

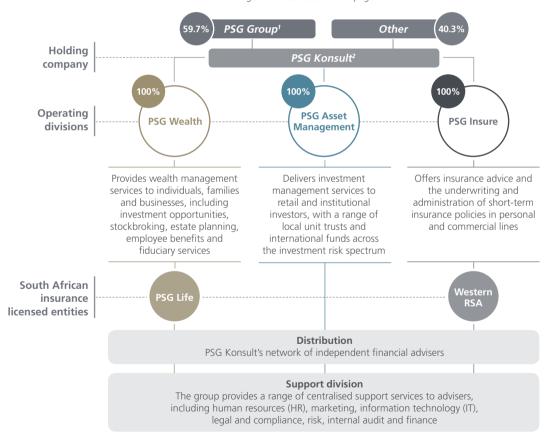
INTEGRATED REPORT

## PSG KONSULT IS A LEADING INDEPENDENT FINANCIAL SERVICES GROUP

PSG Konsult Limited (PSG Konsult or the group) should be distinguished from PSG Group Limited (PSG Group), which is a separately listed entity and a 59.7% shareholder in PSG Konsult as at 29 February 2020. Through three operating divisions, the group delivers a range of financial services and a suite of financial products. The group services individuals and companies in South Africa, Namibia and Botswana.

PSG Konsult's advice-focused business is founded on personal service, lifelong relationships with clients, integrity, trust and transparency. These values are encapsulated in the group's core business principles (see page 4).

The operating divisions are monitored and assessed through ongoing integrated reporting and internal assurance functions. This ensures risk management and regulatory compliance and drives operational and financial performance. Each division has its own board and executive committee (Exco), which are integrated into the group's governance structures. See the corporate governance section from page 62.



PSG Konsult listed on the Johannesburg Stock Exchange's (JSE's) Equity Market on 15 June 2014. The primary listing was followed by a secondary listing on the Namibian Stock Exchange (NSX) on 16 July 2014, and a secondary listing on the Stock Exchange of Mauritius (SEM) on 27 November 2018. The group, through its wholly owned subsidiary, PSG Konsult Treasury Limited (PSG Konsult Treasury), concluded its maiden listing on the JSE's Interest Rate Market in 2017.

 $<sup>^{\</sup>rm 1}~$  PSG Group's holding net of treasury shares is 60.5%.

<sup>&</sup>lt;sup>2</sup> Includes the PSG Konsult support functions.

#### **HOW WE PERFORMED IN THE 2020 FINANCIAL YEAR**



#### Core income

	2020	2019	2018
Rm	5 069	4 604	4 200

#### Revenue generated 93.1% in South Africa

	2020	2019	2018
%	93.1	93.1	92.9

#### Recurring headline earnings per share

	2020	2019	2018
Cents	48.1	44.6	43.0

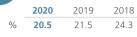


	2020	2019	2018
Rbn	230	222	205

	Gross written
22%	
22 /0	premium

	p. 0		
	2020	2019	2018
2	E 472	1 100	2 20

20.5%	Return on equity





Rbr

#### Assets under administration

	2020	2019	2018
1	397	422	402

	2020	2019	2018
Rm	644	591	566



#### Dividend per share

	2020	2019	2018
Cents	22.5	20.5	18.0

#### Compound growth rate 22%

in recurring headline earnings since 2010

Global Credit Rating Company (GCR) upgraded PSG Konsult's South African national scale rating to

and

A(ZA) long-term from A-(ZA)

A1(ZA) short-term from A1-(ZA)

Advisers

935

situated in 260 adviser offices throughout South Africa and Namibia

Market capitalisation R<sub>10.7</sub> billion

**Shareholders** 

3 487

**Professional associates** 

413

Employees

2 9 1 7 > 390 000

across offices

Client complement

#### The group is proud of the operating divisions' industry awards



#### OPSG Wealth

#### Intellidex 2019 Wealth Manager of the Year Awards:

- Awarded Top Wealth Manager: Large Institutions up from third in 2018
- PSG Wealth won the categories for Successful Entrepreneur and Young Professional
- Carlo Amorim was the winner of Intellidex's maiden Top Relationship Manager of the Year Award
- PSG Wealth Rietondale principle wealth adviser Rieth Schnetler was runner up in the Top Financial Adviser category

#### Intellidex 2019 Top Stockbrokers Awards:

Awarded third place in the categories for SA's Top Stockbroker and Top Advice-Based Broker

#### 2020 Morningstar Investment Fund Awards:

PSG Wealth Global Creator FoF received second place for the Best Global Equity Fund



#### 2019 Old Mutual Insure Awards:

- PSG Insure was named overall winner as Top National Broker
- PSG Insure Centurion was named Top Regional Broker for the Pretoria region

#### 2019 CIB Broker Awards:

PSG Insure Meesterplan won Diamond Broker of the Year for the third consecutive year

#### INTRODUCING OUR 2020 INTEGRATED REPORT

This integrated report (the report) reflects the activities and performance of PSG Konsult for the financial year from 1 March 2019 to 29 February 2020. All references to the year mean the financial year, unless otherwise stated.

The scope of this report is in line with PSG Konsult's operational and governance approach and includes entities within the three operating divisions and the South African insurance licensed entities, which are subject to group supervision by the Prudential Authority in South Africa.

As a wholly owned subsidiary in the group, PSG Konsult Treasury has adopted a board charter in line with the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV)¹ principles and the JSE Listings Requirements pertaining to debt issuers.

The report is part of a suite of publications the group produces to best meet the needs of various stakeholders. The publications are available at: www.psq.co.za/investor-relations/

PSG Konsult integrated report	The group and company annual financial statements PSG Konsult Limited notice of annual general meeting (AGM) (to be published in June 2020)	
PSG Konsult King IV principles disclosure register	PSG Konsult Treasury annual financial statements and Domestic Medium Term Note (DMTN) programme memorandum	

#### REPORTING COMPLIANCE

This report was prepared according to relevant regulations, standards and best practice. PSG Konsult aligns its reporting with the following reporting requirements and principles:

- International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee's (IFRIC's) Interpretations
- The South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee
- Financial Pronouncements as issued by the Financial Reporting Standards Council
- The Companies Act, No. 71 of 2008, as amended (Companies Act)
- The JSE Listings Requirements
- The International Integrated Reporting Council's (IIRC's) Integrated Reporting <IR> Framework
- King IV
- The Financial Sector Charter (FSC)

#### How the elements in this report are assured

The group uses a combined assurance model.

Element	Assurance
Financial and non-financial content and data	Ongoing internal assurance, with the support of established divisional reporting lines and oversight by the chief financial officer (CFO)
Internal controls and business risks that fall within the scope of the integrated report	Independently assessed and reviewed by the group's risk and internal audit functions
The consolidated and separate annual financial statements	External assurance by the independent auditor, PricewaterhouseCoopers Inc.
The broad-based black economic empowerment (BBBEE) status of the group	Verified, rated and confirmed by rating agency, AQRate Proprietary Limited (AQRate)

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#### FORWARD-LOOKING STATEMENTS

This report contains certain statements that are not historical facts and are based on forecasts of future results that are not yet determinable.

These are forward-looking statements which are, by nature, subject to known and unknown risks and uncertainties. Changing information or circumstances may cause the actual results, plans and objectives to differ materially from those expressed or implied in any forward-looking statements. Undue reliance should not be placed on such opinions, forecasts or data.

No representation is made on the completeness or correctness of opinions, forecasts or data in this report. Forward-looking statements apply only as of the date on which they are made. PSG Konsult does not undertake any obligation to publicly update or revise any of its forward-looking statements, whether to reflect new data or future events or circumstances.

The financial information on which the forward-looking statements are based was not audited or reported on by PSG Konsult's independent external auditors.

#### APPROVAL BY THE PSG KONSULT BOARD OF DIRECTORS

The board acknowledges its responsibility to ensure the integrity, accuracy and fairness of PSG Konsult's 2020 integrated report.

The board of directors, assisted by the audit committee, is responsible for the content of this report. The directors have collectively applied their minds to the content and evaluated the preparation and presentation, while acknowledging that the reporting process continues to evolve. The content of the integrated report was approved on 22 May 2020 and is signed on behalf of the board by:

W Theron

W Theron FJ Gouws
Chairman Chief executive officer

/
MIF Smith
Chief financial officer

#### Reader's tips and feedback

- References to notes refer to the notes to the group financial statements.
- Where industry-specific terms or abbreviations are not explained in the body of the integrated report, refer to the glossary in annexure C.
- PSG Konsult values feedback on the integrated report from stakeholders. Please send comments or requests for further information to: mike.smith@psq.co.za or engage with us on:

f www.facebook.com/PSGKonsult/

in https://twitter.com/PSGKonsult

www.linkedin.com/company/psg-konsult/

www.youtube.com/user/PSGKonsultLtd



Our mission is to make a difference in the lives of all stakeholders, by creating and preserving wealth through excellence.



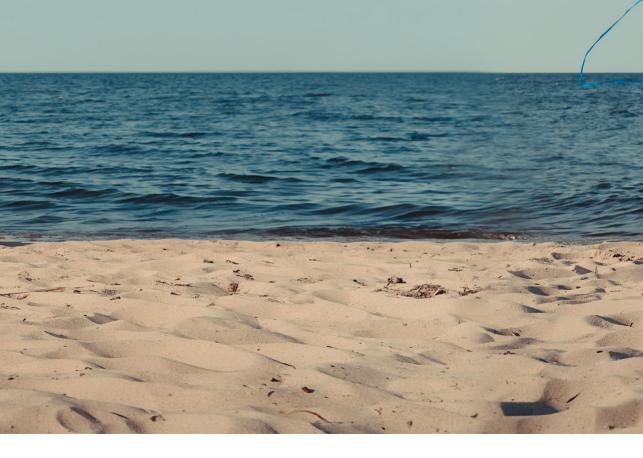


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# A PROFILE OF PSG KONSULT

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#### THE VALUES THAT UNDERPIN OUR BUSINESS

We undertake to always advise clients with the highest level of good faith, integrity, professional knowledge and diligence.

#### **OUR VISION**

To be the leading independent financial services group in Southern Africa and selected regions abroad.

#### **OUR MISSION**

To make a difference in the lives of stakeholders, by creating and preserving wealth through excellence.

#### THE SEVEN CORE BUSINESS PRINCIPLES WE APPLY ACROSS THE GROUP

Our clients are our priority



We undertake to advise clients with the highest level of good faith, integrity, professional knowledge and diligence at all times.

Our people are our strength



We will always prefer internal promotion, and when we hire externally, we will hire the best people. They must have the capacity and capability to integrate into our organisation. We accept that this means wider internal review and consultation during the hiring process. We take responsibility for this process. We will not compromise on the quality of employees. We believe in a culture of performance and meritocracy, where income, promotion and progression are based on individual excellence and the overall betterment of our group.

We are a team



We believe that providing excellent service to our clients and building a great business is a team effort. In our group, 'we' and 'our' take precedence over 'me' and 'my'. We believe in clear lines of responsibility and the ownership of decisions, but we always seek to use the available skills to be informed on business matters.

We will provide clients with the best products, backed by superb systems



Our entire approach is based on building multi-generational relationships with families and forging long-term ties with organisations we service. We believe that long-term service is dependent on skilled and reliable employees.

Growth is part of our DNA



We prefer organic to acquisitive growth and will only acquire a business if there is a strategic rationale, clearly definable synergies, the people are culturally aligned with our own, the business can be integrated immediately, the price is acceptable, and we have completed a due diligence. Even then we understand that one unit of additional acquired revenue is almost always riskier than an equivalent unit of organic revenue. We believe in analysis of business matters and detailed preparation. At the heart of this thinking is the fact that any business issue can be quantified, measured and managed. We accept that decisions sometimes must be made without perfect information. We are not afraid to make decisions in these circumstances. We aim to get most decisions correct but accept that, despite our best intentions, things can and will go wrong. We are not afraid to analyse and admit errors or mistakes. Indeed, we believe it is the only way to learn.

We will adapt to the constantly changing business environment



Creativity and innovation are at the heart of our business model. We aim to identify new trends and potential risks. Looking to, and attempting to understand the future helps to ensure that we are not hostage to short-term budgets and current organisational structures. We embrace any change that new information requires.

We are first and foremost a South African group



We want to be a good corporate citizen that will seek ways to contribute to the betterment of our country. We undertake to comply with legislation and regulations.

#### REASONS TO INVEST IN PSG KONSULT

#### **SOUND FINANCIAL POSITION**

### PSG Konsult has no interest-bearing debt as at 29 February 2020.

PSG Konsult remains strongly capitalised, with a capital cover ratio of 191% (2019: 182%) based on the latest insurance group return. PSG Konsult's strong cash flow enables the group to continue to invest in long-term growth opportunities, systems and processes, while optimising risk-adjusted returns for shareholders. The group negotiated the early redemption of the R100.0 million notes issued under the DMTN programme. The notes were redeemed on 12 July 2019, using surplus cash. The group's upgraded Global Credit Ratings of A(ZA) long-term and A1(ZA) short-term both have a stable outlook.



Read more in the CEO) and CFO report from page 44.

### VALUE-ENHANCING BUSINESS CHARACTERISTICS AND RELATIONSHIPS

### PSG Konsult's strategy prioritises high return on equity without taking undue risks.

The group's primary client exposure is to higher-income groups and the profitability of the Wealth and Asset Management divisions is geared to equity market conditions. New share issues are limited to prevent the dilution of shareholder returns.

The group has an experienced management team backed by a supportive anchor shareholder in PSG Group. PSG Konsult maintains a good working relationship with regulators.

Synergies between the group's divisions create strong operational leverage.

### A DISTRIBUTION NETWORK THAT DELIVERS MORE THAN RETURNS

### The group has the largest independent adviser network in South Africa and Namibia

Clients trust the PSG Konsult advisers and the adviser remuneration model encourages client retention and long-term growth. This ensures that shareholder and adviser interests align.

PSG Konsult's adviser learnership programme empowers young South Africans to become advisers and adds to the pool of quality advisers.



Read more on our advisers from page 21.

### CLEAR AND SCALABLE GROWTH PROSPECTS

The group has a relatively small market share with the opportunity for growth in its wealth, asset management and insurance markets.

PSG Konsult's holistic financial services product range meets a broad spectrum of client needs, creating cross-selling opportunities and synergies.

A solid business foundation supports the expansion of PSG Konsult's existing adviser network and potential strategic acquisitions.

The group's leverage means it is able to generate higher margins as it gains scale.

### AN ESTABLISHED, RESPECTED AND TRUSTED BRAND

### PSG Konsult is committed to brand awareness and enhancement

Responsible brand investment is structured in line with the group's growth.

The group is a regular recipient of industry awards.

### A TRACK RECORD THAT DEMONSTRATES LONG-TERM FINANCIAL PARTNERSHIP

PSG Konsult's conservative investment approach means the group has a proven ability to make the most of every rand earned relative to the acceptable level of risk taken.

This approach is based on the group's three layers of defence risk management methodology, which has led to a history of superior shareholder returns and demonstrable asset and premium growth over time.

The group's track record is demonstrated by the shareholder value and seven-year financial view tables that follow on pages 6 and 7.

#### PSG Konsult has created shareholder value since 2005

PSG Konsult has substantially outperformed the Financial Times Stock Exchange (FTSE)/JSE All Share Index (ALSI) total return index (TRI) over 15 years to 29 February 2020.

If R100 000 had been invested in PSG Konsult shares on the day that over-the-counter (OTC) trading commenced in 2005, and if dividends and other distributions received had been reinvested, this amount would be worth R3.8 million on 29 February 2020, at a compound annual growth rate (CAGR) of 28% (20% in US dollar terms).

Date	Number of PSG Konsult shares	PSG Konsult investment R	Annual growth in investment %	JSE ALSI TRI	JSE ALSI investment R	Annual growth in investment %
11/04/2005	250 000	100 000		1 311	100 000	
28/02/2006	260 725	286 797	187	1 926	146 929	47
28/02/2007	297 398	490 706	71	2 670	203 678	39
29/02/2008	309 914	526 854	7	3 255	248 335	22
28/02/2009	327 703	426 014	(19)	2 032	154 988	(38)
28/02/2010	351 652	509 895	20	3 013	229 848	48
28/02/2011	373 653	597 845	17	3 723	284 027	24
29/02/2012	395 168	790 336	32	4 082	311 393	10
28/02/2013	422 411	1 203 871	52	4 870	371 546	19
28/02/2014	435 546	2 177 731	81	5 981	456 251	23
28/02/2015	441 856	3 190 197	46	6 946	529 912	16
29/02/2016	447 709	3 080 237	(3)	6 643	506 779	(4)
28/02/2017	455 295	3 419 266	11	7 061	538 627	6
28/02/2018	462 322	4 022 205	18	8 292	632 573	17
28/02/2019	469 330	5 040 607	25	8 218	626 884	(1)
29/02/2020	477 453	3 771 876	(25)	7 749	591 116	(6)
CAGR %			28			13

#### A seven-year financial view

	2020	2019	2018	2017	2016	2015	2014
	R000						
Income	5 057 010	4 571 333	4 203 640	3 843 072	3 501 676	3 014 600	2 557 436
Profit before taxation	1 004 614	911 723	868 872	735 286	631 662	525 032	383 637
Taxation	(297 053)	(269 179)	(256 221)	(203 416)	(309 838)	(163 234)	(117 677)
Profit for the year	707 561	642 544	612 651	531 870	321 824	361 798	265 960
Headline earnings	644 408	603 888	566 396	486 439	292 302	339 261	244 485
Recurring	644 408	591 099	566 396	486 439	408 748	341 175	251 145
Non-recurring	_	12 789	_	_	(116 446)	(1 914)	(6 660)
Non-headline earnings	2 549	(1 714)	80	423	622	1 140	4 773
Attributable income	646 957	602 174	566 476	486 862	292 924	340 401	249 258
Earnings per share (cents)							
Headline	48.1	45.6	43.0	37.2	22.9	26.9	20.0
Recurring headline	48.1	44.6	43.0	37.2	32.1	27.0	20.6
Recurring headline							
(excluding intangible asset							
amortisation cost)	52.2	48.4	46.4	40.4	34.6	29.4	22.3
Attributable	48.2	45.4	43.0	37.3	23.0	27.0	20.4
Dividend per share (cents)	22.5	20.5	18.0	15.3	13.2	12.0	11.3
Interim	7.5	7.0	5.7	5.1	4.4	4.0	4.0
Final	15.0	13.5	12.3	10.2	8.8	8.0	7.3
Weighted average shares (000)	1 340 925	1 325 094	1 317 643	1 307 103	1 274 163	1 261 394	1 220 523
Actual shares in issue (000)	1 356 923	1 364 885	1 342 242	1 322 100	1 279 124	1 262 484	1 221 917
Market capitalisation (Rm)	10 729	14 659	11 678	9 929	8 800	9 115	6 110
Price (cents per share)							
Last day of trade	790	1 074	870	751	688	722	500
Highest	1 085	1 110	940	850	950	790	534
Lowest	701	860	750	640	635	500	255
Trading volume							
(number of shares) (000)	111 952	83 533	91 863	111 726	114 094	61 842	31 449
Trading value (Rm)	1 070	813	767	783	904	429	129
Net asset value per share (cents)	247.0	223.6	190.1	164.0	132.2	118.3	89.1
Assets under administration (Rbn)	396.9	421.5	402.1	371.1	327.1	308.7	233.2
Assets under management (Rbn)	229.8	222.2	205.4	175.3	154.1	132.5	99.5

INTEGRATED REPORT 2020

#### An overview of the major events in PSG Konsult's history

PSG Konsult commenced business in 1998 with the aim to grow a vast network of financial advisers that provide excellent financial advice to clients where they reside.

The group's approach has been to 2013 build multi-generational relationships with families and forge long-term ties • The group undertook internal restructuring, with the organisations it services. streamlining multiple business units into three • PSG Konsult acquired the remainder of Western Group Holdings Limited (Western Group) in two transactions and subsequently disposed of 40% of its shareholding to Santam. 2014 1998 · PSG Konsult listed on the JSE and NSX. PSG Group acquired a 50% shareholding in PSG Konsult. 2015 PSG Konsult established an internal audit 2003 function. • PSG Konsult acquired a 51% • The group acquired a 70% shareholding in interest in PSG Konsult Namibia, DMH Associates, a Mauritius-based wealth increasing its shareholding in advisory and stockbroking business. 2014 and 2015 to 58%. **DEVELOPMENT PHASE** 2016 2005 **GROWTH PHASE**  PSG Konsult acquired the stockbroking • Shares in PSG Konsult business, Ramet & Associés Ltée. were made available to the public through an PSG Konsult's long-term investment OTC trade platform. grade credit rating was upgraded to A-. **ACQUISITION PHASI** 2012 PSG Konsult acquired 75% of Western Group over two transactions 2011 · PSG Konsult acquired 100% of PSG Asset Management, including PSG Life and PSG Invest, from PSG Group. 2008 • PSG Konsult acquired 49% of the shareholding in PSG Konsult Nhluvuko (today known as PSG Employee Benefits) in an empowerment deal, increasing its shareholding to 74% in 2010. 2006 PSG Konsult acquired 100% of Online Securities (today known as PSG Securities) from PSG Group.

Dates provided refer to calendar years.

#### 2017

- PSG Insure concluded an agreement to acquire Absa Insurance and Financial Advisers Proprietary Limited's (AIFA's) commercial and industrial short-term insurance brokerage business in September 2017.
- The group obtained JSE approval to establish a DMTN programme.
- The group accelerated investment in technology and systems, and strengthened the PSG Wealth investment team and the internal audit function.
- PSG Konsult implemented a group-wide risk appetite statement.

#### 2018

- PSG Insure concluded an agreement to acquire the remaining personal lines short-term insurance face-to-face advisory brokerage business from AIFA.
- PSG Wealth acquired 28E Capital brokerage.
- The PSG Konsult board oversaw the incorporation of the King IV principles.
- PSG Konsult was approved for a secondary listing on the SEM and commenced dealings on the official market of the SEM on 27 November 2018.
- PSG Konsult established Western Insurance Botswana and Western Life Insurance Botswana.
- PSG Insure concluded an agreement to acquire the remaining 40% shareholding in the Western Group Namibian entities from Santam.
- The group disposed of its 70% shareholding in the Mauritius-based wealth advisory and stockbroking business.

#### 2020

 PSG Konsult donated R10.0 million to the South African Solidarity Fund to help minimise the impact of COVID-19 on society as a whole.

#### 2019

- PSG Konsult's credit rating was upgraded to A(ZA) long-term and A1(ZA) short-term.
- PSG Konsult negotiated the early redemption of the R100.0 million notes issued under the DMTN programme, which was established in 2017.
- PSG Insure successfully completed the integration of 144 new insurance advisers following the acquisitions of AIFA's commercial and industrial short-term insurance and the personal lines short-term insurance brokerage businesses.
- PSG Wealth awarded Top Wealth Manager of the Year: Large Institutions at the Intellidex Top Private Banks and Wealth Managers Awards during June 2019.
- PSG Insure was named overall winner as Top National Broker at the 2019 Old Mutual Insure Awards.
- The group upgraded its local stockbroking platform by implementing and adopting IRESS, a world-renowned trading and portfolio management system.

#### **BUSINESS MODEL AND CAPITALS**

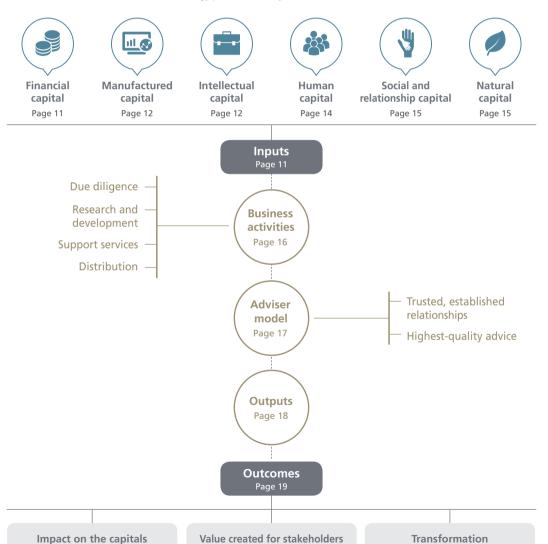
PSG Konsult creates value by generating sustainable, consistent, inflation-beating returns.

The group's business model is rooted in a conservative, long-term investment approach. Investors who remain invested throughout market cycles are rewarded. This enables a broad range of stakeholders to maintain and improve their livelihood.

In its business model, PSG Konsult relies on the six capital inputs of value creation, which are increased, decreased or transformed through the group's business activities.

The business model is built on a wide range of excellent products and services and on connecting these with a receptive market. The group's core strength is its distribution network of independent advisers, who distribute these products and services through their advisory capability and trusted, long-standing relationships with clients.

Adviser and client service experiences are supported by the group's integrated technology platforms and systems.



#### THE CAPITAL INPUTS OF VALUE CREATION

#### PSG Konsult applies and transforms the six capital inputs to create value for stakeholders.

This process is based on the group's strategy and growth ambitions, which adhere to PSG Konsult's core business principles.



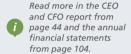
Financial capital constitutes available shareholder equity and debt funding.

PSG Konsult's central treasury function oversees and manages the group's financial capital. The investment committee is responsible for determining the investment strategies of the group and for monitoring the investment portfolio's performance. The group's credit committee regularly monitors the credit quality of the underlying assets.

This centralised monitoring process allows the group to optimise capital allocation to meet business regulatory capital and growth initiative requirements.

PSG Konsult's investable shareholder assets are conservatively invested, as required by regulation, mainly in cash, money market funds and other collective investment schemes (CIS). These are well positioned to absorb market volatility and to earn appropriate risk-adjusted returns. Shareholder funds are predominantly invested in instruments regulated by either the Reserve Bank or the Collective Investment Schemes Control Act, No. 45 of 2002. The group's investments in cash, money market or related instruments (on a see-through basis) was circa 90% of investable shareholder assets at 29 February 2020.

The group's strong financial capital position provides us with resilience in the current challenging market conditions and the ability to respond quickly to investment opportunities. PSG Konsult's focus remains on organic growth, although it will consider acquisitions that meet its investment criteria, including acceptable pricing, a compelling strategic rationale, clearly definable synergies and ease of integration.



#### This year, PSG Konsult applied financial capital to, among other things:

- negotiate the early redemption of the R100.0 million notes issued under the DMTN programme using surplus cash;
- improve IT infrastructure and digital platforms that enhance client experience;
- increase the adviser base and integrate new advisers into the group;
- host client and adviser events to improve brand awareness; and
- fund bursaries and learnerships.

These investments increased manufactured, human, intellectual and social and relationship capital, which will deliver increased financial capital over the long term.



#### **Manufactured capital**

Manufactured capital includes the group's physical footprint and the IT systems that support business activities.

Manufactured capital enables efficiency and improved service support to advisers and clients. Investment in manufactured capital increases expenditure over the short term, but ensures sustainable returns for the future. The group considers this to be a worthwhile short-term trade-off with the goal of achieving sustainability.

Over the past five years the group invested circa R1.0 billion (fully expensed) in systems and processes, and it's only during the current year that we started to see the benefits of lower marginal costs related to client service. Consequently, the group expects that the growth in future costs will be at a lower rate.

PSG Konsult believes in servicing clients within reach of their homes. This requires offices and infrastructure in the territories where the group operates, mainly South Africa, Namibia and Botswana.

The group prescribes to open architecture, in other words both proprietary and third-party products, and ensures stable systems. These are enablers for support function capability and adviser and client reach and convenience. The *myPSG* online platform and mobile application give clients and advisers a secure, consolidated view of their investments over various digital platforms. These platforms are a competitive advantage for PSG Konsult as they grant access to a range of financial product and fund providers in South Africa.

Read more in the CEO and CFO report from page 44 and the IT governance section on pages 86 and 87.



Intellectual capital consists of intangible assets that give PSG Konsult a competitive edge and support its reputation. Intellectual capital includes the research and development behind PSG Konsult's investment approach and its ability to manage risk, comply with legislation and respond to market challenges. It also comprises a due diligence process to approve new products, services and acquisitions.

By applying this intellectual capital, PSG Konsult offers investors access to the group's own funds and selected third-party products and services.

