term insurance contract assets and liabilities are valued according to the requirements of the professional guidance notes ("SAP's") issued by the Actuarial Society of South Africa ("ASSA"). Of particular relevance to the calculations, are the following actuarial guidance notes:

- SAP 104: Life offices - calculation of the value of assets, liabilities and capital adequacy requirements of long-term insurers, and
- APN 105: Recommended AIDS extra mortality bases.

Appendix A - Significant accounting policies (continued)

1. Insurance contracts (continued)

Measurement (continued)

Long-term insurance contract assets and liabilities (continued)

The insurance contracts are valued in terms of the financial soundness valuation ("FSV") basis contained in Standard of Actuarial Practice 104 (SAP 104) issued by the Actuarial Society of South Africa. Compliance with this SAP is mandatory for Statutory Actuaries performing valuations of long-term insurers registered in South Africa. An asset or liability for contractual benefits that are expected to be realised or incurred in the future is recorded in respect of the existing policy book when the premiums are recognised. The asset and liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the premiums to be paid in terms of the policy contract. The asset or liability is based on best-estimate assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued and updated on an annual basis at reporting date to reflect current expectations.

Compulsory margins to adverse deviations are included in the assumptions as required in terms of SAP104. Allowance can be made for future margins at the discretion of the head of actuarial function. Negative reserves have not been eliminated.

Liability adequacy test

At each reporting date a liability adequacy test is required to ensure the adequacy of the insurance contract liabilities. In performing this test, current best estimates of future premiums, claims and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is charged to profit or loss by establishing a provision of unexpired risks.

2. Investment in subsidiaries

Investment in subsidiaries are held at cost less accumulated impairment.

3. Financial instruments

Measurement

Initial recognition and measurement

The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are classified, at initial recognition, as measured at amortised cost, fair value through other comprehensive income (FVTOCI), and fair value through profit or loss (FVTPL).

Financial liabilities are classified, at initial recognition, as measured at amortised cost or fair value through profit or loss.

Financial assets and financial liabilities are initially measured at fair value plus transaction costs directly attributable to its acquisition or issue, except for financial assets held at fair value through profit or loss which are initially recognised at fair value and directly attributable transaction costs are recognised in profit or loss as they are incurred. To the extent that fair value gains and losses offset on investment contract liabilities they have been offset in profit or loss.

Appendix A - Significant accounting policies (continued)

3. Financial instruments (continued)

Measurement (continued)

Subsequent measurement

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortised cost
Investments - Underlying items		
En commandite partnership	Fair value through profit or loss	Fair value through profit or loss
Open Window Growth Partners Proprietary Limited	Available-for-sale	Fair value through profit or loss
Shares in IGF	Available-for-sale	Fair value through profit or loss
Loans	Loans and receivables	Amortised cost
Fixed deposits	Loans and receivables	Amortised cost
Advance to strategic partnership	Loans and receivables	Amortised cost
Treasury bills	Fair value through profit or loss	Fair value through profit or loss
Financial assets backing investment contracts- underlying products		
Endowment policy - Product 1	Loans and receivable	Amortised cost
Endowment policy - Product 2	Fair value through profit or loss	Fair value through profit or loss
Living annuity	Fair value through profit or loss	Fair value through profit or loss
Loans to related parties	Amortised cost	Amortised cost
Trade and other receivables	Loans and receivables	Amortised cost
Financial liabilities		
Investment contract liabilities - underlying products		
Endowment policy - product 1	Amortised cost	Amortised cost
Endowment policy - product 2	Fair value through profit or loss	Fair value through profit or loss
Living annuity	Fair value through profit or loss	Fair value through profit or loss
Loans due to related parties	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost

Appendix A - Significant accounting policies (continued)

3. Financial instruments (continued)

Impairment of financial assets

The group assesses at each end of the reporting period an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Offsetting, derecognition and reclassification of financial instruments

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

The group derecognises an asset:

- when the contractual rights to the cash flows from the asset expire; or
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risk and rewards of ownership of the asset are transferred; or
- where the group retains the contractual right to the cash flows from the asset but assumes a corresponding liability to transfer the contractual rights to another party and consequently transfers substantially all of the risk and benefits associated with the asset.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

4. Intellectual property

Goodwill

Goodwill is measured at cost, being the excess of the cost of the business combination over the company's interest of the net fair value of the identifiable asset, liabilities and contingent liabilities. Subsequently goodwill is carried at cost less any accumulated impairment. The excess of the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is immediately recognised in profit or loss.

Intangible assets

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

Intangible assets are initially and subsequently recognised at cost.

The amortisation period and method are reviewed at the end of every financial year. Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software, internally generated	3 - 5 years
Computer software, purchased	1 - 3 years
Intangible assets under development	6 years

Appendix A - Significant accounting policies (continued)

5. Fixed assets

Plant and equipment

The cost of an item of plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost and subsequently measured at cost less accumulated depreciation.

Plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Plant and machinery	Straight line	6 years
Furniture and fixtures	Straight line	8 years
Motor vehicles	Straight line	4 years
Office equipment	Straight line	3 years
Computer equipment	Straight line	3 years
Leasehold improvements	Straight line	4 years

The residual value, depreciation method and useful life of each asset are reviewed at the end of each financial period.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset. Gain or loss arising from the derecognition of an asset is included in profit or loss.

6. Stated capital and equity

Stated capital

Stated capital is the aggregate par value of all shares issued.

Retained earnings

This comprises profits generated by the group and company that is available for distribution.

Dividends

This is a distribution of earnings to the group and company's shareholder.

7. Other income, expenses and provisions

Other income

Other income

Other income represents the amounts receivable for services provided in the normal course of business, net of trade discounts, volume rebates and value added taxation that is not classified as insurance premiums in terms of IFRS 4. Other income is measured at fair value of the consideration received or receivable.

Interest income

Interest income is measured using the effective interest method and is recognised in profit or loss.

Appendix A - Significant accounting policies (continued)

7. Other income, expenses and provisions (continued)

Expenses

Interest expense

Interest expense is measured using the effective interest method and is recognised in profit or loss.

Operating leases

Operating lease payments are recognised as an expense on a straight line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted. Any contingent rents are expensed in the period they are incurred.

Share-based payment arrangements

The group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees and directors have earned in return for their service in the current and prior periods. The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date.

Employee benefits

- *Short term employee benefits:*
The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted.
- *Termination benefits:*
Termination benefits are recognised as an expense in the statement of comprehensive income and a liability in the statement of financial position when the company has a present obligation relating to termination.
- *Leave pay accrual:*
The expected cost of compensated absence is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absence, when the absence occurs.
- *Management bonus:*
The expected cost of profit sharing and bonus payments are recognised as an expense when there is a legal or constructive obligation to make payments as a result of past performance.

Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects the uncertainty related to income taxes, if any. Current tax is measured using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period.

Provisions

Provisions comprise the present value of the expenditure expected to be required to settle the obligation. Provision are not recognised for future operating losses.

8. Foreign exchange

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions are recognised in the statement of profit and loss.