PSG Konsult operates under several regulatory licences, which allow the group to sell a broad range of products and services across multiple jurisdictions. Regulatory licences in Guernsey and Malta enable the group to market offshore Undertakings for Collective Investment in Transferable Securities (UCITS) compliant funds to potential offshore investors. The group's proactive engagement with regulators helps ensure that it maintains its 24 regulatory licences.

The group invests in intellectual capital to manage risks and exploit opportunities ethically. This short-term financial compromise secures PSG Konsult's sustainability, ensures future returns, and contributes to our resilient reputation that attracts clients and employees.

The group's product offering is listed on pages 18 and 19 and regulatory operating licences on page 36.

#### A respected and trusted brand

The group uses its brand and reputation to help advisers grow their client base and to grow its direct business. Due to the serious impact that reputational damage can have, the brand is subject to governance. Consistency and quality are essential across client communications, including print publications, emails and social media, and at adviser-hosted client events.

#### Print media

PSG Konsult's thought leadership includes quarterly publications by PSG Asset Management (Angles and Perspectives) and PSG Wealth (Wealth Perspectives). The group regularly takes stock of publications to ensure their value to advisers and clients. Additional publications address topical issues. In 2020, these included:

Strengthening the Rule of Law, which outlined the fight against state capture, the processes surrounding commissions of inquiry and the role of the National Prosecuting Authority

#### Advice for Advisers

– Documents to guide PSG Konsult advisers on some of the key questions clients ask about the general uncertainty regarding South Africa's prospects PSG Wealth's annual Investment Research and Strategy Report, which focused on investor uncertainty and the opportunities that can be found in the midst of uncertainty

#### Digital and social media

PSG Konsult engages with advisers and clients on digital platforms including online tutorials, news, tools and webinars. The brand campaign themes for 2020 were:

- Investing, stockbroking and insurance were all promoted throughout the year in an always-on campaign
- In July "Savings Month" a campaign encouraged saving towards financial independence
- The January/February tax season campaign promoted the tax efficiency of retirement annuities and tax-free investment plans

Clients are likely to conduct online research before visiting an adviser's office. The group helps advisers manage their online profiles to convey PSG Konsult's value proposition, showcase their expertise and use social media effectively.

#### Events

Adviser and client engagement happen through regional adviser office events and national group events.





Human capital comprises the group's complement of employees and professional associates, and the network of advisers distributing the group's products and services. PSG Konsult is a complex financial services group, and relies on the skills of its employees. Therefore, the group must ensure that its performance management and development frameworks encourage long-term retention and loyalty.

The social and ethics committee monitors group activities relating to sustainability and transformation. This ensures that employees receive equal advancement opportunities and work in a safe environment where they can fulfil their potential.

Investment in human capital decreases financial capital over the short term, but enables the availability of skills and service capacity for the group and the industry over the long term.

The group continued to hire top talent, with personnel costs increasing by 8%.

Human capital is developed through training and internship programmes. By transferring knowledge and improving employability, corporate social investment (CSI) initiatives expand the pool of future employees and clients for PSG Konsult.

Read more about the value created for PSG Konsult's employees and advisers in the stakeholder section on pages 21 to 23, 25 and 28.



#### Social and relationship capital

Social and relationship capital is the network of internal and external relationships that constitute PSG Konsult's stakeholder universe The group values and invests in the growth of stakeholder relationships. Relationships are established through:

- PSG Konsult's advisory network and the strong relationship of trust our clients have with our advisers, as shown in the group's growing adviser network, which increased by a net 3 advisers. In the Wealth division, the group appointed 40 new wealth advisers, while the assets managed by the smaller advisers that left the group during the year were transferred to other existing PSG advisers
- The group's participation in industry forums and involvement in supplier and enterprise development initiatives
- Internship and learnership opportunities
- CSI initiatives

PSG Konsult offers administrative and compliance support to advisers so that the advisers are freed up to focus on building valuable relationships with clients.



Read more about PSG Konsult's stakeholders from page 20.



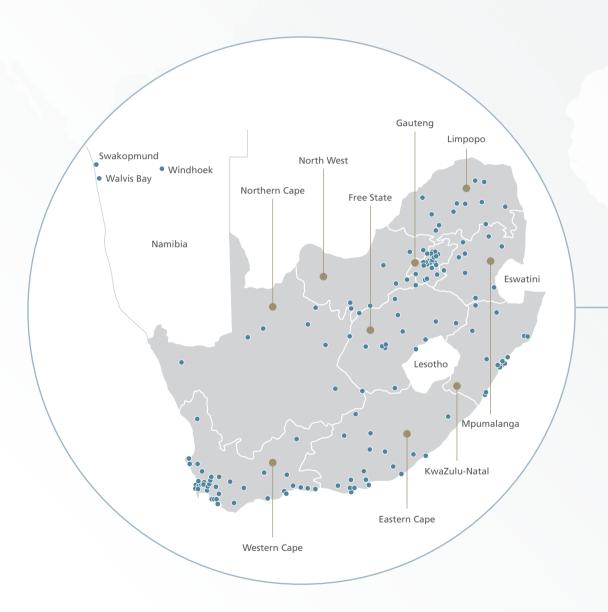
Natural capital consists of the natural resources used in PSG Konsult offices. While these natural resources are not formally measured, the nature of the business has a limited negative impact on the environment.

PSG Konsult limits the use of electricity, paper and water in the office environment, and its head office in Cape Town is rated a five-star green building. The use of video-conferencing facilities at each of the major offices across the country reduces travel time.

PSG Wealth recently moved into a new office building that prioritises sustainable, green practices.

#### **PSG KONSULT'S BUSINESS ACTIVITIES**

PSG Konsult's value proposition offers best-of-breed financial management solutions that meet client needs.





- Distributes products and services
- Builds relationships with stakeholders
- Develops new products
- Provides support

#### Products and services

- Financial planning
- Investment options
- Trading platforms
- Insurance
- Employee benefits



Detail follows on page 18 and 19.

#### **Client types**

- Retail
- Institutional

#### Source types

- PSG Konsult products and services
- Third-party products and services

#### Channels

- Advisers
- Direct
- Combined adviser and direct (multi-channel)

The **adviser model** is a core element of the PSG Konsult business model. It relates specifically to the PSG Wealth and PSG Insure divisions. There is a mutually beneficial relationship between the group and advisers. PSG Konsult provides support and resources to its advisers, which enables them to provide their clients with the highest-quality advice.



Detail follows from page 21.



PSG Konsult helps stakeholders to create and preserve wealth in changing times.

#### THE OUTPUTS OF OUR BUSINESS ACTIVITIES

#### **PSG Konsult's product and service offering**

Financial planning	Financial advice on investing, saving, stockbroking, retirement planning and insurance	PSG Wealth
	Distributed through a network of PSG Konsult advisers	
Investments	<ul> <li>A wide variety of investment vehicles covering pre- and post-retirement investment needs, including:         <ul> <li>Tax-free investments</li> <li>Endowments</li> <li>Retirement annuities</li> <li>Preservation funds</li> <li>Living annuities</li> <li>Discretionary unit trust investments</li> </ul> </li> <li>Underlying investment options include:         <ul> <li>PSG Wealth multi-managed solutions</li> <li>A comprehensive suite of local and international unit trusts from PSG Asset Management and unit trusts from a wide range of other management companies for diversification</li> <li>Access to global markets through both foreign-domiciled funds and rand-denominated feeder funds that invest internationally</li> <li>Personal share portfolios both locally and offshore</li> </ul> </li> </ul>	PSG Wealth PSG Asset Management
Unit trusts	<ul> <li>A comprehensive suite of local and international unit trusts</li> <li>Access to global markets provided through foreign-domiciled funds and rand-denominated feeder funds that invest abroad</li> </ul>	PSG Wealth PSG Asset Management
Stockbroking	<ul> <li>Online trading platform providing clients with direct market access to local and international markets</li> <li>Involves building a customised portfolio of shares, exchange-traded products and derivative trading instruments</li> </ul>	PSG Wealth
Personal short-term insurance	<ul> <li>Access to car, household, liability and accident cover through partnerships with leading insurance providers</li> <li>Advisers evaluating available options to structure tailored insurance solutions for clients</li> </ul>	PSG Insure
Commercial short-term insurance	<ul> <li>Western Group's insurance underwriting capabilities provide cover internally and via business partnerships with leading insurance providers</li> <li>Access to wide range of commercial insurance products, including business cover for agriculture, marine and commercial interruptions, etc.</li> <li>Analysis of and advice on clients' case-by-case business insurance needs</li> </ul>	PSG Insure
Estate and trust services	<ul> <li>A full estate planning service, including local and offshore trust services</li> <li>Assistance with drafting a last will and testament, and acting as executor in administering deceased estates</li> </ul>	PSG Wealth

Multi-managed funds and solutions	Access to a range of local and global multi-managed funds across the full risk-return spectrum  Access to leading asset managers, locally and globally, leveraging off their combined resources and specialised skills through a single product range  Customisable asset consulting service to institutional investors, allowing clients to combine PSG Konsult's multi-managed solutions to target specific investment objectives  Managed equity product suite	PSG Wealth
Healthcare	<ul> <li>Access to a range of hospital plans and medical aid options through partnerships with a selection of medical aid providers</li> <li>Gap cover available as a supplement to medical aid to contribute to hospitalisation and medical costs not covered by a specific plan</li> </ul>	PSG Wealth
Employee benefits	<ul> <li>Complete corporate package, including retirement, healthcare and risk benefits</li> <li>Analysing and providing customised solutions for corporates, institutions and small and medium-sized enterprises (SMEs) based on client needs</li> </ul>	PSG Wealth
Life insurance	<ul> <li>Access to life, disability and critical illness cover through partnerships with leading insurance providers</li> <li>Advisers evaluating available options to structure the most suitable life cover for clients, on a case-by-case basis</li> </ul>	PSG Wealth
Institutional portfolio management	<ul> <li>Investment expertise to assist institutional clients to protect and grow their business capital, or perform their fiduciary responsibilities towards their investors</li> <li>Managing segregated and institutional mandates, tailored to clients' business requirements</li> <li>Management of a range of multi-managed solutions and unit trusts that can be included as investment options in retirement funds</li> </ul>	PSG Wealth PSG Asset Management

#### THE OUTCOMES OF OUR VALUE CREATION BUSINESS MODEL

The outcomes of PSG Konsult's business model include:

- how the group increases or utilises its six capitals; and
- the value the group creates for its stakeholders, as described in the next section.

Examples of primary outcomes include increased financial capital and security for stakeholders, and secondary outcomes such as employment, improved availability of skills, automated processes and deeper relationships. Potentially negative outcomes constitute financial loss or negative investment returns, system failure and the occurrence of other operational risk events, which are mitigated through a mature, integrated risk management capability.

#### **STAKEHOLDERS**

Meaningful stakeholder engagement is critical to achieve PSG Konsult's ambition to be the financial services business partner and employer of choice in the countries in which it operates. The group recognises the need to adapt, improve and deliver value for stakeholders. In most cases, the group understands its role as the 'relationship owner' and has consolidated its learnings from engagement activities. The management teams of the divisions are responsible for implementing and monitoring stakeholder engagement in their respective areas of business and the board oversees stakeholder management.

PSG Konsult's approach to stakeholder engagement is based on the following principles:

- Mutual respect
- Openness and transparency
- Supportive and responsive interaction
- Regular and structured engagement
- Treating stakeholders as existing or potential clients

The stakeholders, their interests and their level of influence on the group's operations vary according to geographic location, business area and the nature of their interest. These relationships have evolved into natural stakeholder groups:



Advisers



Employees



Clients



Shareholders and analysts



Suppliers, service providers and communities



Government, regulatory bodies and industry associates

#### **ADVISERS**

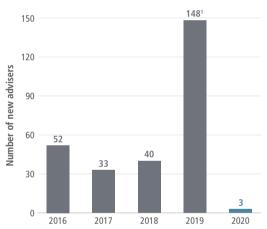
#### Financial advice delivers value beyond money.

PSG Konsult's competitive advantage is its ability to provide personal service to clients, in the cities and towns where they live. Advisers connect PSG Konsult and its clients. A focus for the group is to attract and retain advisers with business acumen and the ability to provide meaningful and effective advice to clients. Their ability to attract new clients, advise existing clients and ensure long-term relationships is critical for the PSG Konsult business model to deliver value.

To ensure that clients receive high-quality advice, advisers are governed by operational procedures and PSG Konsult regulates the advice process.

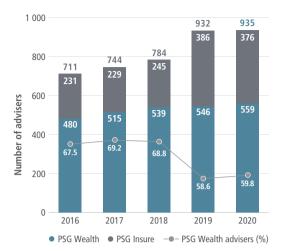
While growth is the objective of the group's strategic focus, expansion takes place with an emphasis on quality over quantity. The group expands its adviser network to deliver positive client inflows. It undertakes this through organic growth and selected adviser acquisitions.

#### Net new joiners over five years



Includes the insurance advisers who joined the PSG Insure division following the AIFA acquisition.

#### Advisers per division over five years



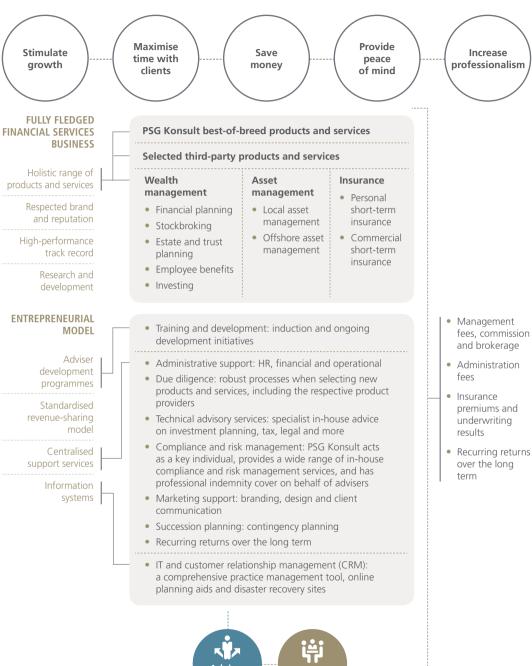
#### **How PSG Konsult creates value for advisers**

Advisers take advantage of PSG Konsult's financial services offering, established brand and performance track record.

Advisers have access to business support, infrastructure and systems. Changing regulatory requirements cause a significant administrative cost and capacity burden for advisers. PSG Konsult creates value for its adviser network by shouldering much of the burden of regulation and administration. This creates an environment in which advisers can focus on delivering high-quality advice and creating trusted relationships with clients.

#### Our adviser value proposition

Through this adviser model, the group aims to:



Clients

network

#### PSG Konsult advisers are independent

PSG Konsult advisers participate in an entrepreneurial remuneration model. This means they become integrated into the group's administrative processes and systems, while remaining independent in terms of the products they sell. This model allows them to share in the ownership of their income stream while maintaining full discretion over where their business is placed.

They are not limited to offering only PSG Konsult products, a constraint for agents at other South African product providers. The group's advisers sell PSG Konsult products in addition to a wide variety of other local and offshore products. This model ensures that clients receive the most suitable and competitive offering to meet their unique requirements. The entrepreneurial remuneration model also creates greater opportunity for specialisation and enables advisers to form associations with other PSG Konsult advisers and offices, to offer a wider range of services.

### PSG Konsult enhances the products and technological capabilities it offers advisers

PSG Konsult offers a wide range of best-of-breed providers and products to help advisers maintain relationships with their clients and provide them with an excellent service offering. The group has agreements with more than 200 service and product providers, affording advisers direct access to and visibility of their funds and products. The diverse range of available products allows advisers to remain objective, make independent decisions and choose products that are best suited to their clients' needs. This also protects advisers and clients from contagion risk.

### PSG Konsult prepares advisers for macroeconomic events

Socioeconomic events create media hype, swings in market sentiment and volatility, which require a robust advice process. The group engages with advisers through proactive scenario descriptors and responses, which enable them to be on the front foot and ready to advise clients appropriately. Advisers are reminded that a long-term view on financial planning, relating back to individual client objectives, remains key.

### The adviser model provides consistency and continuity for clients

The onboarding of a new adviser, once agreements and system access points are activated and in place, is a seamless process, without any interruption or changeover affecting the client. Through its adviser network, PSG Konsult offers succession options for advisers who want to sell their businesses or retire. This adds value for clients, who are taken care of with PSG Konsult's cradle-to-grave approach, ensuring continuity, consistency and historic records throughout their financial life cycle.

#### How the group engages with advisers

The group shares its strategy and achievable growth targets with advisers and offers them products and services with a provable growth record.

Senior management promotes open and effective communication with advisers. Formal and ad hoc meetings, conferences, and strategy and work sessions are held with advisers throughout the year.

The following engagement and development initiatives support value creation for advisers and PSG Konsult:

- Annual conference Attended by advisers and professional associates from relevant markets. The purpose is to engage with the group's leadership on strategic objectives, identify opportunities, discuss regulatory changes and unpack industry trends. The group also recognises its top financial advisers at the conference. The theme for the May 2019 conference was All Aboard, to commemorate some 21 years of navigating the seas of financial services.
- Adviser strategy sessions Selected advisers and management conduct focused strategic discussions on industry-related matters. It also provides an opportunity to share adviser success stories and is held bi-annually.
- Adviser work sessions Bi-annual work sessions to keep advisers and their employees up to date with changing legislative requirements and internal enhancements.

#### Regular communication

- PSG Konsult distributes a range of communications via an internally developed CRM system (myPractice).
- Regional managers regularly interact with advisers, driving growth in support of strategic objectives.
   They evaluate and ensure that adviser practices adhere to financial and corporate governance requirements. They strategically analyse practices, assist with practice development and measure performance against predefined objectives.
- myPSG platform Advisers can access information by using a single login for share and fund information, statements and transactional level information.

#### Developing an adviser talent pipeline

#### The PSG Konsult graduate programme

As part of PSG Konsult's transformation initiative, graduates are placed at adviser offices for a two-year stint, where they learn about myPractice coordination, claims, underwriting, soft skills, products and technical aspects.

The programme develops, nurtures and employs graduates, enabling them to take ownership of decisions and realise their full potential. The aim is for the graduates to become permanently employed, either in support roles or as wealth managers. It also helps grow the group's African, Coloured and Indian (ACI) employee numbers. Graduates come into the group with limited work experience and the objective is to mentor these graduates to become a pool of talent for promotion to management positions.

Since inception of the programme, PSG Konsult has maintained a 62% retention rate on all graduates who have successfully completed the programme.









of graduates employed were ACI candidates

#### The PSG Insure and Wealth learnership programmes

The 12-month work-based PSG Insure and Wealth learnership programmes are aimed at creating a talent pipeline of young ACI learners by equipping them with a solid foundation.

The pipeline is formed by appointing historically disadvantaged individuals as para-planners or adviser assistants. The aim is to help unemployed learners gain employment by providing them with the opportunity to study towards a full short-term insurance qualification and gain meaningful work experience. This is followed by the 12-month internship programme, where learners are required to work under supervision to qualify as a registered representative.

PSG Konsult's adviser learnership programme has seen good growth and adds quality advisers to the network. Our adviser development programme (ADP) was created as a pilot programme in 2017 and has seen great interest and uptake from our advisers.

Our core graduate programme is in its fifth year and the ADP in its fourth year. Our progress to date and plans for the next two years are shown in the table below. Our aim is to have ACI intake in line with the economic active population of South Africa within the next financial year.

Description	2020	% change	2019	% change	2018	% change	2017	% change	2016
Graduates (ACI)	54	10	49	32	37	42	26	37	19
– Core	31	-	31	29	24	60	15	(21)	19
- ADP	23	28	18	38	13	18	11	>100	_
Graduates (White)	6	(40)	10	43	7	(13)	8	_	8
ACI % of total graduates	90%		83%		84%		76%		70%

#### **EMPLOYEES**

### PSG Konsult employs 2 917 people across South Africa, Namibia, Guernsey, Malta and Botswana.

PSG Konsult offers employees an opportunity to improve their skills and capabilities and to develop their careers.

The group believes in performance and meritocracy, where income, promotion and progression follow individual excellence and contribution to the group. The development of employees, as part of their long-term well-being and job security, is a PSG Konsult priority. Career enhancement opportunities include bursaries and study loans, for part-time or full-time studies, for work-related disciplines or specialist fields that will meet future business requirements.

# As is the case with other financial industry players, PSG Konsult requires a range of specialist skills in the following areas:

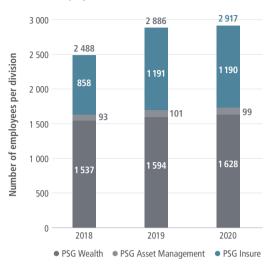
- asset management
- data analytics
- legal and compliance, risk management and finance
- product specialists
- actuarial
- engineering
- short-term insurance underwriting
- system architects

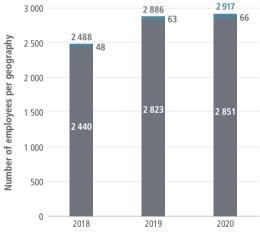
### PSG Konsult offers employment opportunities to:

- bursary and internship applicants
- graduates
- mid-career professionals

#### A profile of our employees

#### Growth in employee numbers





- South Africa
- Namibia, Guernsey, Malta and Botswana

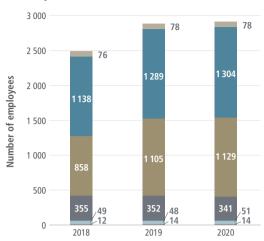
#### **Employee demographics**

#### Education



- Postgraduate university degree or professional qualification
- University degree
- Post-grade 12 (for example, diploma, certificate)
- Grade 12
- Up to grade 11

#### Hierarchy



- Top management
- Senior management
- Middle junior management
- Skilled technical
- Semi-skilled
- Unskilled

#### Transformation

### PSG Konsult considers transformation to be a sustainable business imperative.

The group has seen a continual improvement in the ACI numbers over the past few years. The group continues to monitor and improve the recruitment and retention of ACI employees.

PSG Konsult's BBBEE verification is performed by AQRate in terms of the Amended Financial Sector Generic Scorecard and is available on the group's website.

The industry requires unique and specialised skills that are not easily available. PSG Konsult promotes the industry and the group to graduates, hence the effort since 2008 to attract and develop young talent through the employee and adviser graduate and bursary programmes. The group works with the Association for Savings and Investment South Africa (ASISA) and other industry players to address transformation in financial services.

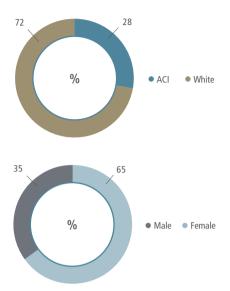
PSG Konsult has several initiatives to drive skills development. The group provides financial assistance to employees to qualify themselves as designated industry professionals such as CFP, CFA, actuarial and tax professionals. Annually, the group invests approximately R1.0 million to empower up to 50 recipients.

PSG Konsult partnered with the Skills Development Corporation (SDC) during June 2019 and funded learnerships for 407 ACI people, the majority of whom are disabled.

In June 2019, the group also employed a transformation analyst to provide guidance on transformation initiatives.

#### Employee diversity as at 29 February 2020

Number of people employed by PSG Konsult: 2 917 (2019: 2 886)

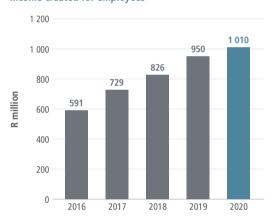


### How PSG Konsult creates value for employees

### PSG Konsult's employees are integral to the functioning of the group.

The group's governance and management structures enable it to create value for employees. The social and ethics committee oversees group activities relating to sustainability and transformation, ensuring that employees receive equal advancement opportunities. The committee monitors the ethical conduct of employees, ensuring that they work in a safe environment where they can fulfil their potential. The remuneration committee (Remco) is responsible for developing and implementing fair remuneration practices that are applied consistently throughout the group. This ensures that employees' performance is recognised and rewarded.

#### Income created for employees



#### **Employee wellness**

Employees attend an annual wellness day, where PSG Konsult offers preventative wellness screenings. The screenings alert employees to their current health and lifestyle risks and offers them advice on how to manage those risks. The screenings include glucose, cholesterol, blood pressure, body mass index and HIV tests. Professional wellness specialists are available to provide counselling to employees throughout the day. PSG Konsult employees also have access to health and safety representatives in the workplace.

#### How we engage with employees

PSG Konsult employees benefit from formal engagement events and daily engagement within the different divisions and functions of the group.

PSG Konsult starts its relationships with employees through a recruitment and induction programme. This programme highlights the importance and value of employees and is upfront about the group's core business principles that define its values and behaviours. The programme helps new employees to adjust as quickly and comfortably as possible to the new working environment. It also aims to achieve maximum working efficiency in the shortest possible time. The group conducts a bi-annual performance management process. The formal assessment is conducted according to a list of key performance indicators (KPIs) and responsibilities that are agreed upon between employees and their line manager.

This aligns the time and effort contributed by every individual with the overall strategic objectives and goals of the group. Variable compensation and salary increases are linked to the outcomes of these meetings, along with divisional and group performance.



Read more about employee remuneration in the remuneration report from page 93.

Continuous employee training, information sessions and seminars include training on preparing and delivering presentations, and engagements on tax updates, regulatory requirements and new systems.

#### Developing an employee talent pipeline

The PSG Konsult bursary and graduate programme creates a pipeline of young talent in the financial services industry.

It is open to students from previously disadvantaged backgrounds who are in their honour's year at selected universities. The programme offers financial assistance, including a monthly stipend and funds for textbooks. After graduating, participants undergo a one-year internship, where they are exposed to on-the-job training and mentorship across various departments in the group and in various adviser offices.

Because of the increasing importance of digitisation in the financial services space, PSG Konsult's current focus includes attracting students with science, technology, engineering and mathematics (STEM) skills.

graduates joined the programme during the prior year of whom

completed the internship and were subsequently employed

#### **CLIENTS**

# PSG Konsult enables clients to grow and preserve their wealth to meet their long-term needs and aspirations.

Clients pay PSG Konsult for advice, products and services, thereby creating financial capital through a sustainable income stream. PSG Konsult also invests funds on their behalf and according to their instructions. PSG Konsult's more than 390 000¹ clients are predominantly South African and consist mainly of retail clients in higher-income groups and selected institutional clients. With its large geographic footprint, PSG Konsult delivers on its aim of servicing clients where they live.

PSG Konsult is focused on client-centricity. This ensures that clients' experience of the group's products and services, and their relationships with advisers, continue to improve as their financial position improves. Client retention initiatives are built into the value chain, including post-sale client service and claims management. This ensures that the group writes and retains high-quality business.

With rapid changes in the political and economic landscape, technology and client expectations, businesses must learn to adapt or face the threat of irrelevance. PSG Konsult offers clients up-to-date advice, cutting-edge digital platforms and customer care in delivering service and products tailored to their needs and expectations.

The group's multi-channel distribution approach means clients are reached and serviced through their preferred channel. The distribution model is continually adapted to changing client preferences, with increased focus on further improving the group's digital capability.



PSG Konsult offers clients up-to-date advice, cutting-edge digital platforms and customer care in delivering service and products tailored to their needs and expectations.

### It is PSG Konsult's fiduciary duty to protect clients' assets

To live up to its promise of trustworthiness and quality, the group has several processes and controls in place.

#### PSG Konsult:

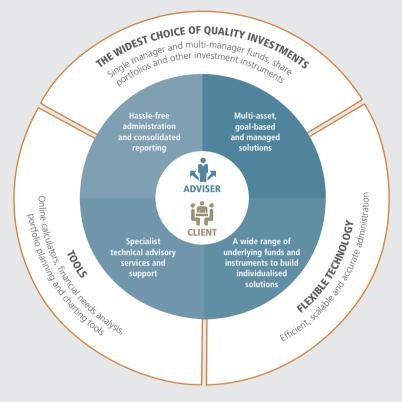
- follows a robust due diligence process on new products and services, and on third-party providers:
- maintains mutually beneficial relationships with business partners;
- constantly monitors financial soundness of product providers through risk and compliance measures:
- has dedicated compliance officers to oversee compliance processes, businesses, platforms and transactions;
- has an independent risk management department to assess potential risks and the implementation of any mitigating actions;
- maintains strict compliance with laws, regulations and international best practice:
- actively encourages and manages good working relationships with regulators and a culture of compliance;
- has an internal audit function that performs numerous reviews to make sure the controls and processes surrounding clients' assets are sufficiently secure and effective; and
- has not received an adverse ruling since the establishment of the ombudsman for financial service providers, confirming the integrity of its products and its excellent service.

### The group's governance structures create value for clients through the following committees:

- The customer service review committee (CSRC)
  ensures that the necessary processes and
  systems are in place for PSG Konsult to comply
  with the Treating Customers Fairly (TCF)
  financial services regulatory framework. It also
  identifies opportunities and makes
  recommendations to improve customer service
  levels and manage risks on their behalf.
- PSG Wealth's product governance committee confirms that approved products adhere to the group's risk appetite and meet clients' risk versus return requirements.

<sup>&</sup>lt;sup>1</sup> The group refined its unique client identifier calculation methodology in the current year to more accurately determine the number of clients (previously disclosed as more than 200 000 clients).

#### How PSG Konsult creates value for clients



#### Client value proposition: PSG Wealth

PSG Wealth advisers maintain strong relationships with clients and the division offers an end-to-end client proposition.

Through its extensive distribution network, the division makes a range of local and offshore investment products and instruments available to investors. PSG Wealth's investment and trading platform offers a range of unit trusts, those belonging to PSG as well as other investment management companies. The platform has various tools for ease of navigation. The division is focused on the following core capabilities:

- innovative and profitable products and services within acceptable risk parameters;
- client services and CRM;
- integrated end-to-end platforms;
- accessibility through a range of communication channels; and
- quarterly, monthly and daily communications.

Growth in new clients can be attributed to client referrals, which is testament to the client-service excellence of the division's advisers.

#### Client value proposition: PSG Asset Management

PSG Asset Management offers long-term retail and institutional investment management. The division follows a bottom-up approach, with an emphasis on capital preservation and risk management.

PSG Asset Management positions its funds on several platforms to enhance accessibility for clients and advisers. PSG Asset Management prioritises the following core capabilities:

- Easy, accessible investment platforms:
  - A simple and comprehensive range of funds over the entire investment risk spectrum
  - Local unit trusts and access to global markets through rand-denominated unit trusts that invest abroad, and foreign currency-denominated global funds
- Long-term performance track record:
  - Highly qualified, stable and experienced investment team
  - House view adopted by investment team to optimise research ideas and ensure more consistency across the fund range
  - Quarterly and monthly communications

#### Client value proposition: PSG Insure

PSG Insure protects clients from the impact of unforeseen events through customised short-term insurance solutions. The division offers a full range of short-term insurance products:



The strategic emphasis of the division is on profitable growth in an environment characterised by low growth rates, and on increased market awareness of the Western brand.

PSG Insure is focused on the following core capabilities:

- Short-term distribution:
  - Direct sales and access to products through a large adviser network
  - Established systems and processes
- Short-term administration:
  - Dedicated administration team
  - Skilled and experienced underwriting team
  - Client self-service system and access to product range
- Established insurance business (Western Group):
  - Various distribution channels extending reach and accessibility
  - Quality and diversity of product range
  - Personalised service

#### How we engage with clients

Direct client contact supports the group's business principle of building trusted relationships with clients. It also creates a better understanding of products, services and processes, ensuring an increased uptake of appropriate products and services. Client engagement happens frequently through a variety of channels:

- The myPSG integrated online platform Provides clients with a dashboard view of their portfolio across the PSG Konsult group, including third-party products. Also allows clients to access important documentation, such as Financial Intelligence Centre Act, No. 38 of 2001, calculators and news feeds. This offers secure online access, since login credentials are required for one site and the risk of data being compromised is reduced.
- Client newsletters Keep clients informed about macroeconomic factors and trends, investment opportunities, new products and services.
- Equity research team findings Shared with clients daily. These include securities platform trade notes and investment insights.

PSG Konsult welcomes positive and negative client feedback. The group is committed to improving its client interactions. Client feedback provides an understanding of where the group falls short of expectations and enables improvement.

#### SHAREHOLDERS AND ANALYSTS

#### This integrated report is PSG Konsult's primary report to shareholders.

PSG Konsult's shares are traded on the JSE, with secondary listings on the NSX and SEM. PSG Group Limited has been a long-term core shareholder with a 59.7% shareholding in PSG Konsult. The remaining shares are owned by PSG Konsult's directors, employees, advisers, institutional investors and members of the public.

Shareholders provide financial capital to PSG Konsult. PSG Konsult's track record and prospects inform analysts' recommendations and shareholders' investment or disinvestment decisions.

The group's institutional investor shareholder base constitutes 16.6% (2019: 14.8%) of the total shareholding. Coronation Asset Management remains the largest institutional investor, increasing its shareholding to 9.2% (2019: 8.7%). This is a vote of confidence in the group.

	202	0	2019		
Distribution of shareholders¹	Number of shares	% of total	Number of shares	% of total	
Non-public					
PSG Group (through PSG Financial Services)	810 058 551	60	810 058 551	59	
PSG Konsult directors	88 891 076	6	92 910 786	7	
Management	23 528 155	2	23 495 850	2	
Treasury shares	18 569 479	1	28 217 844	2	
Public					
Coronation Asset Management	125 098 117	9	119 205 664	9	
Allan Gray	39 951 333	3	12 136 251	1	
Public Investment Corporation					
(including Government Employees Pension Fund)	24 260 790	2	21 498 868	2	
Other public shareholders	226 565 099	17	257 361 304	18	
Total	1 356 922 600	100	1 364 885 118	100	

<sup>&</sup>lt;sup>1</sup> Includes treasury shares held.

Trading statistics	2020	% change	2019
Number of shares in issue	1 356 922 600	_	1 364 885 118
Number of shares traded	111 951 796	34	83 533 180
Value of shares traded (R)	1 069 827 317	32	813 471 071
Market price (cents per share)			
<ul><li>Closing</li></ul>	790	(26)	1 074
– High	1 085	(2)	1 110
- Low	701	(18)	860
Recurring headline earnings per share (HEPS) (cents)	48.1	8	44.6
Recurring HEPS			
(excluding intangible asset amortisation cost) (cents)	52.2	8	48.4
Earnings yield percentage (recurring HEPS)	6.1	45	4.2
Price-earnings (PE) ratio (recurring HEPS)	16.4	(32)	24.1
PE ratio (recurring HEPS, excluding intangible asset amortisation cost)	15.1	(32)	22.2

### How PSG Konsult creates value for shareholders and analysts

### The group's responsible approach to capital management and its investment strategy creates sustainable returns on shareholders' investments.

PSG Konsult uses recurring headline earnings and recurring HEPS as non-IFRS measures to evaluate performance. This provides shareholders with clear and consistent information to demonstrate the group's sustainable earnings.

The group creates insight and understanding through open and honest dealings with the investment community. It provides timely, transparent and credible information, enabling investors to fairly evaluate their investment decisions. Shareholders benefit from the related growth in new client inflows and new business across the group, which are key drivers of profitability.

PSG Konsult distributes the financial value it creates to shareholders via dividend payments. The dividend is set with reference to underlying core operating earnings, taking cognisance of the need to:

- adhere to capital adequacy, financial soundness and legislative requirements;
- retain earnings and cash flows to support future growth initiatives;
- provide a sustainable dividend that will be paid out to shareholders; and
- maintain a dividend pay-out policy of between 40% and 50% of full-year recurring headline earnings, with approximately one-third paid as an interim dividend and two-thirds as a final dividend.

It is the group's priority to create value for shareholders by maintaining a balance between paying dividends and capital expenditure. The reasons for expenditure are clearly and regularly communicated to shareholders.

PSG Konsult manages investment risk on behalf of shareholders through its governance and risk management structures

#### Dividends distributed to shareholders



### How the group engages with shareholders and analysts

### The investor relations responsibility at PSG Konsult is under the guidance of the CFO.

Formal interaction with shareholders and analysts occurs through:

- the JSE Stock Exchange News Service (SENS) and SEM announcements, results presentations, media releases, the website and interim and year-end results (including the integrated report);
- PSG Konsult's AGM, which shareholders attend and vote on the appointment of directors, the audit committee, the external auditor, the group's remuneration policy and implementation report, and various resolutions proposed by management and the board:
- PSG Konsult's bi-annual investor roadshow presentations to analysts and institutional investors, locally and abroad, which include one-on-one meetings; and
- PSG Konsult's participation in a variety of investor presentations and functions hosted by financial or research institutions.

#### **SUPPLIERS. SERVICE PROVIDERS AND COMMUNITIES**

Suppliers and service providers offer the support that enables PSG Konsult to create value through its business activities.

The group makes use of various product suppliers and service providers for an array of products and services to support business operations. They provide manufactured, human, and social and relationship capital. This ranges from technology systems and services to cleaning, security and creative agency services.

Supplier relationships start with a fair selection and pricing process and are governed by comprehensive service level agreements. PSG Konsult monitors these agreements regularly.

Communities are the source of current and future employees, suppliers, service providers, shareholders and clients. Investing in the empowerment of these communities ensures that PSG Konsult will have a future pool of skilled employees and clients available. The communities that PSG Konsult interacts with are determined by the employee and adviser network.

#### How PSG Konsult creates value for suppliers, service providers and communities

PSG Konsult supports educational initiatives and enterprise development, enabling suppliers, service providers and communities to access business and employment opportunities.

PSG Konsult invests in developmental, educational and social programmes:

#### Childcare and children's homes

Childcare centres and children's homes provide support to children in need in local communities. The homes work with churches, schools, government bodies and other support organisations to assist children in need, particularly orphans and vulnerable children. PSG Konsult provides the care centres and homes with monthly food parcels and funding.

#### The South African (SA) SME Fund

The SA SME Fund was established as part of the CEO Initiative in conjunction with National Treasury and corporate South Africa. The fund's objective is to invest in high-potential entrepreneurial enterprises in the SME sector and to provide business and other forms of support to the SME sector and funded entrepreneurs. PSG Konsult has invested R2.0 million in this fund since August 2016.

#### PSG Konsult bursary programme

The PSG Konsult bursary programme provides bursaries of R125 000 each to at least 10 promising students (presently 7 students) every year. The programme conducts career fairs at several universities annually.

#### PSG core graduate programme

The 12-month graduate programme brings young talent into the group. The programme develops, nurtures and employs graduates, enabling them to take ownership of decisions and realise their full potential. It also achieves business objectives such as transformation, building a talent pipeline and developing future leaders of the business.

The programme focuses on hiring graduates with STEM as areas of specialisation. To date, PSG has maintained a high retention rate of graduates who have successfully completed the programme. The programme is in its fifth year, with an intake of 159 graduates since inception (37 during the current year).

#### Preferential procurement

Preferential procurement encourages the use of ACI-owned professional services and entrepreneurs as suppliers. This also inherently encourages measured entities to empower themselves on the broad-based principles of BBBEE.

Preferential procurement remains a challenge because the group spends significant financial capital on the services it requires, such as advanced IT systems and technology, where there are limited accredited BBBEE trading partners available.

The lack of education on exempt micro enterprise (EME) and qualifying small enterprise (QSE) affidavits was identified as a factor inhibiting progress in this area. Consequently, the group rolled out standardised correspondence regarding EME and QSE affidavits and applicable thresholds to subsidiaries and vendors. A centralised BBBEE certificate storage repository was created to help the group keep abreast of vendors' BBBEE levels and compliance.

PSG Konsult engaged ASISA to perform an analysis of the group's vendors. Next, the group aims to create a centralised vendor database with a list of approved vendors. This will be maintained by the operations team who will actively monitor a variety of factors determining the suitability of the key vendors, including their BBBEE recognition level. Wherever a suitable vendor with a better recognition level is found, and transitioning to a new vendor is practical, the approved list will be updated, and all future business will be conducted through the new vendor.

#### PSG Adopt-a-School programme

The PSG Adopt-a-School programme addresses inequalities and inadequacies in rural areas by enhancing the learning and teaching environment in disadvantaged schools. To date, PSG has adopted 4 schools that have more than 2 300 learners. These schools are near urban hubs and areas where the group operates, ensuring that PSG employees can provide hands-on support.



Investing in the empowerment of communities ensures that PSG Konsult will have a future pool of skilled employees and clients available.

### ASISA enterprise and development programme

The ASISA enterprise and development initiative invests in the sustainability of SMEs in South Africa. It also supports government's drive for job creation and economic growth. PSG Konsult has invested R27.6 million in the fund since February 2015.

#### Local community involvement

The various PSG Konsult offices are active within their local communities. The focus of these local programmes is on communities with historically disadvantaged backgrounds. Given the group's extensive footprint in South Africa, these initiatives have a far-reaching impact at a grassroots level.

#### **GOVERNMENT. REGULATORY BODIES AND INDUSTRY ASSOCIATES**

PSG Konsult's responsible business practices and governance structures assure government and regulatory bodies of the group's contribution towards a sustainable, growing, stable and well-functioning financial services industry.

It is the job of government and regulators to ensure that the financial industry remains fair and viable. They do this by, among other things, verifying compliance and capital adequacy, in the interests of protecting the investment community. The South African government department that most affects PSG Konsult's ability to create value is National Treasury.

From a regulatory point of view, PSG Konsult engages with the Financial Sector Conduct Authority (FSCA) and the Prudential Authority in South Africa, the Namibia Financial Institutions Supervisory Authority (NAMFISA) in Namibia, the Guernsey Financial Services Commission (GFSC) in Guernsey, the Malta Financial Services Authority (MFSA) in Malta, and the Non-bank Financial Institutions Regulatory Authority (NBFIRA) in Botswana.

PSG Konsult is represented in various capacities on a range of industry bodies in South Africa. With support from its legal and compliance department, it also reviews and provides comments on forthcoming legislation that affects the business. The group is committed to playing an integral role in the financial services industry by participating in discussions and lobbying for positive reform where possible.

Industry associations provide a platform to collectively lobby the government and regulators on matters relevant to the financial services industry and its stakeholders. PSG Konsult holds membership of, or participates in, several financial services institutions, associations and committees.

PSG Konsult has 24 regulatory operating licences across its range of financial services, 17 in South Africa and 7 in foreign jurisdictions. These necessitate a close and mutually beneficial working relationship with regulators.

### **PSG** Asset Management

Company	Regulatory body
PSG Asset Management	FSCA
PSG Collective Investments (RF)	FSCA
PSG Fund Management (CI) <sup>1</sup>	GFSC
PSG Fund Management (Malta)¹	MFSA

PSG Konsult holds licences in Guernsey and Malta, which allows the group to market offshore funds that are in line with Class B Scheme Rules (Guernsey) and UCITS compliant (Malta) to potential offshore investors.

### PSG Wealth

Company	Regulatory body
PSG Multi Management	FSCA
PSG Invest	FSCA
PSG Life	FSCA and Prudential Authority – South African Long-term Insurance licence
PSG Employee Benefits	FSCA
PSG Securities	FSCA, JSE
PSG Wealth Management (Namibia)	NSX
PSG Financial Planning (Namibia)	NAMFISA

#### **PSG** Insure

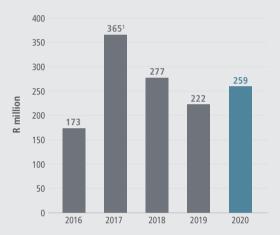
Company	Regulatory body
Western Administration Services	FSCA
Western National Insurance (Namibia)	NAMFISA
Western National Insurance (South Africa)	FSCA and Prudential Authority – South African Short-term Insurance licence
Western Insurance Botswana	NBFIRA – General Insurers
Western Life Insurance Botswana	NBFIRA – Long-term Insurers
Western Engineering Risk Specialists	FSCA

# How PSG Konsult creates value for government, regulatory bodies and industry associates

# PSG Konsult participates in efforts to improve the stability and sustainability of the financial services industry.

Regulatory changes have a significant impact on the way in which financial services companies operate. The group strives to be an early adopter of new regulations and plays an active role in these developments. The group also pays tax, according to relevant tax legislation of the jurisdiction, in the countries in which it operates.

### Revenue created for government, regulatory bodies and industry associates



<sup>&</sup>lt;sup>1</sup> Includes a PSG Life tax matter settlement.

### How we engage with government, regulatory bodies and industry associates

PSG Konsult engages formally through its membership of industry associations and on invitation from the regulators and government. The group has bi-annual meetings with the FSCA and Prudential Authority to provide regular business updates. The regulators perform routine regulatory licence site visits to carry out compliance checks. The group also engages informally on specific issues.





#### **INVESTING IN UNCERTAIN TIMES**

#### PSG Konsult's business characteristics

- The group relies on the performance of the equity market
- An administrative business, meaning we depend on people and systems to function optimally
- Not especially balance sheet intensive
- Free cash flow generative
- Vulnerable to regulatory change

#### **OUR OPERATING CONTEXT**

Emerging markets and their currencies can be very volatile, causing outflows from South Africa during uncertain times.

PSG Konsult uses the following key macro-indicators to evaluate its operating context:

Key indicator	CAGR %	2020	% change	2019	% change	2018	% change	2017	% change	2016
Rand/US dolla	ır –	15.7	11	14.1	19	11.8	(10)	13.1	(17)	15.8
S&P 500 (Rand	d) 11	46 247	18	39 221	23	32 007	3	31 003	1	30 602
All Bond Inde	x 10	706	9	649	4	622	14	544	13	480
Cash index — SteFI Call	7	407	7	382	7	358	7	335	7	314
FTSE/JSE ALSI	1	51 038	(9)	56 002	(4)	58 325	14	51 146	4	49 415
SA Property Index	(12)	363	(26)	492	(12)	562	(12)	640	5	610

Rand/US dollar – When investors are unsure, there is usually a flight of capital from riskier assets, like emerging markets, to safe havens such as the US dollar. According to Morgan Stanley Capital International research insights, emerging markets have for the past three decades presented risk diversification opportunities for market participants interested in global equities. PSG Konsult believes that overwhelmingly negative sentiment can blind investors to opportunities. It is important to note that the same global uncertainty that has brought about challenges for emerging markets and their currencies, also bodes well for the US dollar. Therefore, the concern local investors have about a soft rand and sluggish market performance must be viewed against a backdrop of dollar strength and general emerging market aversion.

**All Bond Index** – South African bond yields have climbed on the risk that credit rating agencies might downgrade South Africa. Although a downgrade to sub-investment grade could translate into a forced selling of South African bonds, Morningstar asserts that "rising yields could also create buying opportunities for investors. Times of uncertainty often present excellent opportunities if investors can price risk appropriately".

FTSE/JSE ALSI – Earnings growth from the FTSE/JSE ALSI has come under pressure. However, despite this negative weight, it has been able to remain resilient. Valuations show that South African companies are currently trading at a discount of more than one standard deviation relative to their long-term average.

Source: Investment Research and Strategy Report, PSG Wealth, 2019

#### THOUGHT LEADERSHIP

PSG Konsult convened a panel of experts on 28 November 2019 to articulate concerns and discuss the confusion and general uncertainty regarding South Africa's prospects. The panel's findings are summarised below.

Markets had high expectations following the appointment of Cyril Ramaphosa as president on 15 February 2018. Expectations for a rapid political and economic turnaround stood contrasted with a lack of visible progress. Investors were disappointed by poor stock market returns over this period. The reality is that policy changes can often take 18 to 24 months to have an impact, and investors should have expected a multi-year endeavour.

Divergent market developments and volatility were driven by increasingly negative local sentiment following load shedding by Eskom, coupled with global risk aversion and a flight to safety following exceptional macro events like the Persian Gulf Crisis and the emergence of the COVID-19 virus (coronavirus). South Africa also entered a recession. Investors are well reminded that periods of pessimism in the market tend to be followed by periods of strong market returns.

#### Sources of potential surprise to South Africa's economy

#### Positive

- Improving export numbers due to improved terms of trade
- An increase in gross domestic fixed investment, although off a low base
- Continued low inflation.
- Tourism as a driver for growth
- Recovery in agriculture provided further rainfall follows
- Strong company balance sheets

#### Negative

- The South African consumer remaining constrained
- The Competition Commission dampening investment through over-regulation
- Failure to resolve issues with state-owned enterprises
- The world economy experiencing a downturn
- Failure to curb crime
- Potentially higher taxes
- Mining charter uncertainty and expropriation of land without compensation

The panel discussion resulted in a thought leadership report, which concluded the following.

There is no doubt the current structural issues facing the country are serious. Acknowledging the risks, PSG Konsult's view is that South Africa is not a value trap but is rather experiencing a crisis of confidence. The group remains cautiously optimistic on the outlook for South Africa. The past five years have seen anomalous returns. Low-risk cash and income funds have been a good place to be invested in South Africa, and the repo rate is 3% above inflation (consumer price index), which is as high as it has been over the past decade. Current conditions set the stage for exploiting market opportunities. However, this process is not without risk, and timing is uncertain.

Source: Advice for Advisers: Crisis of confidence, or not? PSG Konsult, December 2019 and Advice for Advisers: Be patient, trust the process, PSG Konsult, March 2020

#### **OUR STRATEGY**

Every three years, PSG Konsult reviews its strategy. During the year, the group developed a revised group strategy to create a robust business that generates sustainable riskadjusted returns.

#### A REVISED GROUP STRATEGY

The group's main strategic objective is to be a highly respected retail financial services firm. At the same time, building a cost-efficient and scalable business is a priority. Executing and implementing the three financial business objectives outlined previously, remain the strategic focus.



Market-leading client acquisition

Great client service

Effective, functional platform

Competitive solutions and products

Progressive transformation



People: recruitment, retention and training

Technology: data, cloud, artificial intelligence (AI), robotics, apps, enterprise architecture, digitisation

To ensure sustainable, longterm performance, the group monitors and measures progress in implementing its strategy.

### The process we followed

Setting PSG Konsult's strategy was an iterative process. The group provided guidance to the divisions for the development of their respective strategies. These, in turn, informed the final group strategy and annual resource allocation through the divisional budgets. Feedback loops secured buy-in from line management within each division. This process resulted in the coordination, alignment and cohesion of management team targets, projects and priorities to best achieve the group's strategic goals.

The strategy development process considered the group's risk appetite and key risk response strategies, as disclosed in the risk report on page 88.

This indicated a preference for organic growth that delivers a targeted net revenue margin at an appropriate unit of risk, with acceptable trade-offs.

The critical capabilities required to achieve the group's vision include attracting and retaining the right people, selling high-quality products and hosting these on excellent platforms. As part of the budgeting process, each division identifies actions to support and drive:

New investment inflows	New business revenue	Client-centricity
More direct clients	Improved platforms	Enhanced products

The group's strategic focus remains the execution and implementation of three financial business objectives:

Financial business					
objectives	Recurring revenues	Margin enhancing	Risk versus return		
Strategic intent	Focus on generating recurring income, which leads to enhanced sustainable earnings.	Optimise the profit margin to ensure that an acceptable return on capital is earned.	Maximise every rand earned relative to an acceptable unit of risk.		
Execution and implementation	<ul> <li>Daily analysis and monitoring of new client money inflows</li> <li>Dashboards and exception reporting</li> <li>Operating costs structured as variable, where possible</li> <li>Strengthened sales and marketing focus</li> <li>Data analytics and management information systems to pinpoint growth opportunities and areas needing attention, while holding people accountable by tracking and monitoring performance against targets</li> <li>Integration and cross-selling of products and services to existing clients</li> </ul>	Streamlined systems and processes to reduce operational risk and increase efficiency  Focus on product and innovation for sustainability of profit margins – rather than financial leverage – to generate an acceptable return on capital  Focus on net new money fee margin to monitor and evaluate quality of business  Optimise client journey experience to reduce frictional costs  System automation to achieve system scalability and straight through processing	<ul> <li>Reduce financial leverage by repaying debt, improve credit rating</li> <li>Exit business areas and products that carry undue risk relative to their earnings contribution</li> <li>Three layers of defence risk management</li> </ul>		
Performance	Recurring headline earnings (Rm)  Rm	Operating margins (%)  % 20	Risk vs return (%)  % 25 4 20 4.3 4.0 3 15 10 2018 2019 2020 0  Debt:equity (%)		

i For divisional performance against strategy, see the divisional reports from page 49.

#### **CEO AND CFO REPORT**



FRANCOIS GOUWS Chief executive officer



MIKE SMITH

Chief financial officer

66

PSG Konsult achieved solid growth despite difficult business conditions.

#### **PSG Konsult's salient features**



Recurring headline earnings per share to 48.1 cents per share



Total assets under management

to R229.8 billion



Gross written premium

to R5.5 billion

PSG Konsult's long-term South African national scale rating has been upgraded to A(ZA) from A-(ZA). A change in the long- to short-term mapping tables saw PSG Konsult's short-term South African national scale rating revised to A1(ZA), from A1-(ZA). The outlook is stable.

### PSG Konsult operating divisions' salient features



PSG Wealth recurring headline earnings to R376.4 million



PSG Asset Management recurring headline earnings

to R146.4 million



PSG Insure recurring headline earnings

to R121.6 million



Read more in the divisional reports from page 49.

#### INTRODUCTION

Shareholders are reminded that the financial statements are based on the actual results for the year ended 29 February 2020, as required in terms of IFRS. Therefore, these financial statements do not reflect the current market conditions and must be read in that context. The directors, while complying with IFRS, have also chosen to comment on the impact of the developing COVID-19 pandemic.

The 2020 financial year was relentless, continuing the trend of difficult trading conditions we have seen over the past few years.

These conditions also mean that we have become exceptionally good at dealing with headwinds and overcoming challenges. We learn from previous mistakes and face problems with experience and determination.

This shows in our results. We produced solid 8% recurring HEPS growth and 20.5% return on equity, despite longer-term structural deficits in the South African economy. We recorded PSG Wealth managed assets net inflows of R12.0 billion and R5.5 billion of gross written premium by PSG Insure, and growth in advisers to our network. We also won the Wealth Manager of the Year award at the Intellidex Awards and substantially improved our Stockbroker of the Year ranking. Our Asset Management team made every effort to get on the road to meet with advisers and clients. Our Insure team, on the platform and adviser side of the business, has steadily vested new business. The ongoing building of relationships between the Wealth and Insure advisers is most encouraging.

#### AN OVERVIEW OF OUR 2020 FINANCIAL RESULTS

The following table summarises the group's key operational and financial performance indicators.

Financial performance indicator	2020	% change	2019
Headline earnings (R000)	644 408	7	603 888
Recurring headline earnings (R000)	644 408	9	591 099
Recurring headline earnings (excluding intangible asset amortisation cost) (R000)	699 579	9	641 328
Headline earnings per share (cents)	48.1	5	45.6
Recurring headline earnings per share (cents)	48.1	8	44.6
Recurring headline earnings per share (excluding intangible asset amortisation cost) (cents)	52.2	8	48.4
Cost:net income ratio (%)	59.2	1	58.6
Operating margin (%)	16.1	(2)	16.4
Operating margin (excluding performance fees) (%)	16.1	1	16.0
Assets under management (Rbn)	229.8	3	222.2
Assets under administration (Rbn)	396.9	(6)	421.5
Underwriting premium income (R000)	1 097 006	17	936 761
Debt:equity ratio (%)	0.0	(100)	4.0
Return on equity (%)	20.5	(5)	21.5
Return on equity (excluding performance fees) (%)	20.5	(2)	20.9

#### We implemented new accounting standards

The group implemented IFRS 16 – Leases, using the modified retrospective approach, without restating comparatives. The group recognised right-of-use assets amounting to R150.4 million and a corresponding lease liability of R179.3 million on adoption of the standard. The difference of R12.6 million, after adjusting for the straightlining creditor and deferred tax, was recognised as an adjustment to retained earnings. For the year ended 29 February 2020, recurring headline earnings was negatively impacted by R4.4 million as a result of the adoption of IFRS 16.

#### **Capital management**

PSG Konsult remains strongly capitalised, with a capital cover ratio of 191% (2019: 182%) based on the latest insurance group return. PSG Konsult's strong cash flow enables us to continue to invest in long-term growth opportunities, systems and processes, while optimising risk-adjusted returns for shareholders.

The group negotiated the early redemption of the R100.0 million notes issued under the DMTN programme. The notes were redeemed on 12 July 2019, using surplus cash, and the group therefore had no remaining interest-bearing debt at year-end.

Shareholders were advised on 4 December 2019 that the rating agency GCR upgraded the group's credit rating. PSG Konsult's long-term South Africa national scale rating was upgraded to A(ZA) from A-(ZA), while the short-term South Africa national scale rating was revised to A1(ZA), from A1-(ZA) with a stable outlook.

To minimise the impact of share issue dilution, the PSG Konsult Group Share Incentive Trust purchased 12 585 068 PSG Konsult shares, at a cost of R122.1 million, during the first half of the year to satisfy certain of its obligations in terms of the Share Incentive Scheme. In addition, PSG Konsult repurchased and cancelled a further 1 551 139 shares at a cost of R13.7 million during the second half of the year.

#### COVID-19

Our priority is to ensure employee safety and business continuity for our clients. We can report that most of PSG Konsult's operations have been classified as an essential service, but that 99% of our employees and advisers were working remotely during level 5 of the lockdown. Despite recent market volatility caused by COVID-19, PSG Konsult remains resilient. Assets under management at 31 March 2020 amounted to R207.9 billion, a decrease of about 10% compared to a 13% decrease in the JSE ALSI during March 2020 with a subsequent recovery during April 2020.

The group has a strong balance sheet and excellent liquidity. We take a prudent approach when investing assets backing our regulatory capital requirements. As such about 90% of investable shareholder assets are invested in cash,

money market or related instruments. The aim is to limit market volatility on our shareholders' equity and regulatory capital; by way of example, the shareholders' assets declined by less than 1% for the month ended 31 March 2020 with a subsequent recovery during April 2020. PSG Konsult is working with various authorities and regulators to help minimise the impact of COVID-19 on society as a whole, which among other initiatives, included a R10.0 million donation into the South African Solidarity Fund.

#### **DIVISIONAL PERFORMANCE**

PSG Wealth's overall revenue increased by 8%, consisting of an increase in management and other recurring fees of 8%, while transactional brokerage fees remained flat. Assets under management by PSG Wealth advisers increased to R193.1 billion, which included R12.0 billion of net new inflows. The division appointed 40 new Wealth advisers, while the assets managed by the smaller advisers that left the group during the year were transferred to other existing PSG advisers.

Marilize Lansdell resigned as CEO of PSG Wealth during the current financial year. She led the division for 4 years from 2016. We greatly appreciate her contribution and wish her well in her new endeavours. Etienne de Waal joined the division as CEO in February 2020. He brings over 20 years of experience in the financial services industry. We are excited to support Etienne in executing his plans for the division.

PSG Asset Management's results were impacted by challenging market conditions which resulted in no performance fees being earned in the current financial year. Recurring headline earnings decreased by 12%. Although shorter-term investment performance was below benchmark, the division's long-term track record of delivering risk-adjusted investment returns for clients remained intact.

PSG Insure achieved recurring headline earnings growth of 43%. No significant catastrophe events impacted the division, which, combined with their quality underwriting practices, allowed them to achieve a commendable net underwriting margin of 13.6% (2019: 8.9%). The Insure division's growth in recurring headline earnings was supported by the AIFA acquisition concluded in the prior year.

# **AN OVERVIEW OF OUR OPERATIONS**Corporate activity

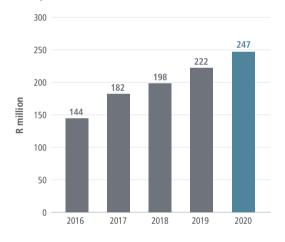
In line with our organic growth strategy, we concluded a few smaller earnings-accretive adviser acquisition transactions. The transactions were funded from existing cash resources and are aligned with our aim of identifying opportunities that will expand our adviser footprint and enhance our client service offering. The transactions were seamlessly integrated into PSG Konsult's existing business operations.

#### **Technology and people**

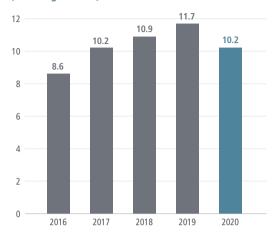
During the year we maintained investment momentum in systems and processes (+17% in non-personnel costs) while also continuing to hire top talent (+8% in personnel costs). Our most significant investments were in the PSG Wealth division, where we upgraded the stockbroking system and the local and offshore wealth management systems.

Since embarking on our technology journey, we have invested to support this journey:

#### Money invested in IT



### IT employees as a % of total employees (excluding advisers)



By automating processes, we support our strategic priority to build a cost-efficient and scalable business. In this way, the group can increase business volume, without incrementally increasing cost, while improving the client experience. It is a salutary reminder that the benefits from long-term investments take time and require both confidence and patience. Over the past five years we invested about R1.0 billion (fully expensed) in systems and processes, and only during 2020 have we started to see the benefits of lower marginal costs related to client service. Consequently, we expect that the growth in future costs will be at a lower rate.

#### We remain committed to transformation

The group took strides in formalising our transformation initiatives during the year, detail on specific initiatives are discussed in the stakeholder section from page 20. We appointed a dedicated transformation analyst and developed and formulated a transformation plan. We also have a transformation forum, consisting of employees and management. Its role is to appropriately devise and implement transformative strategies.

The forum reports directly into the social and ethics committee. These reporting lines ensure that transformation matters are dealt with at the highest level, while taking the grassroots approach of inclusive feedback and providing a channel for all employees to be heard and considered.

The structure is rooted in employee feedback, which is channelled to the transformation forum via employee representatives. Issues discussed are escalated by our chief operating officer (COO) to the social and ethics committee, who incorporate solutions into our transformation strategy. Implementation of this strategy is driven by the Exco and channelled to our divisional structures. Employees provide feedback, completing the virtuous cycle.

#### We revised our strategy for future success

We continue to monitor the corporate, political and economic environment both locally and globally, as well as the increasing risks posed by climate change and the associated impact of these factors on our clients and other stakeholders.

We have a concise list of projects to complete and a fully-fledged project management office and engineering team in place to provide guidance and structure. A list of key items with robust business plans, mapped client journeys and assigned teams have been agreed and prioritised.

### Business characteristics that underpin our expectations for future success:

- We have the largest adviser network in South Africa, with a broad geographic footprint that continues to expand.
- The group has strong governance structures.
- There are clear growth opportunities for our operating divisions.
- PSG Konsult has a history of superior shareholder returns
- We will focus on optimising risk-adjusted return per share and restrict the issuance of new shares.

#### **Dividend declaration**

Given its continued confidence in the group's prospects, the board decided to approve and declare a final gross dividend of 15.0 cents per share from income reserves for the year ended 29 February 2020 (2019: 13.5 cents per share). The group's dividend payout ratio remains consistent with the dividend policy communicated at the time of listing.

### We are proud to be part of this highly respected group

It takes dedication to maintain client service standards and accurate reporting. Our graduates and ADP candidates continue to add much value, while the veterans of the group continue to lead and guide our delivery. We extend our thanks to all advisers and employees for continuing to deliver. Thanks also to PSG Konsult's clients for their sustained support.

We remain confident about the group's prospects for continued growth.

Francois Gouws

22 May 2020

Mike Smith

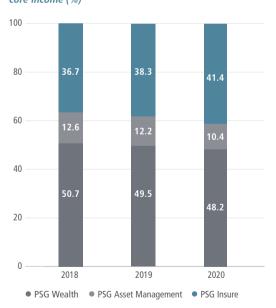
22 May 2020

#### **DIVISIONAL REPORTS**

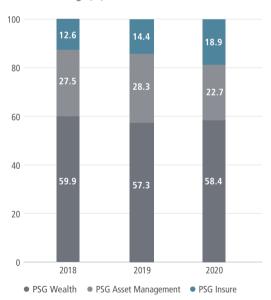
#### **DIVISIONAL OVERVIEW**

	PSG Wealth	PSG Asset Management	PSG Insure
Business units	Securities	Asset management	Western Group
	Multi-managed solutions	Collective investments	Short-term administration
	Employee benefits	(local and offshore)	Insure Distribution
	Linked investment business/linked investment service provider (LISP) platform		
	Wealth distribution (including fiduciary services)		
CEO	Etienne de Waal	Anet Ahern	Rikus Visser
Main office	Bryanston, Johannesburg	Constantia, Cape Town	Tyger Valley, Bellville, Cape Town
Number of employees	1 628 (2019: 1 594)	99 (2019: 101)	1 190 (2019: 1 191)

### Divisional contribution to group core income (%)



### Divisional contribution to group recurring headline earnings (%)



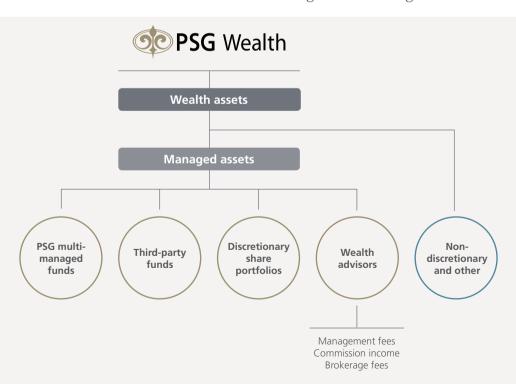
#### **PSG WEALTH**



ETIENNE DE WAAL Chief executive officer



PSG Wealth meets the needs of individuals, families and businesses through a comprehensive wealth management offering.



#### Strategic insights

#### PSG Wealth overview

Unpredictable markets result in emotionally driven investment decisions. Therefore, clients need expert guidance from advisers who have a holistic view. PSG Wealth offers comprehensive wealth management to individuals, families and businesses.

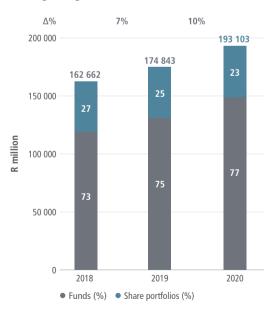
Our innovative and all-inclusive end-to-end client proposition includes a complete set of discretionary and non-discretionary investment products with competitive administration fees, allowing for investment into a range of unit trust funds, as well as personal share portfolios. We advocate diversification and our solutions offer a balance between rand hedge and interest-rate-sensitive investments with a long-term focus.

We offer a comprehensive estate planning and fiduciary service, including local and offshore trusts and the administration of deceased estates. We offer a full suite of employee benefits and bespoke multi-managed investment solutions for businesses.

2018	Market movement	Net flows	2019	Market movement	Net flows	2020
60 557	4 144	5 979	70 680	3 342	9 459	83 481
57 812	(1 049)	3 611	60 374	581	4 479	65 434
44 293	(865)	361	43 789	2 356	(1 957)	44 188
162 662	2 230	9 951	174 843	6 279	11 981	193 103
186 500	10 217	(6 689)	190 028	(27 756)	(4 572)	157 700
10 286	174	(1 135)	9 325	448	(444)	9 329
359 448	12 621	2 127	374 196	(21 029)	6 965	360 132
	60 557 57 812 44 293 <b>162 662</b> 186 500 10 286	2018 movement  60 557	2018         movement         flows           60 557         4 144         5 979           57 812         (1 049)         3 611           44 293         (865)         361           162 662         2 230         9 951           186 500         10 217         (6 689)           10 286         174         (1 135)	2018         movement         flows         2019           60 557         4 144         5 979         70 680           57 812         (1 049)         3 611         60 374           44 293         (865)         361         43 789           162 662         2 230         9 951         174 843           186 500         10 217         (6 689)         190 028           10 286         174         (1 135)         9 325	2018         movement         flows         2019         movement           60 557         4 144         5 979         70 680         3 342           57 812         (1 049)         3 611         60 374         581           44 293         (865)         361         43 789         2 356           162 662         2 230         9 951         174 843         6 279           186 500         10 217         (6 689)         190 028         (27 756)           10 286         174         (1 135)         9 325         448	2018         movement         flows         2019         movement         flows           60 557         4 144         5 979         70 680         3 342         9 459           57 812         (1 049)         3 611         60 374         581         4 479           44 293         (865)         361         43 789         2 356         (1 957)           162 662         2 230         9 951         174 843         6 279         11 981           186 500         10 217         (6 689)         190 028         (27 756)         (4 572)           10 286         174         (1 135)         9 325         448         (444)

<sup>&</sup>lt;sup>1</sup> Includes PSG single-managed funds of R6.9 billion for 2020, R8.4 billion for 2019 and R8.0 billion for 2018.

#### Growing managed assets



### PSG Wealth's top risks and the associated mitigating actions

Risk	Mitigating actions		
The risk that markets will remain volatile for the foreseeable future	PSG Wealth has a diversified range of products, including global solutions and maintains strong governance when making investment decisions.		
Cyber risks including threats to data confidentiality	We regularly enhance our firewall controls and provide the necessary training for employees. We improved our data breach reporting.		
Risks related to new and emerging legislation and regulation	We monitor new legislation in the jurisdictions in which PSG Wealth operates.		

<sup>&</sup>lt;sup>2</sup> Includes PSG single-managed funds of R7.5 billion for 2020, R9.8 billion for 2019 and R8.8 billion for 2018.

#### How PSG Wealth supports the financial business objectives of the PSG Konsult strategy

#### Recurring revenues

PSG Wealth's focus is on recurring annuity income, which increased by 8%. This enables us to reduce our reliance on transactional income.

#### Margin enhancing

We focus on straight-through processing to minimise marginal costs.

We regularly negotiate our business partner agreements to manage our cost base.

#### Risk versus return

PSG Wealth applies multidimensional metrics to assess quality, risk and productivity.

We conclude smaller adviser acquisitions to support the group's organic growth strategy.

#### Strategic execution

PSG Wealth management is responsible for executing and implementing strategic plans. As part of the annual budget process, divisional management motivates the capital and resources required to achieve sustainable growth. Business unit heads provide feedback on performance metrics at quarterly review meetings.

#### Performance overview



2020 2019 2018 Rm 376.4 338.6 339.1 Core income

2018 2020 2019 Rhn 2.4 2.3 2.1

Managed assets

2018 2020 2019 193.1 174.8 162.7

#### 42.6% **Gross margin** 2019 2018 2020 42.3 41.0 42.6

19.8% Operating margin 2020 2019

2018 19.8 21.3 211

Management fees

Net inflow of R12.0 bn managed assets 2019 2018 2020 11.8 Rhn 12.0 10.0

0.4%	Brokerage income				
	2020	2019	2018		
% change	0.4	(18.2)	7.2		

546

2018

539

	2020	2019	2018
% change	8.6	7.6	12.6

4%	Total as	sets	
	2020	2019	2018
Rbn	360.1	374.2	359.4

#### **PSG Wealth** adviser network 2020 2019

559

<sup>1</sup> Prior year recurring headline earnings exclude a profit that was recognised by PSG Wealth following the maturity of certain legacy financial instruments linked to investment contracts which, due to credit risk uncertainty, was not previously recognised.

PSG Wealth maintained positive flows and remains a key revenue driver for the group. These results were achieved against the backdrop of a muted economy and political uncertainty in South Africa, which resulted in a shift of flows to offshore investments and clients' reluctance to invest in equities.

To ensure strong risk-based product design, pricing and operational processes, we are revising our operating model. This will enable us to deliver on two of the PSG Konsult key strategic pillars – great client service and an efficient and functional platform.

In terms of product performance:

- PSG Wealth's platform continues to grow its share of the LISP market; and
- we saw continued prioritised use of the multimanagement range by PSG Wealth advisers relative to other unit trusts.

PSG Wealth maintains a long-term goal to grow our online trading platform. To this end, we upgraded our local stockbroking platform by implementing and adopting IRESS, a world-renowned trading and portfolio management system. We also introduced a mobile trading application and a more robust trading front-end system. However, given the flat market conditions, trading volumes did not increase as much as anticipated.

We supported advisers by ensuring they were well informed to service their clients, which included hosting regular adviser and client events. Regional managers addressed attendees to assist them in identifying new solutions to address pertinent advice areas.

We are proud of our achievements at the Intellidex 2019 Wealth Manager of the Year Awards, which confirms market-wide recognition for the PSG Wealth brand. We received awards in four categories, including Top Wealth Manager, up from third in 2018. In addition, we won third place in the Intellidex 2019 Top Stockbrokers Awards, and the PSG Wealth Global Creator Fund of Funds received second place for the Best Global Equity Fund at the 2020 Morningstar Investment Fund Awards.

In the wake of these achievements, we have seen an increase in attendance of advised client events hosted by PSG Wealth. The number of events increased by 18%, and the number of attendees by 16%. This has led to increased revenue and flows.

#### **Next moves**

Our priorities for the next financial year are to enhance client and adviser experiences with PSG Wealth by:

- stabilising our new platforms;
- · enhancing our websites; and
- improving our offshore product suite.

The diversified nature of our products, including our global solutions, should minimise the impact of challenges in the market and South Africa.

In the advisor space, we will continue to look for smaller adviser acquisitions to supplement our organic growth strategy.

Ba W-1.

Etienne de Waal

22 May 2020

#### **PSG ASSET MANAGEMENT**

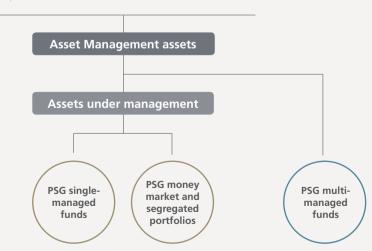


ANET AHERN
Chief executive officer



Our aim is to be the best stewards of our clients' investments, with a long-term approach to decisions, and to build a sustainable, robust business for clients, employees and other stakeholders.

### PSG Asset Management



#### **Strategic insights**

#### **PSG** Asset Management overview

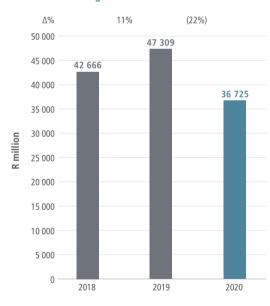
PSG Asset Management provides products intended to generate alpha performance over the appropriate investment horizon. We have a comprehensive product range to develop robust portfolios for clients. Each fund's investment performance is prioritised, within acceptable risk parameters.

Over the long term, we have continually improved net inflows through direct client engagement. We maintain that current net outflows are part of a cycle: a consistent investment approach has proven to result in net inflows over time.

Assets split (Rm)	2018	Market movement	Net flows	2019	Market movement	Net flows	2020
PSG single-managed	37 032	(1 219)	6 503	42 316	(5 982)	(4 031)	32 303
PSG money market	3 629	_	(197)	3 432	_	(89)	3 343
PSG segregated portfolios	2 005	(85)	(359)	1 561	(13)	(469)	1 079
Total assets under management	42 666	(1 304)	5 947	47 309	(5 995)	(4 589)	36 725
PSG multi-managed <sup>1</sup>	60 557	4 144	5 979	70 680	3 342	9 459	83 481
Total PSG Asset Management assets	103 223	2 840	11 926	117 989	(2 653)	4 870	120 206

<sup>1</sup> Includes the PSG Multi Management Funds and Solutions. Excluded from total PSG assets under administration to eliminate duplication.

#### Assets under management



### PSG Asset Management's top risks and the associated mitigating actions

Risk	Mitigating actions
A substantial reduction in assets under management, resulting in a loss of income	PSG Asset Management believes in regular client interactions. We continuously review our investment processes and articulate changes to clients. We hold a relatively small market share and see opportunities in gaining share through our stable, consistent, client-centric approach.
Manual operational processes, which can result in inefficient delivery times for key information and increase the risk of errors	We continuously review our systems and invest in automating them as far as possible.
A failure to adhere to regulatory changes	Our dedicated compliance department monitors changes in legislation and the resultant impact on PSG Asset Management. We are a member of various professional bodies, for example ASISA, where changes to legislation and their impact are discussed by industry players.

#### How PSG Asset Management supports the financial business objectives of the PSG Konsult strategy

#### **Recurring revenues**

Management fees have increased steadily over the years, while performance fees have become a smaller component of income.

Most of our funds have flat fees. As the funds grow, the quality and sustainability of our income improves. This reduces our reliance on performance fees.

#### Margin enhancing

Costs are well contained and closely monitored. A strict fee policy is in place to protect capacity in the interest of existing clients, and to manage the overall margin.

Margins retained on funds have been maintained or enhanced over time.

#### Risk versus return

Risk management, and the consequent development of portfolios that aim to deliver on investment mandates across a range of scenarios, are integral to PSG Asset Management's investment process.

We also actively manage client and product diversification to reduce over-reliance on any single client or asset class.

#### Strategic execution

The PSG Asset Management divisional Exco is responsible for implementing strategic plans. As part of the annual budgeting process, we identify the capital and resources required to achieve sustainable business growth objectives. We submit these, with the necessary motivation, to the board for approval. Functional and business unit heads are required to provide feedback on the business performance metrics at quarterly review meetings.

We have a dedicated communications specialist and a detailed communications plan. Our marketing efforts focus on regular direct communication with advisers and clients, which is particularly effective in difficult market conditions. We further build the brand through media platforms and events.

We have a team of business analysts who continually review our business processes in line with the group's strategy. Our client data and monitoring systems are continuously improved and our client team is equipped and trained to provide the best technical and service-related support to our clients. We also integrate digital initiatives, in line with PSG Konsult group initiatives to eliminate duplication and increase efficiency.

#### Responsible investment

#### As stewards of our clients' capital, PSG Asset Management acknowledges its duty towards responsible investing.

PSG supports the principles stated in the Code for Responsible Investing in South Africa. Both our investment philosophy and our processes are driven by these principles.

PSG Asset Management's investment approach is to look at 'the 3Ms': moat, management and margin of safety. In this methodology, moat and management collectively represent a company's quality, while margin of safety represents its price. In essence, high quality investments trading at discounts to their inherent values. When focusing on a company's management, PSG Asset Management looks at both quantitative measures, as well as issues like the alignment of the incentives of the management team with the interests of shareholders, corporate governance structures and the like.

PSG Asset Management considers investing in companies with sustainable business models and in management teams that will act as secondary custodians of clients' capital. The board is supported by the investment committee in ensuring that investment decisions are in line with adopted principles of responsible investment and in the interests of our clients.

#### Performance overview

12%	Recurring headline earnings				
	2020	2019	2018		
Rm	146.4	167.3	155.8		

7%	Core in	come	
	2020	2019	2018
Rm	525.1	562.3	527.2

22%	Assets u		
	2020	2019	2018
Rbn	36.7	47.3	42.7

2%	Assets adminis		
	2020	2019	2018
Rbn	120.2	118.0	103.2

21.6%	Operating margin				
	2020	2019	2018		
%	21.6	24.5	25.3		

45.4%	Gross m	nargin	
	2020	2019	2018
%	45.4	48.9	48.9

(R4.6 bn)	Net flow	w of ed assets	i
	2020	2019	2018
Rbn	(4.6)	5.9	7.9



Funds in general showed lower absolute and relative performance. This was driven by stock selection in local and global equities, a narrow market, and the fact that value investing – to invest in stocks that are deemed to be undervalued in price, based on fundamental characteristics – requires a longer-term approach, and has been out of favour of late.

The impact has been a slowdown in inflows into the funds, and an acceleration in outflows from certain client channels. Given the long-term behavioural patterns of investors, our expectation is that outflows may continue for some time before inflows resume.

In this climate it is important to articulate the long-term historic successes of our approach, and to engage with clients to retain and add assets during this part of the investment cycle. It is also imperative that our investment process continues to be applied consistently and sensibly.

Manual operational processes which increase the risk of error and inefficient delivery times remain a risk. As a result, we invested in continuous review and in automating systems and processes. The client administration system was further standardised, enabling clients to receive notifications when transacting and being able to retrieve real-time statements via *myPSG*.

Client activity patterns are closely tracked, and the data is used for targeted communications planning. Event content and written communication are clear and consistent, as well as being appropriate to the issues clients currently face. Event attendance has continued to exceed that of previous years.

#### **Next moves**

Sentiment is likely to continue weighing on investment behaviour, making it difficult to grow assets. However, PSG Asset Management's market share is small, and our value proposition is unique, adding welcome diversification to client solutions. Our focus will be to retain and grow our client base by demonstrating the successful outcomes of our investment process.

Internally, we will focus on employee retention and development and succession planning, as well as further efficiency initiatives.

**Anet Ahern** 

22 May 2020

#### **PSG INSURE**



RIKUS VISSER Chief executive officer



Our purpose is to provide sound and comprehensive insurance solutions and advice to our clients that mitigate their insurance risks.



#### Strategic insights

#### PSG Insure overview

PSG Insure offers a range of short-term insurance-related services, ranging from insurance advice to the underwriting and administration of short-term insurance products in personal and commercial lines. These are offered through advisers or our platform.

PSG Insure offers insurance solutions to clients across most industries but chose not to participate in the large corporate market. We offer a wide variety of products available through various short-term insurance product providers. We continuously add to these offerings as and when the need arises.

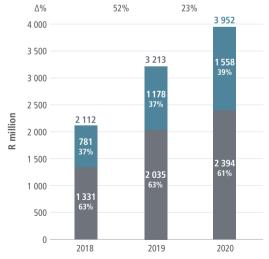
PSG Insure does not sell insurance cover based on price but focuses on value for money insurance solutions structured around the client's insurance needs, based on risk assessment and an advice process.

Gross written premium split (Rm)	2020	% change	2019	% change	2018
Short-term distribution	3 952	23	3 213	52	2 112
Western Group	1 520	21	1 256	6	1 184
Gross written premium (excluding short-term administration platform)	5 472	22	4 469	36	3 296
Short-term administration platform	1 266	21	1 049	17	899
Total gross written premium	6 738	22	5 518	32	4 195

Through our diversified adviser network that is geographically spread across South Africa, we are able to access all levels of clients, from smaller personal to larger commercial clients. Personal line clients can also be serviced through our client care centre, which caters to clients who prefer not to have face-to-face interactions with advisers.

We continuously improve our short-term administration platform by automating manual processes. We use robotics and similar technologies to optimise claims administration, product underwriting and client services and so improve client satisfaction.

#### Insure advisers - client premiums



- Commercial line premiums
- Personal line premiums

#### PSG Insure's top risks and the associated mitigating actions

Risk	Mitigating actions
Inappropriate advisory services provided to clients, for example, if advisers recommend unsuitable products	We conduct regular compliance reviews of PSG Insure adviser offices and offer support as necessary. We have a dedicated large cases review panel to review all large advice proposals.
The failure to comply with laws, regulations, codes of conduct and standards of good practice	PSG Konsult has a group legal and compliance department which helps monitor and review all legal and regulatory compliance aspects across the group.
Cyber risks, which can cause financial loss, disruption or damage to our brand and reputation because of a failure or exploitation of our IT systems	We have comprehensive preventive controls in place, which are maintained and monitored by PSG Konsult group IT. We also have comprehensive cyber insurance cover.
A lack of profitable growth and diversification in Western Group's risk pool, which could result in a reduction of profitability	Western Group has a diverse revenue composition, using a wide variety of intermediary parties to attract premium growth, which spreads the risk.
Large cost implications for Western Group of multiple catastrophe or high frequency events, including the impact of reinstatements and increased replacement and repair costs	Western Group has comprehensive catastrophe reinsurance, thus limiting exposure to catastrophe events.

#### How PSG Insure supports the financial business objectives of the PSG Konsult strategy

#### **Recurring revenues**

We focus on organic growth and value-adding acquisitions. As a result, PSG Insure achieved gross premium growth of 22%.

#### Margin enhancing

PSG Insure focuses on revenue growth, cost management, optimisation and increased margins. We aim for profitable growth and will not hesitate to cancel unprofitable books of business.

Western's disciplined underwriting practices allowed us to achieve an underwriting ratio of 13.6% compared to 8.9% in the prior year.

#### Risk versus return

Risk management is an integral part of our business strategy. PSG Insure employs skilled underwriters who apply sophisticated techniques to improve the underwriting margin in Western and in our platform business.

Western Group's comprehensive reinsurance programme reduced the adverse impact of large claims.

#### Strategic execution

Divisional management is responsible for executing and implementing strategic plans. As part of the annual budget process, divisional management submits to the PSG Konsult board a motivation for the capital and resources required to achieve sustainable growth, which is then approved by the board. Functional and business unit heads provide feedback on performance metrics at quarterly review meetings.

#### Performance overview

43%	Recurring headline earnings <sup>1</sup>				
	2020	2019	2018		
Rm	121.6	85.2	71.4		

9.6%	Operati	ing marg	in
	2020	2019	2018
%	9.6	6.2	5.1

22%		Gross written oremium²			
	2020	2019	2018		
Rbn	5.5	4.5	3.3		

13.6%	Western Group underwriting margin			
	2020	2019	2018	
%	13.6	8.9	8.3	

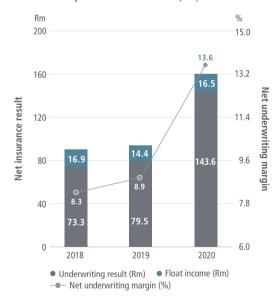
19%	Core in	come	
	2020	2019	2018
Rbn	2.1	1.8	1.5

20/	PSG Ins	ure networl	<b>C</b>
	2020	2019	2018
	376	386	245

Recurring headline earnings for the 2019 financial year exclude an impairment loss recognised by Western Group on a premium debt exposure to a third-party premium collection agency.

All three business units in PSG Insure showed substantial premium and revenue growth, well above market growth. Western Group managed to balance this growth with excellent underwriting margins and low loss ratios. Investment income performance was under pressure due to poor market conditions. Nevertheless, our investment income remained consistent year-on-year.

#### Western Group net insurance results (Rm)



PSG Insure successfully completed the on-boarding and integration of the advisers and clients linked to the AIFA acquisitions. The advisers were incorporated into

the PSG shared office adviser model and have made a healthy contribution to the PSG Insure results for the year.

The Western Botswana short-term insurer generated R45.9 million of gross written premium during the current year and has started to gain momentum with growth over the past few months.

Our partnership with BMW Financial Services in South Africa, to offer its clients quality advice and competitive insurance solutions through our platform, is well entrenched and contributes to the overall premium and revenue growth of PSG Insure.

Client-focused developments in the financial year included the re-launch of our PSG Assist app, enabling clients to interact easily with PSG during claims stage.

We also launched *myEducation*, a digital training platform for our advisers and employees, allowing them access to accredited training material to upskill themselves in their own time.

#### **Next moves**

We aim to retain clients in spite of the struggling economy, and through client events try to achieve organic growth. In addition, we see opportunities to attract new quality advisers to PSG Insure, due to our value offering, especially in this increasingly regulated environment. We will further enhance our *myEducation* platform and drive an increase in its use by advisers. Building the Western Group brand is a priority.

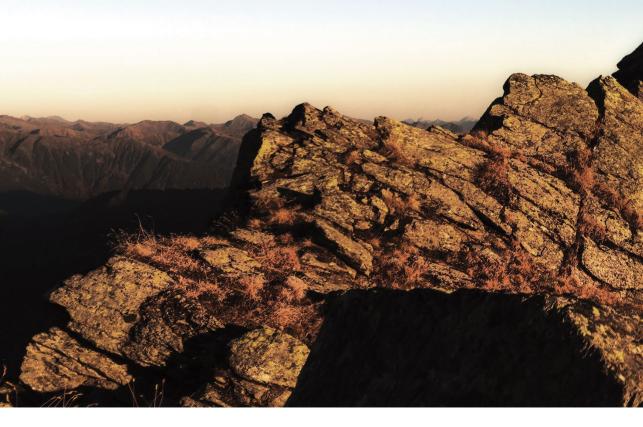
Rikus Visser

22 May 2020

Includes gross written premiums on policies administered by the PSG Insure distribution advisers, placed with third-party insurers, and Western Group's gross written premiums. The group earns commission and administration fees on these. It excludes the short-term administration platform gross written premium.

# CORPORATE GOVERNANCE

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#### MESSAGE FROM THE CHAIRMAN



WILLEM THERON Chairman



Stakeholders (from employees and advisers, to analysts and clients) often ask the question: can they trust PSG Konsult with their money and their future?

PSG Konsult achieved strong results in an environment where consumer confidence is low and uncertainty prevalent.

PSG Insure continued to grow strongly during the current year, while PSG Wealth performed solidly. PSG Asset Management experienced an especially difficult year, however, the board took a long-term view of performance.

### PSG KONSULT CONTINUES TO CREATE VALUE FOR ALL STAKEHOLDERS

The group relies on the performance of equity markets. Therefore, macroeconomic factors like interest rates, inflation, socioeconomic growth and political stability affect the group. This year, there were several factors that swayed the market, including socioeconomic instability in South Africa, president Trump's impeachment trial in the United States, Brexit and the coronavirus (COVID-19).

Despite the changeable external factors, PSG Konsult's investment philosophy remains stable and long term. The group invests in research to develop diversified

portfolios and clear investment plans. Advisers encourage clients to adhere to these long-term plans, making only small adjustments to allow for outside influence.

PSG Konsult's stable track record is evidence that the group's conservative investment approach creates sustainable financial value for clients. This is the group's primary objective. If this objective is achieved, it results in value and employment stability for employees and advisers, boosting local economic activity and ultimately delivering sustainable returns to shareholders.

One of the board's key functions is to set clear risk parameters. Advisers are independent and have freedom when it comes to product choice. However, to ensure PSG Konsult remains a group that stakeholders can trust, the risk parameters set by the board apply.

While the group's focus is on financial value creation, PSG Konsult's contribution to stakeholders and to a more prosperous South Africa is wider than that. The group:

- safeguards and grows clients' assets;
- strives for diversity of employees; and
- uses its extensive footprint, especially in South Africa, to help communities.

It is important to the board that the group is, and is seen to be, a responsible corporate citizen.

#### **THE BOARD'S ACTIVITIES IN 2020**

The board prioritised the following topics and initiatives. These were robustly debated, and the decisions were strengthened by a diversity of views on the board:

- To maintain profitability, the board examined and evaluated the group's financial results.
- The board oversaw the strategy review process and approved the updated strategy. The group has a consistent, yet evolving strategy, which is reviewed every three years. While refinements were made to the strategy, the metrics remain profit-driven.
- Capital allocation focused on effective processes to benefit clients. The board takes a conservative view to capital allocation but will consider appropriate acquisition opportunities as they arise.
- The board had a holistic view when reviewing the group's risks and opportunities. Potential opportunities were assessed and weighed against capital adequacy and profit.
- Given the complicated market and regulatory landscape of the group, the audit and risk committees are separate committees, to improve risk oversight.

### WE ARE COMMITTED TO DIVERSITY AND TRANSFORMATION

PSG Konsult remains committed to bedding down governance structures that ensure diversity and inclusion at board level and within the group.

Part of this commitment is to adhere to King IV, the amended Financial Sector Code (the FS Code) and the requirements of the Prudential Authority.

The group formulated a clear transformation plan and set structures to drive this plan. These structures include the employee-led transformation forum. The board evaluated key positions at operating divisions and licensed entities to ensure diversity of representation.

The nominations committee evaluates the board, focusing on diversity of race, age and independence. As disclosed in the 2019 integrated report, to attract appropriate candidates the board set a time frame of 12 to 18 months at the February 2019 board meeting. Two new board members were subsequently appointed from 1 January 2020. These directors are Tamara Isaacs and Andile Sangqu.

Tamara is a chartered accountant with many years of experience in audit, management consulting and human capital development. Andile was the executive head of Anglo American South Africa and his qualifications and experience span areas such as management, finance, accounting, tax and insurance.

To address employee diversity, the group continued its investment in internships, learnerships and bursaries for potential and current advisers and employees. The aim of these programmes is to develop potential candidates to take up divisional and group management positions in time

### WE BELIEVE IN CONTINUED INVESTMENT IN TECHNOLOGY

Technology is an ever-evolving risk in terms of cyber security and fraud. However, if used effectively, technology is an opportunity to differentiate the group in the market.

The board approved investments in technology to secure and protect its systems against cyber crime, and to support the operating divisions' service offering with leading-edge technology.

### DESPITE MARKET CHALLENGES, PSG KONSULT HAS A POSITIVE OUTLOOK

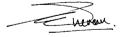
It is increasingly important that the group collaborates towards the goal of enhancing value for each stakeholder.

The markets are under pressure which has a direct impact on PSG Konsult's performance. I would like to commend the PSG Konsult management team, employees and advisers for managing these challenges and constantly innovating to counteract the impact.

On the upside, PSG Konsult has the opportunity to grow in several areas. The board will assess potential expansion opportunities in Southern Africa.

I thank the board for supporting management and prioritising its fiduciary duty to the group through dynamic discussions and engagement. The board looks forward to acquainting the two new directors with the group.

Lastly, I thank PSG Konsult's shareholders for their continued support.



Willem Theron

Chairman

22 May 2020

#### **OVERVIEW**

PSG Konsult embraces the principles of good corporate governance, including sustainability, transparency and accountability. The group continues to align its approach to governance with King IV recommended practices and the board continues to support integrated, outcomes-based thinking.

The skills and experience of the group's diverse board and management teams ensure leadership depth and focus. This, in turn, enables the group to create value for its stakeholders in a sustainable and ethical manner.

The appropriate systems and controls are in place to enable the board to play a meaningful oversight role in matters of strategy, sustainability, risk management, legal and compliance.

The group, with the full support of the board, continues to strengthen its corporate governance structures in line with adopted annual work plans. Governance processes are reviewed regularly to reflect best practice, and to enhance alignment with regulatory and legislative changes.

The group is satisfied with the overall outcome of its consideration and application of the 17 principles of King IV.

PSG Konsult's King IV Application Register is available on its website at www.psg.co.za.

#### **FOCUS AREAS FOR THE 2020 FINANCIAL YEAR**

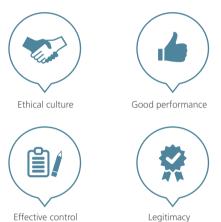
- Ensuring continued alignment of governance practices with King IV recommendations through the review of board charters and committee terms of references. During the current year, the nominations committee terms of reference was expanded to include succession planning for executive management and key subsidiaries.
- The adoption of a fit and proper policy by the company's board and continued compliance with the Prudential Standards throughout the group including the adoption of the fit and proper policy by divisional boards and the incorporation of the fit and proper requirements into governance processes and documents.
- Annual monitoring of ethical conduct standards by reviewing the code of ethical conduct in line with King IV recommendations, the details of which can be found on page 67.
- Implementing the amendments to the JSE Listings Requirements, which included:
  - the adoption of a broader diversity policy;
  - updating the existing share trading policy; and
  - enhancing board diversity in line with targets adopted, through the appointment of two independent non-executive directors. Details can be found on page 72.
- Implementing the new Companies and Intellectual Property Commission (CIPC) requirement to formally
  confirm compliance with relevant sections of the Companies Act to CIPC.
- Annual review of the group's remuneration policy and framework, including meeting the JSE's requirements
  for shareholder engagement and voting on the remuneration policy and implementation report of the group.
  The remuneration policy and implementation report achieved favourable non-binding advisory votes of 97.0%
  and 97.1% respectively at the 2019 AGM.
- Annual review of the IT governance framework, given the importance of IT and cyber security in the operational environment of the group. The outcomes of this review are on page 86.
- Annual independence assessment by the board on non-executive directors' continued independence.
- Annual fit and proper questionnaires completed by directors and relevant senior officers in compliance with the Prudential Standards

#### **CREATING AN ETHICAL CULTURE**

The board is responsible for setting the tone of the group's values, including its core business principles and the requirements of being a responsible corporate citizen, by adopting a code of ethical conduct that articulates the direction of the group.

#### Code of ethical conduct

The board, together with the social and ethics committee, ensures the group conducts its business ethically and effectively to achieve the following governance outcomes:



In line with King IV, the social and ethics committee regularly reviews the code of ethical conduct (the code). This code serves to among other things:

- outline the group's ethical commitment to stakeholders;
- guide the group's conduct and relationships with key stakeholders (including clients); and
- ensure that the group is lead not only effectively, but ethically as well.

# Scope of the code

All members of the group (as defined below) are expected to adopt and promote the code, which serves as the basis for ethical conduct and the primary tool to hold members of the group accountable to ethical best practices.

- The code applies to and is binding on all directors, managers and employees (employees include employees of juristic representatives, associates or affiliates) of the group.
- It is applied to establish the suitability of potential employees before their appointment, and a copy is provided to each new employee within the group as part of the employee induction process.
- To the furthest extent possible, the code is also binding on all independent contractors, agents, service providers and business partners of the group.



PSG Konsult's business approach is founded on integrity, trust and transparency. The group has a high regard for ethical conduct and these values are encapsulated in the group's core business principles, set out on page 4.

# **Ethical governance outcomes and values**

All persons to whom the code applies should cultivate the following characteristics and exhibit them in their conduct:

Competence	Act with due care, skill and diligence, and take reasonably diligent steps to become informed about matters necessary for the performance of work.  Have working knowledge of the group, its industry, and the key laws, rules, conduct and standards applicable to the conduct of its business.
Responsibility	Assume responsibility for executing tasks and diligently perform duties by devoting enough time and effort thereto.
Transparency	3 — Be transparent in the way duties and responsibilities are exercised.
Fairness	Wherever possible, ensure that actions do not adversely affect the natural environment, society or future generations.
Accountability	Be willing to answer (to management and clients) for the execution of responsibilities and account for personal actions, even when these were delegated.
Integrity	6 Act ethically, beyond mere compliance, in good faith and in the best interests of the group, by, among other things, avoiding conflicts of interests wherever possible.

# Fraud and corruption

The group has a zero-tolerance approach towards corruption and fraud. Employees are kept up to date with the latest local and international trends in crime and fraud.

PSG Konsult operates a fraud and whistle-blower hotline. Any matters of an unethical nature are submitted to the management committee (Manco) as part of HR reporting for the group. No calls were received for the reporting period.

Each director submits a declaration of financial, economic and other interests in related parties at least annually, or whenever there are significant changes in such interests. Directors also disclose their personal financial interests at the start of every board or committee meeting. Disclosure of related-party relationships and transactions is provided in note 33 of the annual financial statements.

# **Dealing in shares**

The group has a policy on dealing in PSG Konsult shares, which has been updated to incorporate the most recent amendments to the JSE Listings Requirements. The policy includes an addendum dealing with disclosure by members of the PSG Konsult Manco and directors of major subsidiary companies.

The policy imposes closed periods to prohibit dealing in the group's shares before the announcement of interim and year-end financial results, and in any other period considered price sensitive by the JSE Listings Requirements. The directors, extended family of directors, prescribed officers, company secretary and other key employees (including their associates) of PSG Konsult and its major subsidiaries may not trade during a closed period.

The policy has been widely distributed within the group to ensure that directors and employees are familiar with its content.

# **BOARD OF DIRECTORS**

The board is the custodian of the group's corporate governance and provides effective leadership based on an ethical foundation.

## **WILLEM THERON (68)**

Non-executive director and chairman

Qualifications: BCompt (Hons), CA(SA) Date of appointment: 1 March 1998 Committees: Chairman of the nominations

committee

**JACOB DE VOS DU TOIT (JAAP) (65)** 

Lead independent non-executive director

Qualifications: BAcc, CA(SA), CTA, CFA Date of appointment: 17 August 1998 Committees: Member of the audit, risk and

nominations committees

**PATRICK ERNEST BURTON (67)** 

Independent non-executive director

Qualifications: BCom (Hons) Financial

Management, PG Dip Tax

Date of appointment: 2 March 2014 Committees: Chairman of the audit and risk committees and member of the remuneration. social and ethics, and nominations committees

**ZITULELE LUKE COMBI (KK) (68)** 

Independent non-executive director

**Qualifications:** Diploma in Public Relations Date of appointment: 16 April 2014 Committees: Chairman of the remuneration committee and member of the audit, risk, social and ethics, and nominations committees

**ZODWA RESHOKETSOE PEARL MATSAU (64)** 

Independent non-executive director

**Qualifications:** MPhil Economics. BA Economics

Date of appointment: 20 July 2017

**Committees:** Chairperson of the social and ethics committee and member of the audit and risk committees

**Profile:** Willem founded the chartered accountancy firm. Theron du Plessis, in 1976 in Middelburg, which eventually had 10 branch offices in the Western and Eastern Cape. In 1998, he founded PSG Konsult Limited and acted as its CEO until 30 June 2013. He was then appointed as its non-executive chairman. He also served on the board of PSG Group Limited for a number of years.

**Profile:** Jaap started his career at the Trust Building Society in 1984 and thereafter joined Senekal, Mouton & Kitshoff Securities in 1988. He co-founded both PSG Group Limited in 1996 and PSG Konsult Limited in 1998. Previously, Jaap was a board member of PSG Group Limited and chairman of PSG Konsult Limited (1998 – 2013). He is a board member. of PSG Konsult Limited and the chairman of KAP Industrial Holdings Limited and 12Cape Limited.

Profile: Patrick served at Moores Rowland Chartered Accountants for 8 years, during which he completed his training contract. He emigrated to Canada in 1982, and worked for Laventhol and Horwath (chartered accountants) from 1982 to 1984. His experience includes executive and non-executive positions in fishing, financial services, food and allied services.

Profile: KK holds a diploma in public relations. He was awarded the Ernst & Young South African Best Entrepreneur of the Year award in 2000 and the World Entrepreneur of the Year in Managing Change award in 2001. KK is a member of the Institute of Directors in South Africa and serves on the boards of various listed and unlisted companies, including Curro Holdings Limited and he is chairman of PSG Group Limited. KK was previously the executive chairman of

Thembeka Capital (RF) Limited.

Profile: Zodwa holds the qualifications MPhil Economics and BA Economics at the University of Glasgow and National University of Lesotho, respectively. She started her career as an economist at the Central Bank of Lesotho and was ultimately promoted to Head of Money and Capital Markets: Central Bank of Lesotho. Her career experience thereafter included 18 years at the South African Reserve Bank in various key roles, including serving as company secretary and finally serving as Senior Deputy General Markets: Financial Markets.

## **TAMARA CAROL ISAACS (44)**

Independent non-executive director

**Qualifications:** BComm, CA(SA), PGDA **Date of appointment:** 1 January 2020

Profile: Tamara has over 18 years' professional services experience, most recently as the partner in charge of the management consultant practice for KPMG in Cape Town. Tamara started her career at PricewaterhouseCoopers Inc. where she spent over a decade and ascended to the position of audit partner at the firm's Cape Town office. Tamara consults independently, with a specific interest in post-matric education. She is a trustee and working committee member for Mitchells Plain Bursary and Role Models Trust, a scholarship fund which aims to improve outcomes for students from Mitchells Plain and Phillipi. Tamara is a board member of Cape Innovation and Technology Initiative and also chairperson of the Sakhumzi Empowerment Trust. Tamara was recently appointed as chairperson of the University of Cape Town's School of Accounting Advisory Board.

## **ANDILE HESPERUS SANGQU (54)**

Independent non-executive director

**Qualifications:** BCompt (Hons) (CTA), HDip Tax Law, MBL, AMP

Date of appointment: 1 January 2020

**Profile:** Andile has spent a period of over 20 years working in management positions at several major South African corporations and has also served on a number of JSE listed company boards. Andile was the Executive Head of Anglo American South Africa until 31 December 2019. His expertise and practical exposure span areas such as general management, finance, accounting, tax administration and management of companies in diverse industries including broadcasting, insurance, mining, the food industry and financial sectors. Andile serves as an independent non-executive director of Tongaat Hulett and is Executive in Residence at the Gordon Institute of Business Science in Johannesburg.

# PETRUS JOHANNES MOUTON (PIET) (43)

Non-executive director

Qualifications: BCom (Mathematics)

Date of appointment: 6 December 2012

Committees: Member of the remuneration

and nominations committees

**Profile:** Piet is the CEO of PSG Group Limited. He serves as a director on the boards of various PSG Group companies, including Curro Holdings Limited and Capitec Bank Holdings Limited. He has been active in the investment and financial services industry since 1999.

## **FRANCOIS JOHANNES GOUWS (55)**

Chief executive officer

Qualifications: BAcc, CA(SA)

Date of appointment: 1 March 2013

Committees: Member of the social and

ethics committee

**Profile:** Francois joined Senekal, Mouton & Kitshoff as an investment and bank analyst, later becoming a partner in 1993. In 1995, he moved to UBS Investment Bank as Head of Research in South Africa, eventually becoming the Country Head for South Africa in 2000. Francois relocated to London in 2001 to become Head of European Equity Research of UBS and was thereafter appointed as Head of European Equity Sales in 2004. He was promoted to Head of Equities for Europe, Africa and the Middle East in 2006 before becoming Global Head of Cash Equities in 2008. In 2010 Francois was appointed as Global Co-Head of Equities and later co-managed the UBS Securities business until the end of 2011. Francois joined PSG Konsult in 2012 and was appointed CEO in July 2013.

# MICHAEL IAN FRAIN SMITH (MIKE) (52)

Chief financial officer

Qualifications: BCom (Hons), CA(SA), HDip

Tax, HDip Company Law

Date of appointment: 18 July 2013

**Profile:** Mike has more than 20 years' experience in the financial services industry. He was appointed CFO of PSG Konsult Limited in June 2013. Mike joined PSG in 2001 as group financial director of Appleton Limited, later becoming COO of PSG Asset Management, and thereafter served as COO for the PSG Wealth division. Before that, he worked for both RAD Investment Bank and Deloitte & Touche in their corporate finance divisions, where he was involved in negotiating and implementing a variety of corporate finance deals and transactions.

### **CHANGES TO THE BOARD OF DIRECTORS**

The board is pleased with the appointment of Tamara Isaacs and Andile Sangqu as independent non-executive directors, effective 1 January 2020.

These appointments are in line with the board's aim to achieve broader diversity by enhancing its composition to reflect the appropriate mix of gender, race, culture, age, knowledge, skill and experience and the appropriate balance of executive, non-executive and independent directors. Riaan Stassen's retirement as non-executive director of the group came into effect on 31 May 2019.

# BOARD RESPONSIBILITY AND COMPOSITION

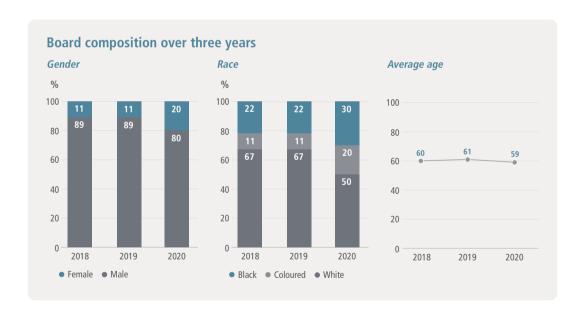
The board governs according to a formal charter, as outlined in the group's memorandum of incorporation (MOI).

In addition, the board charter incorporates responsibilities under the Prudential Standards, including meeting fit and proper requirements applicable to significant owners.

The board is ultimately accountable for the effective governance and direction of the group. This requires that the board consists of an appropriate number and combination of individuals to ensure that there is an adequate level of knowledge, skills and expertise commensurate with the scale and complexity of the business. There is also a clear division of responsibilities at board level. The board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, diversity and independence. The board is assisted by the nominations committee regarding composition and succession planning.

The board is further supported by appropriate internal governance practices and procedures that promote an efficient, objective and independent decision-making culture, considering the interests of all stakeholders.

The PSG Konsult board considers strategic issues and business philosophy, approves financial results and budgets, monitors delegated responsibilities and sets risk parameters. At board meetings, the various committees and divisions provide feedback on KPIs, progress on strategic objectives and various other reports.



#### INDEPENDENCE OF BOARD MEMBERS

# The board has considered and holistically assessed the continued independence of directors in line with the King IV recommendations read with the provisions of the JSE Listings Requirements.

The board is confident that they apply an independent state of mind and objective judgement in their respective roles, including the continued independence of those having served longer than nine years. The board is satisfied that most of the directors are independent non-executive directors. The individual statuses of the directors are recorded in their respective profiles on pages 70 and 71.

Each member's independence in character and judgement, and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, their judgement, are taken into consideration.

The independent and non-executive directors of PSG Konsult are experienced and highly respected, having the required professional knowledge, skills and integrity to exercise sound judgement on various key issues relevant to the group, independent of management.

To ensure continued skills development, the board was offered anti-money laundering training by an outside service provider.

#### APPOINTMENT PROCESS

# Directors are nominated for appointment by the nominations committee through a formal and transparent process.

The process includes background checks, subject to meeting fit and proper requirements. The selection of board members is made on merit, taking into consideration their skills, experience, independence and knowledge. Appointments are subject to shareholder approval/ratification

The adoption of a broader diversity policy articulates PSG Konsult's approach to the promotion of diversity of the group's board of directors. The group is first and foremost a South African group and believes that diversity at board level maximises opportunities for achieving its business goals through an informed understanding of the diverse environments in which it operates. The board, through the nominations committee, annually reviews diversity targets and also confirmed that the agreed voluntary targets for the reporting period were achieved. The targets set for the 2021 year include ensuring that the board maintains the group's current composition of 50% ACI directors, 20% female directors and an average age of below 65 years. In addition, the board's aim remains to ensure that the board consists of directors with a diverse cultural background, diverse field of knowledge, skills and experience.

#### **BOARD EVALUATION**

The board participates in performance evaluations, including evaluating the effectiveness of its committees in line with King IV recommended practices and regulatory requirements where applicable.

During 2020, the board participated in a performance evaluation, as an integral part of the group's commitment to adopt best corporate governance practices. The objectives were twofold:

- to apply the recommendations contained in King IV; and
- identifying areas which can be improved.

The scope of the evaluation included:

- the board's ability to adopt strategies and meet strategic objectives;
- board composition;
- reviewing the range of skills, experience and effectiveness of its directors;
- meeting efficacy;
- the competency of the chairman to lead the board effectively;
- self-evaluation of all board members in fulfilling their duties;
- evaluation of fellow board members' skills, experience and fulfilment of their duties; and
- evaluation of board sub-committees fulfilling their mandates effectively.

The evaluation was completed by each director, including the chairman, with the assistance of the company secretary.

The board is satisfied that the evaluation process is improving its performance and effectiveness. In summary, the results showed that the board is a well-functioning professional unit that sets the ethical tone for the group, with a strong regard for governance. The composition of the board and the collective skills and wisdom of its members contribute to the board's agility and efficacy while these, at the same time, ensure strong support for the strategy and executive directors of PSG Konsult.

Out of the areas assessed, and speaking broadly, 'meeting strategic objectives' and 'meeting efficacy' feature as the strongest aspects of the board. The evaluation found no significant matters or material concerns in respect of the board and board committees' performance, and the board is satisfied with the performance of its members. The performance of all directors standing for re-election at the AGM in July 2020 has been considered by the board, and their re-election is supported.

The following action plan was devised based on the findings and recommendations of the evaluation:

- Directors to inform the CEO, CFO or company secretary when there is a specific need for independent advice on matters within the scope of their duties. Generally, such advice is sought where required.
- To further enhance IT reporting at board level, an IT report be included in the quarterly board pack to ensure the board is kept abreast of the IT function and its implementation in the business.

# **GOVERNANCE STRUCTURE AND REPORTS**

The board executes its duties within a clear structure and according to guiding principles which formalise established governance processes, thereby ensuring accountability and fairness.

## **GOVERNANCE FRAMEWORK AND APPROACH**

The outcomes of this approach can be summarised as follows:

- The relevant accountability for and delegation of responsibilities of the board and senior management are documented in written policies aligned with the latest regulatory developments.
- The board and senior management collectively possess the professional qualifications, knowledge and experience to manage the group prudently and discharge their responsibilities.
- The performance of multiple tasks by any individual does not create a legal or ethical conflict of interest.
- An adequately transparent organisational structure is in place with clear allocation and appropriate segregation of responsibilities.
- Risk management, compliance and internal control functions are subject to policies which are maintained and reviewed regularly to ensure alignment with the latest regulatory developments and the continuity of the business.
- The group has embedded the three layers of the defence governance model and complies with it.
- The group maintains clear reporting lines for the prompt transfer of information to ensure the integrity and transparency of information flow throughout the governance structures and to external stakeholders.
- The remuneration policy and practices are consistent with the identified risk appetite and the long-term interests of stakeholders.
- The board provides oversight and clear accountability for any material function or activity that is outsourced.

These outcomes confirm that the group's governance structures function with clear roles and effective exercise of authority and responsibilities. The board is therefore satisfied that it has fulfilled its responsibilities under its terms of reference for the reporting period.

# Board and committee meeting attendance summary

	Board		Audit committee		Risk committee		Social and ethics committee		Remuneration committee		Nominations committee <sup>1</sup>	
	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible	Attended
W Theron	4	4	_	_	_	_	_	_	_	_	3	3
FJ Gouws	4	4	_	_	_	_	2	2	_	_	_	_
MIF Smith	4	4	_	_	_	_	_	_	_	_	_	_
PJ Mouton	4	4	_	_	_	_	_	_	1	1	3	3
J de V du Toit	4	3	2	2	2	2	_	_	_	_	3	3
PE Burton	4	4	2	2	2	2	2	2	1	1	3	1
ZL Combi	4	4	2	1	2	1	2	1	1	1	3	2
ZRP Matsau	4	4	2	2	2	2	1	1	_	_	_	_
TC Isaacs <sup>2</sup>	1	1	_	_	_	_	_	_	_	_	_	_
AH Sanqgu³	1	1	_	_	_	-	_	_	_	_	_	-

Ad hoc meetings of the nominations committee were held on 17 April 2019 and 9 October 2019.

<sup>&</sup>lt;sup>2</sup> TC Isaacs was appointed as independent non-executive director on 1 January 2020.

<sup>&</sup>lt;sup>3</sup> AH Sangqu was appointed as independent non-executive director on 1 January 2020.

# The roles of the chairman and lead independent director

The board is led by a chairman who is elected by the board members with support from the nominations committee and whose objectives include:

- ensuring proper governance of the board and all associated committees:
- ensuring that the interests of all stakeholders are protected;
- ensuring that a good relationship exists between the board and shareholders, and between the board and senior management (specifically the CEO);
- ensuring that the brand and group profile are aligned with the values of the group; and
- enhancing PSG Konsult's reputation in the industry through relevant stakeholder forums.

The roles of chairman and CEO are separate. The Exco is mandated according to a clear set of authorities relating to contracting and signing powers for financial, project and personnel requirements. The board considers it imperative that all actions undertaken in the group's name are executed ethically and professionally.

Willem Theron fulfils the role as non-executive chairman, but is not classified as independent in terms of King IV read with the JSE Listings Requirements. Jaap du Toit serves as lead independent director of PSG Konsult.

The function of the lead independent director is to provide advice to the board, without detracting from the authority of the chairman, when the chairman has a conflict of interest.

He also leads in the absence of the chairman, serves as a sounding board for the chairman and acts as an intermediary between the chairman and other members of the board, if necessary. According to the board charter, the lead independent director conducts the performance appraisal of the chairman and chairs any board meetings which deal with the succession of the chairman.

# Chief executive officer

# The CEO was appointed by the board, and his objectives include:

- accounting and reporting to the board;
- developing, executing and implementing the group's strategy;
- identifying and setting executive and divisional priorities:
- allocating resources;
- building strategic relationships;
- monitoring performance through daily, weekly and monthly reports;
- managing risk;
- determining incentives;
- ensuring that the best people are hired; and
- addressing challenges.

The board is satisfied that the CEO does not have any other professional commitments that can interfere with his ability to achieve these objectives.

Succession planning is in place for the CEO position and is the responsibility of the board with support from the nominations committee. The CEO's terms of employment and termination are standard conditions in his employment contract.

# **Company secretary**

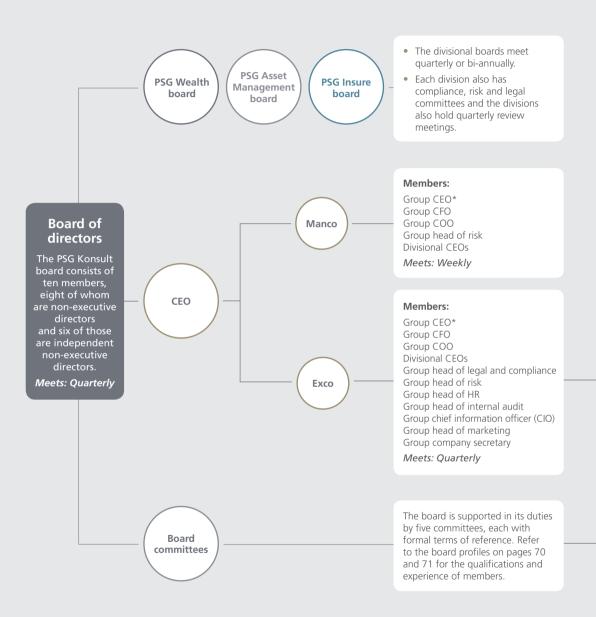
PSG Management Services Proprietary Limited is the company secretary of PSG Konsult and acts as conduit between the board and the group. The company secretary is responsible for board administration and liaising with the CIPC.

All board members have access to the advice and services of the company secretary, who is responsible for the proper administration of the board and the implementation of sound corporate governance procedures. This includes board induction and training programmes and supplying all information to assist board members in the proper discharge of their duties.

The board is satisfied that the arrangement for accessing the company secretary is effective. The board has reviewed, through discussion and assessment, the qualifications, experience and competence of the individuals employed by the company secretary. The board has also noted that the company secretary performed all formalities and substantive duties timeously and appropriately. There is an arm's length relationship between the board and the company secretary in that the objectivity and independence of the company secretary is not unduly influenced.

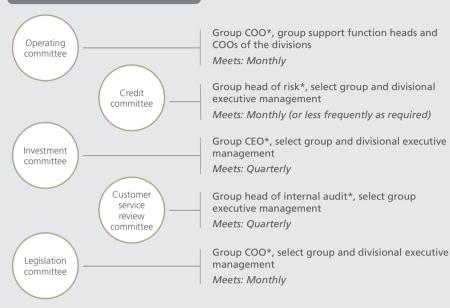
The certificate that the company secretary, being represented by Shameemah Hamit, is required to issue in terms of section 88(2)(e) of the Companies Act, is on page 109 of this integrated report.

## **GOVERNANCE STRUCTURE**

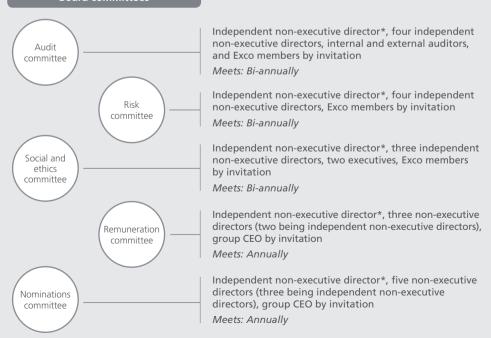


<sup>\*</sup> Chairs the committee.

## **Operational committees**



#### **Board committees**



### **BOARD COMMITTEES**

Each committee operates according to formal terms of reference that were approved by the board in terms of the group's MOI.

The board, while retaining ultimate responsibility for overall group performance, has delegated the day-to-day running of the business to the Manco. The Manco assesses operational performance and strategy across the group and divisions. A group and subsidiary delegated levels of authority policy has been adopted and is reviewed regularly to ensure that management teams exercises its authority in line with clearly defined limits and roles. Matters reserved for board approval are clearly defined in its charter.

## **Audit committee**

As part of its key focus areas, the audit committee is responsible for:

- recommending the annual financial statements to the board for approval;
- ensuring the integrity of the integrated report;
- ensuring the effectiveness of financial reporting, including the system of internal control;
- providing an opinion on the effectiveness of the financial officers and finance function;
- monitoring and engaging with the external auditor;
- appointing and determining the remuneration of the external auditor;
- overseeing the internal audit function and approving its charter;
- meeting with external and internal auditors separately from management;
- reviewing and recommending the group tax policy to the board for approval;
- annually reviewing its terms of reference and recommending amendments to the board for approval;
- conducting a self-evaluation every two years, which includes evaluating the chairman and fellow members; and
- implementing any actions following the board's evaluation of its effectiveness.

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The audit committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The statement of independence relating to the external audit partner is set out on page 107 of the annual financial statements.

Following the completion of its self-evaluation and reporting on the outcome thereof during 2019, the following has been achieved through the agreed action plan:

- Review of the group's tax policy has been incorporated into the annual work plan
- Regular reports are received from the CFO on the implementation of the group's tax policy
- Effectiveness of the group head of internal audit and internal audit arrangements are assessed as part of the committee's self-evaluation
- Suggestions on the effectiveness of the group's assurance functions and services are assessed as part of the committee's self-evaluation and reported to the board

The board evaluated the effectiveness of the committee during 2020 and was satisfied with its performance and progress on focus areas.

The scope of the evaluation included:

- Committee composition, skills and experience
- Proper implementation and fulfilment of its mandate
- Meeting preparation and efficacy
- Satisfactory reporting to the board after meetings held

Focus areas for the future continue to be:

- continuing to increase its focus on combined assurance; and
- considering the effectiveness of the design and implementation of internal financial controls.

#### Risk committee

# As part of its key focus areas, the risk committee is responsible for:

- assessing the integrity, adequacy and effectiveness of the governance, compliance and risk management systems and ensuring that the strategic objectives are achieved within the risk parameters set by the board;
- ensuring that risks are properly managed while the process for monitoring compliance with laws and regulations are implemented, performed and effective;
- ensuring opportunities and associated risks are considered when developing strategy;
- assessing that the governance, compliance and risk management systems implemented are proportionate to the nature, scale and complexity of the various companies within the group;
- ensuring the overall risk profile is monitored and reviewed and the responses to address these key risks are appropriately defined and resolved by management;
- annually reviewing its terms of reference and recommending amendments to the board for approval;
- conducting a self-evaluation every two years, which includes evaluating the chairman and fellow members: and
- implementing any actions following the board's evaluation of its effectiveness.

Following the completion of its self-evaluation and reporting on the outcome thereof during 2019, the following has been achieved through the agreed action plan:

- Board members were trained on the latest cyber security developments
- Board members were trained on the Insurance Act, No. 18 of 2017 (Insurance Act)

The board evaluated the effectiveness of the committee during 2020 and was satisfied with its performance and progress on focus areas.

The scope of the evaluation included:

- Committee composition, skills and experience
- Proper implementation and fulfilment of its mandate
- Meeting preparation and efficacy
- Satisfactory reporting to the board after meetings held

Focus areas for the future continue to be:

- oversight and evaluation of the group's technology and information policy, environment and governance to ensure that these are appropriate, aligned and support the strategy and risk appetite of the group;
- continued strong emphasis on cyber security; and
- continued diligent and adequate response and adoption of regulatory change.



The risk committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

## Social and ethics committee

As part of its key focus areas, the social and ethics committee is responsible for:

- monitoring the group's sustainability and transformation activities, organisational ethics, responsible corporate citizenship, stakeholder relationships, and the ethical conduct of employees;
- monitoring all TCF outcomes reported to this committee:
- annually reviewing the group's Employment Equity Plan:
- reviewing and recommending the code of ethical conduct, which can be found on page 67, to the board for approval;
- annually reviewing its terms of reference and recommending amendments to the board for approval;
- evaluating the effectiveness of the CSRC, the main purpose of which is to monitor the group's service levels and TCF outcomes in relation to customer service:
- approving and annually reviewing the CSRC terms of reference:
- conducting a self-evaluation every two years, which includes evaluating the chairperson and fellow members: and
- implementing any actions following the board's evaluation of its effectiveness.

Following the completion of its self-evaluation and reporting on the outcome thereof during 2019, the following has been achieved through the agreed action plan:

- Monitoring the incorporation of the code of ethical conduct into the annual work plan
- Training on the changes to the financial sector scorecard was provided to all members as part of training to the board



The social and ethics committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The board evaluated the effectiveness of the committee during 2020 and was satisfied with its performance and progress on focus areas.

The scope of the evaluation included:

- Committee composition, skills and experience
- Proper implementation and fulfilment of its mandate
- Meeting preparation and efficacy
- Satisfactory reporting to the board after meetings held

Focus areas for the future continue to be:

- providing adequate orientation for newly appointed members of the committee;
- continuously monitoring training needs, including changes to regulations, risk, legislation and corporate governance anticipated to affect the business; and
- monitoring the implementation of the code of ethical conduct.

In adhering to our adopted code of ethical conduct, we will adapt to the constantly changing business environment and the implications of COVID-19. The safety and health of employees are a top priority to the business as overseen by the social and ethics committee.

## Remuneration committee

# As part of its key focus areas, the remuneration committee is responsible for:

- developing and implementing fair remuneration practices that are aligned with the group's strategy and long-term interests;
- ensuring that the group's remuneration policy is applied consistently;
- serving as the Remco for the PSG Konsult group and for its insurance licensed entities;
- ensuring that the remuneration policy and implementation report are tabled every year for separate non-binding advisory votes by shareholders at the AGM;
- annually reviewing its terms of reference and recommending amendments to the board for approval;
- conducting a self-evaluation annually in line with regulatory requirements, which includes evaluating the chairman and fellow members; and
- implementing any actions following the board's evaluation of its effectiveness.

Following the completion of its self-evaluation and reporting on the outcome thereof during 2019, the following has been achieved through the agreed action plan:

- The Prudential Standards have been embedded in its mandate
- Final proposals from the audit and risk committees were received for total compensation of the group heads of control functions following recommendation from senior management



The Remco is satisfied that it has fulfilled its responsibilities in accordance with regulatory requirements and its terms of reference for the reporting period. The committee participated in an annual self-evaluation during 2020.

The scope of the self-evaluation included:

- Overseeing the implementation and execution of the company's remuneration policy and compliance with the Prudential Standards
- Making annual recommendations to the board of PSG Konsult Limited on the remuneration of the heads of control functions (other than internal audit) and the CEO
- Preparing an annual remuneration report, in accordance with King IV and the JSE Listings Requirements
- Facilitating engagement with shareholders of the company who voted against the remuneration implementation report and/or remuneration policy, if any (only applicable where 25% or more of the votes exercised voted against the report or policy)
- Considering the recommendations made by senior management on the remuneration of non-executive directors, for final approval by the shareholders at the AGM
- Committee composition
- Meeting the fit and proper requirements as stipulated by the company's fit and proper policy
- Meeting preparation and efficacy
- The competency of the chairman to lead the committee effectively
- Self-evaluation of all committee members in fulfilling their duties
- Evaluation of fellow committee members' skills, experience and fulfilment of their duties

The committee is satisfied that the evaluation process is improving its performance and effectiveness.

The board evaluated the effectiveness of the committee during 2020 and was satisfied with its performance and progress on focus areas.

The scope of the evaluation included:

- Committee composition, skills and experience
- Proper implementation and fulfilment of its mandate
- Meeting preparation and efficacy
- Satisfactory reporting to the board after meetings held

There were no specific areas of improvement identified and focus areas for the future continue to be adhering to its mandate per its terms of reference.

## Nominations committee

As part of its key focus areas, the nominations committee is responsible for ensuring that:

- a formal and transparent process is established for nominating, electing and appointing members to the board:
- the board consists of a majority of non-executive directors, with a majority of the non-executive directors being independent directors, and reflects racial, cultural, age and gender diversity in line with targets;
- the diversity policy is recommended to the board for approval and implemented;
- the nomination of directors for re-election by shareholders at the AGM is approved by the board as a whole; and
- formal succession plans for the PSG Konsult board and executive management, PSG Konsult Treasury board and PSG Konsult's insurance licensed entities are developed, implemented and reviewed annually.

The nominations committee also:

- oversees the development, continued training and professional development of the directors; and
- annually reviews its terms of reference and recommends amendments to the board for approval.



The nominations committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

The committee participated in a self-evaluation during 2020.

The scope of the self-evaluation included:

- Reviewing the board's collective knowledge, skill, experience, including the business, commercial experience, and the balance of executive, nonexecutive and independent directors
- Reviewing and evaluating the formal induction programme for new directors
- Reviewing and evaluating the mentorship programme and training opportunities developed by the committee
- Reviewing the formal succession plans for the board and executive management
- Overseeing and evaluating the implementation of the diversity policy
- Committee composition
- Meeting preparation and efficacy
- The competency of the chairman to lead the committee effectively
- Self-evaluation of all committee members in fulfilling their duties
- Evaluation of fellow committee members' skills, experience and fulfilment of their duties

The committee is satisfied that the evaluation process is improving its performance and effectiveness.

The board evaluated the effectiveness of the committee during 2020 and was satisfied with its performance and progress on focus areas.

The scope of the evaluation included:

- Committee composition, skills and experience
- Proper implementation and fulfilment of its mandate
- Meeting preparation and efficacy
- Satisfactory reporting to the board after meetings held

There were no specific areas of improvement identified and focus areas for the future continue to be adhering to its mandate per its terms of reference, and in particular:

- continued review of the succession planning; and
- continued focus on broader diversity.

## **OPERATIONAL COMMITTEES**

## **Executive committee**

The Exco acts as an oversight committee for the various management level committees and divisions. It assists the group CEO to develop and implement the group's strategy, operational plans, policies, procedures and budgets. This involves:

- monitoring operating and financial performance;
- assessing and controlling risk;
- assessing the appropriateness of policies, processes and controls in respect of key areas of legal, regulatory and ethical obligations;
- prioritising and allocating resources; and
- monitoring factors in the operating environment.

# **Operating committee**

The operating committee assists the group COO to develop and implement operational plans, policies, procedures and budgets and to monitor the operational performance in each division.

## Credit committee

The credit committee is responsible for assisting management and the board to manage default risk, monitor direct credit exposures and limits throughout the group.

## Investment committee

The investment committee is responsible for determining the investment strategies of each entity in the group. It is also responsible for monitoring the performance of the shareholder investment portfolio against agreed parameters.

## Customer service review committee

The CSRC was established to ensure that PSG Konsult has the necessary processes and systems in place to comply with the FSCA's TCF Framework. The CSRC reports to the social and ethics committee and is responsible for:

- ensuring that all PSG Konsult clients are treated fairly, according to TCF; and
- identifying opportunities and making recommendations to improve customer service levels

# Legislation committee

The legislation committee creates awareness of all legislation, both financial services legislation and other legislation impacting the group.

In terms of financial services legislation only, the committee is responsible for:

- discussing the relevant regulatory change which has been identified;
- discussing and determining the impact on each division in the group;
- discussing the implementation of the necessary changes to comply with the regulatory change; and
- reporting back on whether the implementation plans are successfully implemented and monitored.

Senior management within the group are invited to Manco meetings when the need arises.

# INTERNAL CONTROL AND COMPLIANCE PROCESSES

#### Internal audit

The internal audit function is an independent, objective assurance and consulting activity designated to add to and improve an organisation's operations.

It helps the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. Internal audit's activity is governed by an internal audit charter which is reviewed and approved annually by the group audit committee. The objectives, scope and functions of the internal audit function are summarised below.

#### **Obiectives**

The internal audit function evaluates and contributes to the improvement of the group's governance, risk management and control processes using a systematic, disciplined and risk-based approach.

#### Scope

The scope of the internal audit function encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the group's governance, risk management, and internal controls and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. The internal audit function follows an approved risk-based internal audit plan. Annually, internal audit conducts a formal risk assessment of the entire group from which a comprehensive risk-based audit plan is derived. The assessment and programme are validated by executive management and approved by the responsible audit committee. The annual plan is reviewed regularly to ensure it remains relevant and responsive, given changes in the operating environment. The audit committee approves any changes to the plan.

#### **Functions**

- Evaluating risk exposure relating to achievement of the organisation's strategic objectives
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets
- Evaluating the effectiveness and efficiency with which resources are employed
- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned
- Monitoring and evaluating governance processes
- Monitoring and evaluating the effectiveness of the organisation's risk management processes
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the board
- Evaluating specific operations at the request of the board or Exco, as appropriate

In line with King IV, the audit committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities. Internal audit is part of this combined assurance model and plays a pivotal role in the assurance framework. A combined assurance model involves proper planning and the implementation of these plans, while reducing risk to an acceptable level through an assurance dispensation. It also ensures that the contributions of the various potential role players are optimised. This reduces risk and cost and increases effectiveness.

## Independence of internal audit

In line with King IV requirements, the group head of internal audit confirms to the board, at least annually, the organisational independence of the internal audit activity. The internal audit activity complies with the Institute of Internal Auditors' (IIA) Code of Ethics.

## Increased control framework

The increased control framework was developed to introduce an internal control system to assist the board and senior management in fulfilling their oversight and management responsibilities.

These responsibilities relate to:

- the strategy and risk appetite determined by the board;
- effectiveness and efficiency of operations;
- reliability of financial and non-financial information;
- adequate control of risks;
- the business aspirations of the group;
- key business, IT and financial policies and procedures;
- compliance with laws, regulations and internal policies and procedures; and
- confirming that control procedures and processes have been implemented correctly and are operating as intended.

# **Compliance and legal**

The legal and compliance function forms an integral part of the three layers of defence approach and is accountable for monitoring and reporting compliance risks to the board.

Ongoing training is provided throughout the group to employees and advisers to ensure awareness and embed a high standard of ethical behaviour and adherence to adopted policies.

As early adopters, the group constantly monitors shifts in the regulatory landscape to ensure that it implements the necessary changes when new legislation becomes effective. The group maintains good relationships with regulators and participates in discussions around changes in the regulatory environment

The internal audit function supports the Exco in ensuring that this process is effective. This enables PSG Konsult to maintain compliance with all relevant legislation.

During the past financial year, no instances of material non-compliance were noted, including regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.

# **Financial reporting**

PSG Konsult provides financial reports to its shareholders twice a year. Detail regarding significant transactions undertaken is reported as required by the JSE Listings Requirements.



More information on the group's operating licences and membership of industry bodies is provided in the stakeholders section on pages 36 and 37.



The board acknowledges its responsibility to ensure that the group complies with all applicable laws and regulations to maintain its operating licences. Board members are familiar with the financial services industry and the suite of regulatory requirements that characterises it. They are also aware of the importance of assessing the impact of legislative changes.

## INFORMATION TECHNOLOGY GOVERNANCE

PSG Konsult operates in an increasingly technology-driven world, where IT creates differentiation, generates revenue and enables client-centricity. PSG Konsult continues to mature these capabilities and services to our advisers and clients.

## Overview

IT plays an integral role in executing the strategy and the daily operations of PSG Konsult.

The scalability, value and efficiency of business functions are dependent on IT systems being effective. PSG Konsult's business model is critically dependent on IT systems, as it requires a fully functional IT infrastructure to empower its vast network of advisers across South Africa and Namibia to achieve its strategic objectives. IT governance takes place according to a formal charter and governance framework based on King IV principles and the Control Objectives for Information and Related Technology (COBIT) 5 IT Governance Framework.

Regulatory changes, consumer advocacy and technology advances increasingly join forces in creating significantly more informed and empowered clients. The velocity of change continues to increase in a world where technology, data and interconnection have made the creation of investments in the advancement of a fast-paced, growing technological environment an important aspect of the group's business.

PSG Konsult continues to invest in the development of its digital capabilities and services. This includes both enhancements of current functionality and the addition of new capabilities. Focus is on providing clients and advisers with an excellent user experience that is both seamless and efficient in delivering the highest levels of service. This model of continuous improvement is underpinned by a focused approach to system stabilisation and environment enhancements.

# Responsibilities

The board, while retaining ultimate responsibility for both technology and information governance, has delegated the responsibility to the risk committee.

The risk committee considers technology and information separately from a risk and governance perspective, while aligning both with the group's strategic objectives.

The CIO, supported by a team of IT specialists, is responsible for ensuring sound technology and information governance, including:

- aligning technology and information with the performance and sustainability objectives of the group;
- delegating the responsibility for implementation of the technology and information policy to management;
- managing the integration of people, process, technologies and information across the group;
- monitoring and evaluating significant technology and information investments and expenditure:
- managing the integration of technology and information risks into organisation-wide risk management:
- ensuring that information assets are managed effectively:
- proactive monitoring to identify and respond to incidents, including cyber attacks and adverse social media events;
- ensuring that arrangements are in place to provide for business resilience and continuity;
- managing the performance of, and the risks pertaining to, third-party and outsourced service providers;
- assessing the value delivered to the organisation through significant investments in technology and information, including the evaluation of projects throughout their life cycles, and of significant operational expenditure:
- ensuring the responsible disposal of obsolete technology and information, considering environmental impact and information security;
- the leveraging of information to sustain and enhance the group's intellectual capital;

- ensuring the ethical and responsible use of technology and information;
- providing information architecture that supports confidentiality, integrity and availability of information;
- · ensuring compliance with relevant laws;
- continually monitoring security of information;
- ensuring the protection of privacy of personal information:
- providing technology architecture that enables the achievement of strategic and operational objectives of the group;
- managing the risks pertaining to the sourcing of technology; and
- monitoring and providing appropriate responses to developments in technology, including the capturing of potential opportunities and the management of disruptive effects on the group and its business model.

# **Key developments**

## During the past year:

- The group ran successful disaster recovery and failover tests between Johannesburg and Cape Town for all business and support areas.
- We migrated to an industry-leading, mature securities trading platform that is hosted in the cloud.
- We launched a new digital funds transactional website with money-in transactions and aggregated quotes and fees as the initial offering.

# **Future priorities**

We continue to have a proactive approach and investment in cyber security measures, including user awareness.

Enhancement and new development in digital service enablement by modernising our practice management tools to place advisers and clients first in our strategy and offering continue to be priorities. We continue to enhance and stabilise our environment.

# **RISK REPORT**

PSG Konsult is operating within acceptable risk and capital levels.

At PSG Konsult we are aware and alert, and diligently respond to the challenging environment in which we operate. This was again demonstrated with the COVID-19 outbreak. We incrementally enhance our systems and processes to monitor and manage regulatory, operational, market and IT-related risks.

## **OVERVIEW**

PSG Konsult has three main risk management objectives:

- ensuring that adequate cash resources are available to execute its strategy, make value-enhancing investments
  and grow sustainably to benefit all stakeholders (especially shareholders, clients and employees);
- remaining true to its core values and business principles in all the activities the group undertakes; and
- maintaining good relationships with all its regulators.

To drive and support these objectives within defined risk appetites, we focus on:

- recurring revenues (which lead to enhanced sustainable earnings);
- sustainable margins (to ensure that an acceptable return on capital is earned);
- risk vs return (to maximise every rand earned relative to an acceptable unit of risk);
- client-centricity (to place clients at the centre of everything we do); and
- capital management (to ensure business sustainability and resilience through any eventuality).

PSG Konsult's risk management plan delivers an appropriate and independent oversight framework, with reporting structures keeping management and the board informed. Changes in the risk landscape are assessed and material risks are managed at acceptable levels.

Components of this framework include:

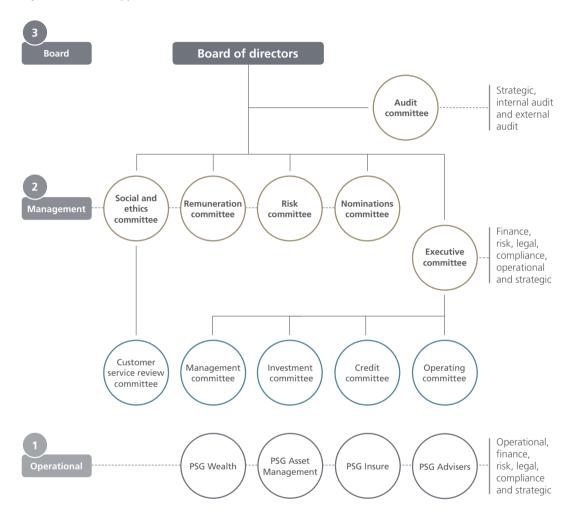
- three layers of defence governance structure;
- various committees with risk management responsibilities assisting the board; and
- risk management embedded in the strategic principles and underpinning all business activities.



More detail on the execution and implementation of the strategic principles is provided in the strategy section on pages 42 and 43.

## THREE LAYERS OF DEFENCE APPROACH

PSG Konsult defines the responsibility and accountability for risk management by applying the three layers of defence approach:



- First layer of defence
  Operational management is responsible for identifying risks and weaknesses and to develop and implement policies, procedures and controls to address, manage and reduce these risks and weaknesses to acceptable levels.
- 2 Second layer of defence
  Finance, risk, legal and compliance employees may assist management to implement policies, procedures and controls, but they are mainly responsible for providing oversight to ensure that policies are applied. The level two employees report directly to the relevant heads of finance, risk, legal and compliance.
- Third layer of defence
  Internal and external audit are responsible for evaluating, testing and giving assurance to the board and management on the effectiveness of these policies, procedures and controls.

### **2020 IN A NUTSHELL**

PSG Konsult consolidated its risk management activities to further enhance systems and processes allowing better management of the risks it faces. This includes, but are not limited to:

- Bedding down enhanced policies and frameworks
- Operational report automation
- Continued investment into resources, technology, data, security response, including related governance and oversight
- Successfully conducted a group-wide cyber event simulation
- Adequately responded to internal audit findings and risks identified
- Actively participated at industry and regulatory bodies
- Focused engagement with the regulators and constructively commented on proposed regulations

- Enhanced client engagements and communication in response to volatile environment and events
- Consistently applied its investment philosophy to ensure that clients' long-term objectives and needs remain on track

#### **KEY RISK MANAGEMENT**

PSG Konsult continued managing the major risks it faces, and acknowledges that risk management remains a key contributor to ensure sustainable growth and success is achieved.

Risks faced are within PSG Konsult's risk tolerance levels, and challenges experienced are adequately addressed. This is supported by the results documented in the fifth Own Risk and Solvency Assessment (ORSA) report produced for the group. Our key risks and responses are summarised below.

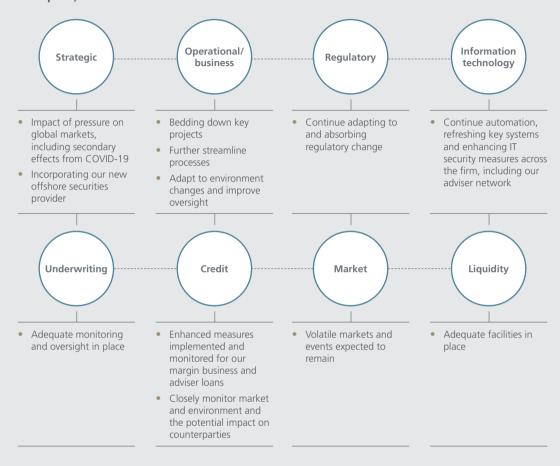
Key risk theme	Response						
Strategic risk							
Ensuring business plans, strategies and decisions are appropriate to maintain acceptable levels of risk (risk vs reward), grow recurring revenues and enhance operating margins	<ul> <li>Overseen by the PSG Konsult board and Exco</li> <li>Quarterly business strategy sessions focusing on each division and business unit</li> <li>Key metrics defined and regularly monitored (daily, weekly, monthly and quarterly</li> <li>Strong corporate governance and established risk management structures</li> <li>Dedicated marketing team ensuring client and brand focus remains in tact</li> <li>Annual ORSA report produced to demonstrate business sustainability and resilience</li> </ul>						
Regulatory risk <sup>1</sup>							
Complying to all regulatory requirements (including new or changed requirements), while complaints remained stable and under control	<ul> <li>Dedicated independent legal and compliance function</li> <li>Overseen by the compliance, risk and legal committees</li> <li>Legislative changes centrally overseen by the PSG Konsult legislation committee</li> <li>Implementation of any change overseen by the PSG Konsult operating committee</li> <li>Active engagement with regulators and represented at most of the major industry and regulatory bodies</li> <li>Monthly and quarterly capital adequacy review</li> </ul>						
Business and operational risk <sup>1</sup>							
Scanning, evaluating, enhancing and responding to environment changes	<ul> <li>Overseen by the PSG Konsult management and operating committees</li> <li>Complaints monitored by the PSG Konsult customer services review committee</li> <li>Established outsourcing principles and oversight</li> <li>Key projects/initiatives guided by the project management and engineering offices</li> <li>Dedicated management information system team</li> <li>Established business continuity capability (including communications, crisis management plans and testing)</li> </ul>						
In-time incident response and technology environment strengthened	<ul> <li>Operational incident management system in place</li> <li>Processes audited and improvements actioned</li> <li>Enhancing processes via automation and IT optimisation</li> </ul>						

Key risk theme	Response				
Information technology risk (including data) <sup>1</sup>					
Adequate investment in technology, with governance enhancements made	<ul> <li>Overseen by the PSG Konsult operating committee</li> <li>Cyber security audit completed and enhancements being implemented</li> <li>Group-wide IT security concepts and threat awareness campaign rolled out</li> <li>Board and management trained on key IT and cyber concepts</li> <li>Comprehensive data governance and technical councils established</li> <li>IT business continuity and disaster recovery plans in place</li> </ul>				
	Enhanced policies to align with regulations (including information security, cyber security, patch management, backups and incident management)				
Underwriting risk (non-life) <sup>1, 2</sup>					
Western book performance monitored, corrective action taken and poor binders cancelled	<ul> <li>Underwriting risk mainly limited to non-life insurance activities at Western Group</li> <li>Overseen by the Western Group risk committee</li> <li>Quality underwriting reports monitored by the actuarial team</li> <li>Limited insurance and investment risk retention levels</li> <li>Mitigating action taken for areas where improvements are identified</li> <li>Capital modelling and stress testing ensuring adequate capital levels are maintained</li> </ul>				
Counterparty risk (including credit risk) <sup>2</sup>					
High-quality counterparty exposure and adequate margins maintained	<ul> <li>Combined oversight by the PSG Konsult credit committee, investment committee and relevant management committees</li> <li>Exposure mainly limited to top-rated local and international banks and corporate</li> <li>Margin business exposure monitored daily</li> <li>Sufficient collateral held for most loans and security provided</li> <li>Products and providers overseen by the product governance committees</li> <li>Reinsurance panel overseen by the Western Group risk committee</li> </ul>				
Market/investment risk <sup>2</sup>					
Consistent investment philosophy applied	<ul> <li>Overseen by the PSG Konsult investment committee</li> <li>Shareholder assets invested mainly in cash and low-risk unit trusts</li> <li>PSG Asset Management applies risk-based investment processes</li> <li>Portfolio and fund committees in place supporting our advisers</li> <li>Internal limits aligned to appetite and fund sizes with compliance monitoring in place</li> <li>Transparent and measurable products with relatively low level of complexity</li> </ul>				
Liquidity risk <sup>1, 2</sup>					
Centralised treasury function	<ul> <li>Overseen by the PSG Konsult investment committee</li> <li>Centralised treasury function manages group capital and funding requirements</li> <li>Monthly cash flow analysis, scenario-based forecasts and reporting</li> <li>Monthly asset/liability matching and reconciliation</li> <li>Regulatory capital requirements managed and monitored separately</li> <li>Bank funding facilities available</li> <li>Enhanced liquidity reporting and visibility to encourage key decisions</li> </ul>				

<sup>&</sup>lt;sup>1</sup> Components of the section were included and audited as part of the risk-based internal audit programme.
<sup>2</sup> Components of the section were audited by the external auditor, PricewaterhouseCoopers Inc..

#### THE YEAR AHEAD

PSG Konsult will continue to anticipate, understand and respond to change and new or emerging risks. Our risk profile outlook for 2021 (based on expected change, challenge and resource allocation to respond) can be summarised as follows:



# REMUNERATION REPORT

# THE REMUNERATION COMMITTEE CHAIRMAN'S STATEMENT

## Introduction and context

I am pleased to present the 2020 remuneration report to the shareholders on behalf of PSG Konsult's board of directors and Remco. This report encompasses PSG Konsult's board-approved remuneration policy and framework, and reports on the implementation thereof.

The current operating and trading environment is challenging; however, management has proven its ability to successfully execute the business strategy through profitable, sustainable growth in 2020. PSG Konsult registered a strong five-year compounded annual growth rate for recurring headline earnings of 14%, core income growth of 12%, growth in the total assets under management of 12% and growth in dividends per share of 13%.

Our approach to remuneration demonstrates an industry highly reliant on intellectual capital that is people orientated and driven by exceptional talent, producing both individual and group performance. We create an environment to develop entrepreneurs in an agile corporate structure, fit for the rapidly changing environment in which we operate. Our remuneration framework is competitive in the market in which we operate and supports shareholder value creation.

The Remco engaged with institutional investors regarding any feedback or concerns related to our remuneration policy and remuneration implementation report (one-on-one). The Remco will continue to do so in future.

Our 'fit for purpose' remuneration policy and framework are set out in the remuneration policy section of this report from page 94. We are satisfied that the 2020 remuneration policy achieved its stated objectives.

#### In conclusion

Our 2020 remuneration policy was well received by shareholders and achieved a non-binding advisory vote of 97.0% in its favour at the 2019 AGM, while the remuneration implementation report also received a vote of 97.1% in its favour.

We will place our 2021 remuneration policy and our implementation report to two separate non-binding advisory votes at our AGM. If the remuneration policy or implementation report is voted against by 25% or more of the votes exercised at the AGM, PSG Konsult will in its voting results announcement pursuant to the JSE Listings Requirements extend an invitation to dissenting shareholders to engage with the group. We look forward to your ongoing support and engagement on the policy.

KK Combi

Chairman of the remuneration committee

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## **REMUNERATION POLICY**

## Introduction

PSG Konsult and all its subsidiary entities, including insurance entities (the group) aims to remunerate directors, executives and employees fairly and responsibly. This approach takes cognisance of remuneration best practices to ensure that the group attracts and retains appropriate skills and talent.

Sound remuneration practices are an essential component of an effective governance framework. The remuneration policies and practices aim to align remuneration with the long-term interests of the group and other stakeholders and to discourage excessive or inappropriate risk-taking.

# **Philosophy**

PSG Konsult's core remuneration philosophy is based on reward for financial and relevant non-financial performance, and is aligned with its overall business strategy, objectives, values, target corporate culture and risk appetite (including the group's risk management practices) – maintaining compliance with all relevant regulations and market practices. Profitability, business processes and risks, clients and people are the KPIs for reward. Three performance components are considered for annual increases: group results, divisional performance and individual performance, with due consideration given to inflation.

# **Policy scope**

This remuneration policy (the policy) is a general policy applicable to all employees¹ of the group (which, for the avoidance of doubt, includes all key persons and other persons whose actions may have a material impact on the risk exposure of the group, including persons to whom functions are outsourced). The policy outlines the approach of the group to remunerating directors, executives and employees. For all remuneration considerations, 'remuneration' has the meaning as defined in section 30(6) of the Companies Act:

"(6) For the purposes of subsections (4) and (5), 'remuneration' includes –

- a. fees paid to directors for services rendered by them to or on behalf of the group, including any amount paid to a person in respect of the person's accepting the office of director;
- b. salary, bonuses and performance-related payments;
- c. expense allowances, to the extent that the director is not required to account for the allowance;
- d. contributions paid under any pension scheme not otherwise required to be disclosed in terms of subsection (4)(b);
- the value of any option or right given directly or indirectly to a director, past director or future director, or person related to any of them, as contemplated in section 42;
- f. financial assistance to a director, past director or future director, or person related to any of them, for the subscription of options or securities, or the purchase of securities, as contemplated in section 44; and
- g. with respect to any loan or other financial assistance by the group to a director, past director or future director, or a person related to any of them, or any loan made by a third party to any such person, as contemplated in section 45, if the group is a guarantor of that loan, the value of
  - i. any interest deferred, waived or forgiven; or
  - ii. the difference in value between -

(aa) the interest that would reasonably be charged in comparable circumstances at fair market rates in an arm's length transaction; and

(bb) the interest actually charged to the borrower, if less."

<sup>1</sup> Excluding all shared offices' advisers and their support staff. Various compensating controls are in place to prevent inappropriate behaviour and excessive risk-taking.

# **Board of directors** Final approval Oversees and reviews implementation and effectiveness of the policy and remuneration Remuneration Approval strategy, and compliance with the Prudential committee Standards Develops and conducts regular reviews of the policy Makes annual recommendations to the board of PSG Konsult on the remuneration of the heads of control functions (other than internal audit). the CEO or the person that is in charge of the relevant insurance entity, direct reports of the CEO or the person that is in charge of the relevant insurance entity, other persons whose activities may, in the committee's opinion, affect the financial soundness of the insurer and any other person specified by the Prudential Authority Audit and Remuneration for the head of internal audit **Approval** risk must be approved by the audit committee, committees unless it is outsourced Monitors effectiveness, administers and implements the policy (together with the Executive/

### Roles and responsibilities relating to the policy are set out below:

# **Objectives**

Recommend

The group aims to remunerate fairly and responsibly on the basis that equal work receives equivalent pay. It also considers remuneration best practices to make sure that it attracts, develops and retains relevant skills and talent. At the same time, remuneration practices must:

group's Remco)

alignment with strategy

Recommends improvements to enhance

- not induce excessive or inappropriate risk-taking;
- be in line with the group's business strategy and risk appetite statements;

Human

resources

- provide a clear, transparent and effective governance structure around remuneration;
- protect the long-term interests of the group, its employees, its shareholders and its policyholders; and

senior

management

consider the provisions of the Employment Equity Act, No. 55 of 1998, as amended.

In relation to remuneration and specifically the principle of equal pay for work of equal value, the group bases fair and responsible pay on the concept of 'pay for performance' (which performance includes financial (if relevant) and non-financial performance). Consequently, there is no pay differentiation based on gender or racial classification.

The group also offers development through career enhancement opportunities, including bursaries and study loans for work-related disciplines or future business requirements in specialist fields.

#### Remuneration elements

The group determines its compensation pool based on its financial performance, after considering its risk appetite. The group's risk appetite is informed by its governance and risk management structures. These structures consider both qualitative and quantitative risk factors at a group, divisional and insurance entity level as part of the risk management system, in a proportionate and risk-based manner.

Remuneration elements include:

# To remunerate fairly and responsibly on the basis **Guaranteed** pay that equal work receives equivalent pay Based on function, experience and market pay levels To encourage, recognise and reward performance and allow sufficient flexibility to respond to Short-term variable compensation business needs Based on a combination of individual and collective performance. Incentive to manage the group responsibly and avoid excessive risk-taking To align senior management incentives to Long-term incentive scheme shareholder returns and the long-term interests of clients and policyholders. To attract and retain key employees who play a critical role Share options to executive directors Based on a combination of individual and collective and management performance To further the economic empowerment and **Employee benefits and wellness** well-being of employees Disability Life Income Retirement cover benefit cover fund Full-time employees earning above R15 000 per month are required to be members of a medical aid scheme

Career enhancement opportunities, including bursaries and study loans for work-related disciplines

#### **Guaranteed** pay

Pay bands are broad and allow for flexibility to ensure that individual expertise and experience are duly considered. The group Remco has structured executive and senior employee remuneration who have authority and responsibility for planning, directing and controlling the activities of the group, to allow for higher levels of variable pay than guaranteed (fixed) remuneration. This ensures that these employees are adequately incentivised to manage the group responsibly and avoid excessive risk taking and assists the group to manage operational costs.

Individual performance appraisals identify talent at all levels in the group and enable fair and competitive pay based on function, experience and market pay levels.

#### Short-term variable compensation

Short-term variable compensation awards are designed to encourage, recognise and reward performance and to allow enough flexibility for responding to different business needs. The group recognises and rewards performance, however, short-term variable compensation is not guaranteed. The assessment of performance is based on a combination of assessing individual and collective performance, such as performance of the business area and the overall results of the group or the relevant insurance entity.

The group determines the size of its short-term variable compensation pool every year, based on a total compensation ratio linked to overall group and divisional profitability. Divisional variable compensation pools are split among divisional key individuals and executives, based on individual performance and responsible risk management. The total short-term variable compensation pool and the way in which it is allocated is agreed with the group Remco every year giving due consideration to a range of both qualitative and quantitative factors. In measuring and evaluating the business performance, the following guiding strategic principles and KPIs are considered:

- Recurring revenues and recurring headline earnings per share (optimising long-term sustainable returns per share)
- Operating margins demonstrating management's ability to attract new business and increase market share without compromising margins by controlling costs
- Risk vs return optimising returns per unit of risk taken, by implementing various risk reduction and mitigation measures

### Variable pay deferral

In respect of executive and key individuals with less than 10 years' service, 30% of their short-term variable compensation award is deferred over 2 years and at participants' election may be invested in either PSG Konsult shares or a PSG unit trust fund. Participants are eligible to receive 50% of their deferred short-term variable compensation award after the first anniversary and the remaining 50% on the second anniversary of the award date. These executives and key individuals will forfeit the deferred short-term variable compensation incentive award if they are not in the group's employment on the relevant vesting date. Executives and key individuals with more than 10 years' service are entitled to the full short-term variable compensation award annually without deferment.

Commission incentives earned by sales employees are linked to new business targets set. However, risk and pricing are determined independently by managing existing pricing policies and/or underwriting and related risk policies.

#### Long-term incentive scheme

Annually, the group Remco awards share options to align senior management incentives to shareholder returns and the long-term interests of clients and policyholders. This incentive also seeks to attract and retain key senior employees who play a critical role in the business successes of the group. According to the share incentive scheme, the group grants share options to executive directors and management. These share options are allocated to participants at the relevant grant date based on the 30-day volume-weighted-average price (VWAP). The scheme vests over a five-year period from the date on which the share option was awarded.

Shares vest as follows:

Two years after grant date: 25%

Three years after grant date: 25%

Four years after grant date: 25%

Five years after grant date: 25%

The participants have five months to exercise options after they vest.

No beneficiary shall be entitled to payment of any dividend or any other rights attached to any shares until the date of registration of such shares in the name of the beneficiary.

#### Termination of employment

**Death, retirement or retrenchment:** Any options that can be exercised at the date of retirement or retrenchment of the beneficiary or 12 months thereafter can be exercised. The board at its discretion may permit the beneficiary to exercise any or all of the unexercised options.

**Dismissal:** If a beneficiary ceases to be an employee by reason of dismissal on the grounds of misconduct, poor performance or dishonest or fraudulent conduct, then that beneficiary shall be deemed to have immediately forfeited their rights in respect of any unexercised options.

**Resignation:** If a beneficiary ceases to be an employee by reason of resignation, that beneficiary shall be deemed to have immediately forfeited their rights in respect of any unexercised options.

## Employee benefits and wellness

The group provides three times group life cover and disability benefit and income cover, which is capped at the lower of 75% of the employee's guaranteed pay or R200 000 per month (amount is adjusted annually by inflation).

All full-time employees earning above R15 000 per month are required to be members of a medical aid scheme.

All full-time employees are required to invest at least 5% of their guaranteed pay in the group's retirement fund.

# Remuneration of key persons

#### Non-executive members of the board

Non-executive directors receive market-related fixed salaries based on the type and number of board committees in which they are involved. These salaries are determined and recommended by relevant senior management for consideration by the group Remco, and for final approval by the shareholders at the AGM.

The proposed non-executive director fees for the period 1 March 2020 to 28 February 2021 are as follows (exclusive of VAT):

Role	FY2021
Chairman	R1 021 000
Board member	R250 000
Audit committee chairman	R113 400
Audit committee member	R68 000
Risk committee chairman	R113 400
Risk committee member	R68 000
Remuneration committee chairman	R56 700
Remuneration committee member	R34 000
Social and ethics committee chairperson	R56 700
Social and ethics committee member	R34 000
Nominations committee chairman	R28 350
Nominations committee member	R17 000

In light of current market conditions, the non-executive directors' fees will remain the same as the previous financial year.

Executive members of the board, senior management and employees carrying out key risk-taking functions as determined by the board, whose remuneration is linked at least in part to the success of those activities

The guaranteed remuneration for each of these employees will be adequate. Guaranteed remuneration will be based on the individual employee's responsibilities, performance (including financial (if relevant) and non-financial performance) and prospects. Employees agree with line managers on their KPIs and undergo bi-annual performance reviews.

In addition to their guaranteed remuneration, these employees may also receive variable compensation, if this remuneration:

- is based on the overall performance of the group, division or insurance entity and considers both financial and non-financial components, goals and targets;
- is based on the performance of the employee in relation to established quantitative and qualitative goals and targets;
- is aligned with the time horizons of the risk it is rewarding, and with the risk profile of the business;
- promotes sound and effective risk management and does not encourage undue or excessive risk-taking; and
- supports the business strategy and objectives.

#### Heads of control functions

Group senior management recommends total compensation (both fixed and variable) for the group heads of control functions:

- Internal audit function: Recommendation to the group audit committee for approval
- Finance, risk and compliance functions:
   Recommendation to the group Remco for consideration

# Senior management in each insurance entity will recommend total compensation (both fixed and variable) for its heads of control functions:

- Internal audit function: Recommendation to the relevant audit committee for approval, unless outsourced
- Finance, risk, compliance and actuarial functions (if relevant): Recommendation to the group Remco for consideration

The guaranteed remuneration for each of these employees is adequate. Guaranteed remuneration is based on the individual employee's responsibilities, performance (including financial (if relevant) and non-financial performance) and prospects.

In addition to their guaranteed remuneration, these employees may also receive variable remuneration, if this remuneration:

- is not linked to the performance of any business units that they control or oversee; and
- does not in any way undermine their independence from senior management.

# Remuneration of other employees

The guaranteed remuneration for other employees is competitive. Guaranteed remuneration is based on the individual employee's responsibilities, performance and prospects.

In addition to their guaranteed remuneration, these employees may also receive variable remuneration if this remuneration:

- is based on the performance of the group, division or insurance entity; and
- is based on the performance of the individual employee.

#### Governance

Remuneration is governed by the group Remco. This committee is mandated by the boards of PSG Konsult and its insurance entities, and reports to them. The group Remco also governs how remuneration is administered. It considers the holistic compensation model and the specific remuneration of all executive directors and prescribed officers, including fees paid to all non-executive directors. The Remco is also responsible for awarding share incentives to group executives, and ensuring that they are market-and performance-related.

This committee makes annual recommendations to the board of directors on the remuneration of the CEO or the person controlling the relevant insurance entity, direct reports of the CEO or the person controlling the relevant insurance entity, other persons whose activities may, in the group Remco's opinion, affect the financial soundness of the group or relevant insurance entity and any other person specified by the Prudential Authority.

The group Remco is responsible for developing and conducting regular reviews of this policy and monitoring the implementation and effectiveness of this policy and its compliance with the relevant Prudential Standard. Under King IV and the Companies Act, individual remuneration of prescribed officers is disclosed. Full compensation details have been included in the implementation report, which is included from page 100. An independent control function monitors how remuneration is applied to make sure that the group Remco complies with this policy.

The group Remco is governed by its terms of reference.

# Guidelines in reviewing the effectiveness of the policy

Remuneration packages designed within the scope of the policy should be successful in attracting and retaining staff. If management continually needs to exercise discretion or agree to one-off deals to attract or retain executives, the policy may need to be reviewed.

Over time, reward management may change due to changes in the group's structure, market pressures to attract and retain talent, strategic priorities, legislation, regulations, governance requirements and organisation values.

This policy will be reviewed once a year by the group Remco, in line with the terms of reference. Any changes to this policy, as required from time to time, are approved by the board and material changes are communicated to the relevant subsidiary boards.

### **IMPLEMENTATION REPORT**

## **Fixed remuneration**

The remuneration committee approved salary increase in line with the industry sector for the 2020 financial year. After due consideration and taking into account current market conditions, the committee decided that executive directors will not receive a salary increase for the 2021 financial year.

# Long-term incentives (LTIs)

A key feature of the group's share incentive scheme is to align senior management incentives, including those of the executive directors, to shareholder returns and the long-term interests of clients and policyholders. This incentive also seeks to attract and retain key senior employees who play a critical role in business successes.

#### Evaluating executive directors' long-term remuneration

The significant value of options redeemed/exercised during the year and closing indicative expected value included in the table on page 102 should be considered in light of the group's remuneration policy, which is specifically designed to align the interests of the executive directors with those of shareholders, together with their successful execution of the group's objective of value creation for its shareholders and of the long-term interests of clients and policyholders.

It is evident from the group's performance that it has provided its shareholders with superior returns over a number of years, with the group's executive directors having benefited accordingly from the share incentive scheme.

This is in part owing to the group attracting and retaining the services of talented executives and employees, which is only achievable if the group's remuneration practices are appropriate and competitive.

When evaluating the group's performance over the long term, one should focus on the TRI as a measurement tool. The TRI is the CAGR of an investment and is calculated by taking cognisance of share price appreciation, dividends and other distributions. This is a sound measure of wealth creation and a reliable means of benchmarking different companies. The group's TRI as at 29 February 2020 was 28% per annum since 2005. Therefore, if you had purchased R100 000 worth of PSG Konsult shares on 11 April 2005 and reinvested all your dividends, your investment would be worth around R3 771 876 as at 29 February 2020. The same investment in the JSE ALSI over the same period would be worth R591 116 (84%) lower).

Over the past five-year period the group achieved a CAGR of 12% in recurring headline earnings per share which is a best-in-class performance relative to other financial services companies in South Africa.

# Remuneration policy implementation – additional disclosure

# Malus, clawback and performance hurdle provisions

- Key individuals with less than 10 years' service forfeit their deferred short-term variable incentive awards (STI), if they are not in the group's employment on vesting date, whether due to resignation or termination of services. The group's STI policy therefore has an embedded malus provision where an employees' actions result in termination of services.
- Share options are awarded to executives and qualifying employees with the primary objective of retaining their services and aligning their interests with those of shareholders, being substantial value creation through a combination of share price appreciation and payment of dividends over the long term.

Share options are awarded annually at the discretion of the remuneration committee subject to the participant achieving personal KPIs as well as the group meeting its financial hurdles.

PSG Konsult share options are awarded to participants at a strike price equal to the 30-day VWAP ruling market price and are therefore fully priced share options.

Fully priced share options include embedded performance hurdles as management only benefits if the share price increases above the vesting price, ensuring better alignment with shareholders.

# Executive directors' key performance measures

The remuneration committee determines the awards to the executive directors based on individual performance, which is measured quantitatively and qualitatively. Please note that, in some instances, the remuneration committee considers the disclosure of certain details on the performance measures to be commercially sensitive. The following tables provide details of the key performance indicators (KPIs) that the remuneration committee has considered. It should be noted that the weightings have been assigned to each KPI only to give the reader a sense of the relative importance of each measure in the current financial year. They have not been used to perform a formulaic, overall score for the executive concerned. The remuneration committee having evaluated the performance of the CEO and CFO during the period concluded that they either met or exceeded requirements of each of the overleaf KPI requirements.

#### CHIEF EXECUTIVE OFFICER

# QUANTITATIVE FACTORS 50%

#### Financial indicators

- Quality of earnings growth in context of macroeconomic indicators
- Risk adjusted returns generated on shareholder assets
- Business operated within acceptable risk appetite tolerance levels

# QUALITATIVE FACTORS 50%

# Strategy and guidance

- Determine strategy and provide strategic guidance and direction including problem solving when needed
- Identify and set executive and divisional priorities

#### **Projects and initiatives**

- Monitor and oversee priority projects and key business initiatives
- Oversee client journey improvements (great client service)
- Oversee and manage all high-risk and complex business matters
- Progressive transformation (ensure processes are in place to reach transformation targets)

#### People management

- Performance management and succession planning of senior management team
- Create a high-performance working environment across the group by leading by example

#### Stakeholder relationships

- Investor relations (analyst discussions, meetings and presentations)
- Maintain and build positive strategic relationships with regulators, non-executive directors, advisers and key stakeholders

#### CHIEF FINANCIAL OFFICER

# QUANTITATIVE FACTORS 33%

#### **Financial indicators**

- Effective cost management and control
- Oversee and manage business capital, regulatory solvency and liquidity requirements
- Optimise risk adjusted returns on shareholder assets (DMTN early repayment)
- Oversee financial risk exposure and assist business to operate within acceptable risk appetite tolerance levels

## QUALITATIVE FACTORS 67%

## Financial reporting

- Meet all external and internal financial reporting obligations
- Quality and timeous financial reporting (annual, interim, monthly and budgets)
- Quality and timeous board and committee presentations and packs

#### Control environment

- Maintain sound financial control environment (minimal operational incidents)
- Minimal adverse external or internal audit findings
- Ensure group compliance with tax legislation
- Ensure compliance with JSE Listings and Companies Act requirements

# **Projects and initiatives**

- Successful delivery and execution of priority projects
- Oversee and manage all high-risk and complex finance related business matters
- Progressive transformation (monitoring and reporting on transformation objectives)

# People management

- Finance team (project prioritisation, staff development, performance management and succession planning)
- Talent management (attract, retain, mentor and develop staff)
- Create a high-performance working environment by leading by example

#### Stakeholder relationships

- Investor relations (analyst discussions, meetings and presentations)
- Build positive strategic relationships with regulators, bankers, rating agencies, professional advisers, SARS, non-executive directors and key shareholders

The table below discloses the value of each director's LTIs, whether allocated, settled or forfeited, as well as the current value of shares not yet settled.

The following directors' remuneration was accrued by subsidiaries in the PSG Group for the year ended 29 February 2020:

#### **Equity-based remuneration**

## PSG Konsult Limited share options in terms of the PSG Konsult Group Share Incentive Trust

Audited	Number of share options as at 28 Feb 2019	Number of share options during year Granted Vested		Market price per share on vesting date	Vesting price per share	Date granted	Number of share options as at 29 Feb 2020	Value of options redeemed/ exercised during year <sup>1</sup> R000	Closing indicative expected value as at 29 Feb 2020 <sup>2</sup> R000
Executive									
FJ Gouws	1 587 500	_	(1 587 500)	R10.35	R5.06	1/03/2014	_	8 398	_
	447 592	_	(223 797)	R10.35	R7.27	1/04/2015	223 795	689	141
	7 751 684	_	(2 583 895)	R10.35	R6.81	1/04/2016	5 167 789	9 147	5 633
	3 156 559	_	(789 140)	R10.35	R7.59	1/04/2017	2 367 419	2 178	734
	3 750 000	_	_	_	R8.74	1/04/2018	3 750 000	_	(3 150) <sup>3</sup>
	_	4 000 000	-	-	R10.15	1/04/2019	4 000 000	-	(9 000) <sup>3</sup>
	16 693 335	4 000 000	(5 184 332)				15 509 003	20 412	_
MIF Smith	450 000	_	(450 000)	R10.35	R5.06	1/03/2014	_	2 381	_
	354 780	_	(177 390)	R10.35	R7.27	1/04/2015	177 390	546	112
	1 798 612	_	(599 537)	R10.35	R6.81	1/04/2016	1 199 075	2 122	1 307
	1 030 108	_	(257 527)	R10.35	R7.59	1/04/2017	772 581	711	240
	1 200 000	_	_	-	R8.74	1/04/2018	1 200 000	_	(1 008) <sup>3</sup>
	_	1 000 000	_	-	R10.15	1/04/2019	1 000 000	_	(2 250) <sup>3</sup>
	4 833 500	1 000 000	(1 484 454)				4 349 046	5 760	-

<sup>&</sup>lt;sup>1</sup> The value of options redeemed/exercised is the number of share options exercised in the 2020 financial year multiplied by growth in share price (market value share price at exercise less option grant price).

The following share option awards were accepted in terms of the PSG Konsult Group Share Incentive Trust between the end of the financial year and the date of this report:

 On 20 April 2020 Messrs FJ Gouws and MIF Smith respectively accepted 4 800 000 and 1 200 000 share option awards at a strike price of R7.13 per share. These are exercisable in tranches of 25% each on the 2nd, 3rd, 4th and 5th anniversary of the award date.

PSG Group Limited share options in terms of the PSG Group Limited Supplementary Share Incentive Trust

	Number of share options as at 28 Feb 2019	share	ber of options g year Vested	Market price per share on vesting date	Vesting price per share	Date granted	Number of share options as at 29 Feb 2020	Value of options redeemed/ exercised during year <sup>1</sup> R000	Closing indicative expected value as at 29 Feb 2020 <sup>2</sup> R000
Non-executive									
PJ Mouton	165 471	_	(165 471)	R265.08	R83.23	28/02/2014	_	30 091	_
	37 347	_	(18 673)	R265.08	R136.84	28/02/2015	18 674	2 395	1 435
	62 995	_	(20 998)	R265.08	R178.29	29/02/2016	41 997	1 822	1 488
	84 203	_	(21 051)	R265.08	R237.31	28/02/2017	63 152	585	(1 490) <sup>3</sup>
	113 018	-	_	_	R236.13	28/02/2018	113 018	_	(2 534) <sup>3</sup>
	227 700	-	_	_	R250.56	28/02/2019	227 700	_	(8 391) <sup>3</sup>
_	_	183 503	_	-	R213.71	29/02/2020	183 503	_	_
_	690 734	183 503	(226 193)				648 044	34 893	_

<sup>&</sup>lt;sup>1</sup> The value of options redeemed/exercised is the number of share options exercised in the 2020 financial year multiplied by growth in share price (market value share price at exercise less option grant price).

<sup>3</sup> The negative value represents the amount by which the share price will need to recover before these share options are in-the money.



<sup>&</sup>lt;sup>2</sup> This column shows the number of outstanding options at year-end multiplied by the PSG Konsult year-end share price, less the strike price of the instruments.

<sup>3</sup> The negative value represents the amount by which the share price will need to recover before these share options are in-the-money.

<sup>&</sup>lt;sup>2</sup> This column shows the number of outstanding options at year-end multiplied by the PSG Group Limited 30-day volume weighted average share price, less the strike price of the instruments.

## Directors' and prescribed officers' remuneration

The remuneration received by the PSG Konsult executive directors, non-executive directors and prescribed officers, from subsidiaries in the PSG Group, for the 2020 and 2019 financial years, is set out in the following tables:

Audited	Directors' fees R000	Basic salary R000	Bonuses and perfor- mance- related payments R000	Expense allowances R000	Company contri- butions R000	LTI R000	Total 2020 R000	Total 2019 R000
Executive								
FJ Gouws <sup>1, 7</sup>	_	5 423	21 093	_	84	20 412	47 012	63 734
MIF Smith <sup>8</sup>	_	2 606	7 370	96	41	5 760	15 873	16 241
	_	8 029	28 463	96	125	26 172	62 885	79 975
Non-executive								
W Theron <sup>10</sup>	1 458	_	_	_	_	_	1 458	6 553
J de V du Toit	403	_	_	_	_	_	403	428
PJ Mouton <sup>2, 9</sup>	_	12 423	_	_	_	34 893	47 316	45 187
PE Burton <sup>3</sup>	1 259	-	-	-	-	-	1 259	1 103
ZL Combi <sup>4</sup>	1 725	-	-	-	-	-	1 725	1 127
R Stassen	63	-	-	-	-	-	63	235
Z Matsau⁵	558	_	-	-	_	-	558	396
T Isaacs <sup>6</sup>	63	-	_	-	_	_	63	_
A Sangqu <sup>6</sup>	63	_	_	_	_		63	
	5 592	12 423	_	-	_	34 893	52 908	55 029
	5 592	20 452	28 463	96	125	61 065	115 793	135 004

- Director's fee of R0.3 million (2019: R0.3 million) paid to PSG Management Services Proprietary Limited as non-executive director of PSG Group Limited.
- <sup>2</sup> Director's fee of R0.3 million (2019: R0.2 million) was paid to a subsidiary of PSG Group Limited.
- <sup>3</sup> Director's fee of R0.6 million (2019: R0.5 million) paid as non-executive director of PSG Group Limited. R0.1 million (2019: R0.1 million) was paid as non-executive director of PSG Konsult Limited subsidiaries.
- Director's fee of R0.7 million (2019: R0.4 million) paid as non-executive director of PSG Group Limited. R0.5 million (2019: R0.3 million) was paid as non-executive director of Curro Holdings Limited.
- <sup>5</sup> Director's fee of R0.1 million (2019: Rnil) was paid as non-executive director of PSG Konsult Limited subsidiary entities.
- <sup>6</sup> Appointed as a director of PSG Konsult Limited with effect from 1 January 2020.
- <sup>7</sup> Total performance incentive bonus awarded was R21.2 million (2019: R21.5 million). 70% of bonus awarded, being R14.9 million (2019: R15.1 million), is unconditional and was paid in cash in April 2020 and April 2019 respectively. The remaining 30% has been paid to the director, however is conditional on the director remaining in employment and is subject to clawback provisions. The conditional portion of the bonus vests as follows: R3.2 million in April 2021 (2019: R3.2 million in April 2020), being 12 months after award date, while the remaining R3.2 million (2019: R3.2 million; 2018: R2.6 million) is conditional for 24 months until April 2022 (2019: April 2021; 2018: April 2020).
- 8 Total performance incentive bonus awarded was R7.4 million (2019: R7.5 million), which was paid in cash in April 2020 and April 2019 respectively, as the director has more than 10 years service in the group (no service conditions attached to release of 30% deferred portion of bonus award).
- PJ Mouton is a non-executive director of PSG Konsult Limited and has a standard service contract with PSG Corporate Services Proprietary Limited (PSGCS). His remuneration for services rendered as executive director within the PSG Group for its financial year ended 29 February 2020 was R12.4 million (2019: R11.6 million), of which 30% is deferred for a period of 12 months subject to him remaining in PSGCS's employment and malus/clawback provisions. PJ Mouton's gain on the vesting of PSG Group Limited share options during April 2019 amounted to R34.9 million.
- Director's fee of RO.4 million (2019: RO.4 million) was paid as non-executive director of PSG Konsult Limited subsidiary entities.

## **APPROVAL**

This remuneration report was approved by the Remco on 12 March 2020. The Remco is satisfied that there are no deviations from the remuneration policy in its implementation during the 2020 financial year.

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## REPORT OF THE AUDIT COMMITTEE

for the year ended 29 February 2020

The committee is pleased to present its report for the financial year ended 29 February 2020.

The audit committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the audit committee by the board of directors of the company. This report includes both sets of duties and responsibilities.

The committee is responsible for ensuring the integrity of integrated reporting and reviewing the effectiveness of the financial reporting process, the system of internal control and management of financial risks, the assurance process, and the company's process for monitoring compliance with laws and regulations and its own code of business conduct. The committee recommends the annual financial statements for approval to the board and is responsible for monitoring, engaging with, and determining the remuneration of the external auditor.

#### **TERMS OF REFERENCE**

The audit committee has adopted a formal audit committee charter that has been approved by the board of directors, and the committee has executed its duties during the past financial year in compliance with the terms of reference. The terms of reference, including roles and responsibilities, were aligned with the requirements of King IV, the Companies Act and other regulatory requirements.

### **COMPOSITION AND MEETING PROCEEDINGS**

At 29 February 2020, the audit committee consisted of four non-executive directors who act independently as described in section 94 of the Companies Act.

For the financial year ended 29 February 2020, the members of the audit committee were:

Membership and attendance	16 April 2019	9 October 2019
J de V Du Toit	✓	✓
PE Burton	✓	✓
ZL Combi	✓	×
ZRP Matsau	✓	✓
✓ Present  ★ Apologies		

The committee met twice, formally, in the financial year under review and had majority attendance. At the meetings, the members fulfilled all their functions as prescribed by the Companies Act, as well as those additional functions as determined by the board.

In addition, the CEO and the CFO attended all audit committee meetings by invitation. The group risk management function and internal audit function were also represented.

The external auditors, in their capacity as auditor to the company, attended and reported to all meetings of the audit committee.

#### DUTIES

In execution of its statutory duties during the past financial year, the audit committee has reviewed the interim and year-end financial statements, culminating in a recommendation to the board.

In the course of its review the committee:

- takes appropriate steps to ensure that the financial statements are prepared in accordance with IFRS;
- considers and, when appropriate, makes recommendations on internal financial controls;
- deals with concerns or complaints relating to:
  - accounting policies,
  - the auditing or content of annual financial statements, and
  - internal financial controls;
- reviews the external audit report on the annual financial statements;
- reviews the risk management reports and, where relevant, makes recommendations to the board;
- evaluates the effectiveness of risk management, controls and the governance processes;
- verifies the independence of the external auditor and of any nominee for appointment as the designated auditor;
- approves the audit fees and engagement terms of the external auditor; and
- determines the nature and extent of allowable non-audit services and approves the contract terms for the provision of non-audit services by the external auditor.

# **LEGAL REQUIREMENTS**

The audit committee has complied with all applicable legal, regulatory and other responsibilities for the financial year.

#### **EXTERNAL AUDITOR**

The board sets a policy that governs the level and nature of non-audit services, which requires preapproval by the audit committee for all non-audit services. In determining the independence of the external auditors, the committee considers the level and types of non-audit services provided as well as other enquiries and representations. The prospect of mandatory audit firm rotation was also considered by the committee during the current financial year. As required by the Companies Act, the committee has satisfied itself that PSG Konsult Limited's external auditor, PricewaterhouseCoopers Inc., was independent of the company, as set out in sections 90(2)(c) and 94(8) of the Companies Act and is thereby able to conduct its audit functions without any undue influence from the company.

The committee has considered the relevant audit quality indicators, including the audit firm's system of quality control. The committee was satisfied with the quality of the audit concluded and has nominated, for reappointment at the AGM, PricewaterhouseCoopers Inc. as the external auditor of PSG Konsult Limited for the financial year ending 28 February 2021.

PricewaterhouseCoopers Inc., being the audit firm, as well as Mr RA Botha, being PSG Konsult's individual auditor for the 2020 financial year, have been accredited on the JSE list of auditors in terms of the criteria in the JSE Listings Requirements. As required by section 3.84(g)(iii) of the JSE Listings Requirements, the committee has satisfied itself that PricewaterhouseCoopers Inc. and Mr RA Botha are suitable for reappointment as audit firm and individual auditor, respectively, by considering, inter alia, the information stated in paragraph 22.15(h) of the JSE Listings Requirements. The re-appointment of PricewaterhouseCoopers Inc. as auditor will be presented and included as a resolution at the 2020 AGM.

### **FINANCIAL FUNCTION**

In terms of the JSE Listings Requirements, the audit committee performs an annual evaluation of the financial reporting function in PSG Konsult. The committee was satisfied that the financial reporting function had appropriate resources, skills, expertise and experience. The committee ensured that the appropriate financial reporting procedures exist and are operating. The committee also satisfied itself in terms of paragraph 3.84(g)(i) of the JSE Listings Requirements that Mr MIF Smith, the group CFO of PSG Konsult, possesses the appropriate skills, expertise and experience to meet the responsibilities required for that position during his service as such.

## INTERNAL FINANCIAL CONTROLS

The audit committee evaluated the company's internal financial controls and, based on the information and explanations given by management and the group internal audit function, as well as discussions with the independent external auditor regarding the results of their audit, the committee is satisfied that there was no material breakdown in the internal financial controls during the financial year under review.

The committee also reviews and approves the internal audit charter, reviews the effectiveness of the internal audit structures and considers the findings of internal audit. The committee is also responsible for the assessment of the performance of the group internal auditor.

## **GOVERNANCE OF RISK**

The board has assigned oversight of the company's risk management function to the risk committee. The chairman of the risk committee is also the chairman of the audit committee to ensure that information relevant to these committees is transferred effectively. The audit committee oversees financial reporting risks, internal financial controls, fraud and IT risks as these relate to financial reporting.

#### **GOING CONCERN**

The audit committee reviewed a documented assessment prepared by management, including key assumptions, of the going concern status of the company and made a recommendation to the board in accordance with this assessment. The board's statement on the going concern status appears on page 108 of the integrated report.

## ANNUAL REPORT

The committee has evaluated the annual report (incorporating the integrated report) of the company and group for the year ended 29 February 2020, with specific consideration of the following significant financial reporting matters during the year:

- the implementation of the new accounting standard effective for the 2020 financial year (IFRS 16 Leases); and
- the key judgements used in the valuation of intangible assets.

The committee has reviewed impact assessments prepared by management on the transition to the new accounting standard effective for the 2020 financial year and the assumptions made. Additional disclosures regarding these have been presented in note 37 to the group financial statements. In assessing the appropriateness of the key judgements used in the valuation of intangible assets, the committee determines whether they are reasonable in terms of the current macroeconomic climate and in line with assumptions utilised by comparable third parties. Refer to note 1 to the group financial statements for further information.

Based on the information provided to the committee, the committee considers that the group complies, in all material respects, with the requirements of the Companies Act and IFRS.



**PE Burton**Chairman of the audit committee
22 May 2020

## STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 29 February 2020

The directors of PSG Konsult Limited are responsible for the preparation, integrity and fair presentation of the group and company financial statements of PSG Konsult Limited. The group and company financial statements, comprising the statements of financial position at 29 February 2020, and the income statement, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, have been prepared in accordance with IFRS and the requirements of the Companies Act, and include amounts based on judgements and estimates made by management. In addition, the directors are responsible for preparing the report of the board of directors.

The directors consider that in preparing the annual financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements. Estimates have been used in the preparation of the annual financial statements and all statements of IFRS that are considered applicable have been followed. The directors are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the group and company at year-end. The directors also prepared the report of the board of directors and other information included in the annual report and are responsible for its accuracy and consistency with the annual financial statements.

The directors have the responsibility of ensuring that adequate accounting records are kept. The accounting records should disclose, with reasonable accuracy, the financial position of the companies to enable the directors to ensure that the annual financial statements comply with relevant legislation.

PSG Konsult Limited operated in a well-established control environment, which is documented and regularly reviewed. The control environment incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that the risks facing the business are being controlled and managed. To the best of their knowledge and belief, the directors are satisfied that no material breakdown in the operation of the systems of internal financial controls and procedures occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. Based on their assessment, the directors have no reason to believe that the group or any company in the group will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the group.

It is the responsibility of the independent auditor to report on the annual financial statements. In order to do so, they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The group's external auditor, PricewaterhouseCoopers Inc., audited the financial statements and their report is presented on pages 115 to 119

The annual financial statements, presented on pages 120 to 256, were approved by the board of directors on 22 May 2020 and are signed on its behalf by:

W Theron

Chairman

FJ Gouws

Chief executive officer

MIF Smith

Chief financial officer

# PREPARATION AND PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 29 February 2020

The annual financial statements for the year ended 29 February 2020 have been prepared under the supervision of the chief financial officer, Mr MIF Smith, CA(SA).

These annual financial statements have been audited by PricewaterhouseCoopers Inc. in accordance with the requirements of the Companies Act.

## **CERTIFICATE BY THE COMPANY SECRETARY**

for the year ended 29 February 2020

I hereby certify, in terms of section 88(2)(e) of the Companies Act, that to the best of my knowledge, for the year ended 29 February 2020, the company has lodged with the Registrar of Companies all such returns and notices as required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Hourt

S Hamit (on behalf of PSG Management Services Proprietary Limited)
Company secretary
22 May 2020

## REPORT OF THE BOARD OF DIRECTORS

for the year ended 29 February 2020

The directors take pleasure in presenting their integrated report, which includes the audited financial statements of PSG Konsult Limited (the company) and its subsidiaries (the group) for the year ended 29 February 2020 (the financial year or the year).

#### **NATURE OF BUSINESS**

PSG Konsult Limited is a South African-based financial services group engaged in the offering of a comprehensive range of products and administration services, including investment management, stockbroking, insurance and investment broking, financial planning and advice, healthcare brokerage and administration, employment wealth benefits, management of local and foreign unit trusts, managed multi-manager solutions, retirement and structured products and the issue of short-term and long-term insurance contracts.

PSG Konsult Limited is incorporated in the Republic of South Africa and is a public company listed on the JSE, NSX and SEM.

### HOLDING COMPANY

The company's holding company is PSG Financial Services Limited, a company incorporated in the Republic of South Africa. Its ultimate holding company is PSG Group Limited (PSG Group), a company incorporated in the Republic of South Africa and listed on the JSE.

#### **CORPORATE GOVERNANCE**

The board has satisfied itself that appropriate principles of corporate governance were applied throughout the year under review.

### **FINANCIAL RESULTS**

The operating results and the state of affairs of the group and company are fully set out in the statements of financial position, income statement, statements of comprehensive income, statements of changes in equity, statements of cash flows and notes thereto.

The earnings attributable to equity holders of the group for the year under review were R647.0 million (2019: R602.2 million). The group's headline earnings attributable to shareholders amounted to R644.4 million (2019: R603.9 million).

## **CORPORATE TRANSACTIONS**

During the year under review, the group, through its subsidiary PSG Wealth Financial Planning Proprietary Limited, concluded further revenue sharing arrangements with a number of its advisers. This has allowed the group to further standardise the revenue sharing model with advisers and given them the opportunity to invest in the future of PSG Konsult. The transactions were settled with a cash payment of R2.4 million by PSG Wealth Financial Planning Proprietary Limited.

## DIVIDENDS

In line with the group's policy of paying a dividend of between 40% and 50% of recurring headline earnings, the board approved and declared a final gross dividend of 15.0 cents per share (2019: 13.5 cents per share) from income on 14 April 2020. No provision has been included in the financial statements. This follows the interim dividend of 7.5 cents per share (2019: 7.0 cents per share) declared in October 2019, which brings the total gross dividend declared for the 2020 financial year to 22.5 cents per share (2019: 20.5 cents per share).

#### STATED CAPITAL

Details of the authorised and issued stated capital appear in note 12 to the group financial statements. In total, 2.4 million shares were issued during the year (2019: 22.6 million). The shares issued during the financial year were to fulfil the company's obligation towards the share options which vested on 18 April 2019 and 1 August 2019 respectively. The shares issued during the previous financial year were to fulfil the company's obligation towards the share options which vested on 20 April 2018, 1 June 2018 and 1 August 2018 respectively.

Subsidiaries in the group held 18.6 million PSG Konsult shares at 29 February 2020 (28 February 2019: 28.2 million). The shares are held as treasury shares. The company has the right to reissue these shares at a later date to meet the obligations under the share incentive schemes or deferred bonus schemes.

#### **SUBSIDIARIES**

Details of the company's interests in subsidiaries are set out in Annexure B.

# SEGMENT INFORMATION

Refer to the segment report on pages 126 to 133.

## **RELATED PARTIES**

Related-party relationships exist between the company, subsidiaries, joint ventures, the PSG Group, company directors and key management. Intergroup transactions have been eliminated from the group's financial statements.

For related-party transactions and key management personnel, refer to note 33 to the group financial statements.

Details of directors' remuneration and their interest in the company's shares appear on pages 111 to 113.

## **COMPANIES ACT**

The company has an approved MOI which complies with the Companies Act and the Companies Regulations.

#### **SHAREHOLDERS**

Details of the group's shareholders are provided in the shareholder profile section of this report in note 38 to the group financial statements.

#### DIRECTORS

The directors of the company at the date of this report appear on pages 70 and 71. The following changes to the board of directors took place during the year and up to the date of this report:

- Mrs T Isaacs and Mr A Sanggu were appointed as independent non-executive directors with effect from 1 January 2020.
- Mr R Stassen retired from the board with effect from 31 May 2019.

## **DIRECTORS AND PRESCRIBED OFFICERS' REMUNERATION**

## Directors' and prescribed officers' remuneration

The Remco considers the remuneration of all executive directors and prescribed officers, as well as the fees paid to all non-executive directors. Fees payable to directors are recommended by the board to the AGM for approval.

## **Cash-based remuneration**

Audited	Directors' fees R000	Basic salary R000	Bonuses and performance- related payments R000	Expense allowances R000	Company contri- butions R000	Total 2020 R000	Total 2019 R000
Executive							
FJ Gouws <sup>1, 7</sup>	_	5 423	21 093	_	84	26 600	26 060
MIF Smith <sup>8</sup>	_	2 606	7 370	96	41	10 113	10 108
	_	8 029	28 463	96	125	36 713	36 168
Non-executive							
W Theron <sup>10</sup>	1 458	_	_	_	_	1 458	1 318
J de V du Toit	403	_	-	_	_	403	428
PJ Mouton <sup>2, 9</sup>	_	12 423	_	_	_	12 423	11 927
PE Burton <sup>3</sup>	1 259	_	_	_	_	1 259	1 103
ZL Combi <sup>4</sup>	1 725	_	_	_	_	1 725	1 127
R Stassen	63	-	-	-	-	63	235
Z Matsau⁵	558	-	-	-	-	558	396
T Isaacs <sup>6</sup>	63	-	-	-	-	63	_
A Sangqu <sup>6</sup>	63	-	-	_	_	63	
	5 592	12 423	-	_	_	18 015	16 534
	5 592	20 452	28 463	96	125	54 728	52 702

- Director's fee of R0.3 million (2019: R0.3 million) paid to PSG Management Services Proprietary Limited as non-executive director of PSG Group Limited.
- <sup>2</sup> Director's fee of R0.3 million (2019: R0.2 million) was paid to a subsidiary of PSG Group Limited.
- <sup>3</sup> Director's fee of R0.6 million (2019: R0.5 million) paid as non-executive director of PSG Group Limited. R0.1 million (2019: R0.1 million) was paid as non-executive director of PSG Konsult Limited subsidiaries.
- Director's fee of R0.7 million (2019: R0.4 million) paid as non-executive director of PSG Group Limited. R0.5 million (2019: R0.3 million) was paid as non-executive director of Curro Holdings Limited.
- 5 Director's fee of RO.1 million (2019: Rnil) was paid as non-executive director of PSG Konsult Limited subsidiary entities.
- <sup>6</sup> Appointed as a director of PSG Konsult Limited with effect from 1 January 2020.
- <sup>7</sup> Total performance incentive bonus awarded was R21.2 million (2019: R21.5 million). 70% of bonus awarded, being R14.9 million (2019: R15.1 million), is unconditional and was paid in cash in April 2020 and April 2019 respectively. The remaining 30% has been paid to the director, however is conditional on the director remaining in employment and is subject to clawback provisions. The conditional portion of the bonus vests as follows: R3.2 million in April 2021 (2019: R3.2 million in April 2020), being 12 months after award date, while the remaining R3.2 million (2019: R3.2 million; 2018: R2.6 million) is conditional for 24 months until April 2022 (2019: April 2021; 2018: April 2020).
- Total performance incentive bonus awarded was R7.4 million (2019: R7.5 million), which was paid in cash in April 2020 and April 2019 respectively, as the director has more than 10 years service in the group (no service conditions attached to release of 30% deferred portion of bonus award).
- 9 PJ Mouton is a non-executive director of PSG Konsult Limited and has a standard service contract with PSG Corporate Services Proprietary Limited (PSGCS). His remuneration for services rendered as executive director within the PSG Group for its financial year ended 29 February 2020 was R12.4 million (2019: R11.6 million), of which 30% is deferred for a period of 12 months subject to him remaining in PSGCS's employment and malus/clawback provisions.
- 10 Director's fee of R0.4 million (2019: R0.4 million) was paid as non-executive director of PSG Konsult Limited subsidiary entities.

# REPORT OF THE BOARD OF DIRECTORS

for the year ended 29 February 2020

The prescribed officers of the group are Messrs FJ Gouws and MIF Smith, both executive directors of the company. Their remuneration is detailed on page 111.

## **Equity-based remuneration**

PSG Konsult Limited share options in terms of the PSG Konsult Group Share Incentive Trust

Audited	Number of share options as at 28 Feb 2019		f share options ing year Vested	Market price per share on vesting date	Vesting price per share	Date granted	Number of share options as at 29 Feb 2020
Executive							
FJ Gouws	1 587 500	_	(1 587 500)	R10.35	R5.06	1/03/2014	_
	447 592	_	(223 797)	R10.35	R7.27	1/04/2015	223 795
	7 751 684	_	(2 583 895)	R10.35	R6.81	1/04/2016	5 167 789
	3 156 559	-	(789 140)	R10.35	R7.59	1/04/2017	2 367 419
	3 750 000	-	-	-	R8.74	1/04/2018	3 750 000
		4 000 000	_	_	R10.15	1/04/2019	4 000 000
	16 693 335	4 000 000	(5 184 332)	_			15 509 003
MIF Smith	450 000	_	(450 000)	R10.35	R5.06	1/03/2014	_
	354 780	_	(177 390)	R10.35	R7.27	1/04/2015	177 390
	1 798 612	_	(599 537)	R10.35	R6.81	1/04/2016	1 199 075
	1 030 108	-	(257 527)	R10.35	R7.59	1/04/2017	772 581
	1 200 000	_	_	_	R8.74	1/04/2018	1 200 000
		1 000 000	_	_	R10.15	1/04/2019	1 000 000
	4 833 500	1 000 000	(1 484 454)	-			4 349 046

# PSG Group Limited share options in terms of the PSG Group Limited Supplementary Share Incentive Trust

Audited	Number of share options as at 28 Feb 2019		share options ng year Vested	Market price per share on vesting date	Vesting price per share	Date granted	Number of share options as at 29 Feb 2020
Addited		Granteu	·····		per silare	granteu	
Non-executive							
PJ Mouton	165 471	_	(165 471)	R265.08	R83.23	28/02/2014	_
	37 347	_	(18 673)	R265.08	R136.84	28/02/2015	18 674
	62 995	_	(20 998)	R265.08	R178.29	29/02/2016	41 997
	84 203	_	(21 051)	R265.08	R237.31	28/02/2017	63 152
	113 018	_		_	R236.13	28/02/2018	113 018
	227 700	_	_	_	R250.56	28/02/2019	227 700
	_	183 503	_	_	R213.71	29/02/2020	183 503
	690 734	183 503	(226 193)				648 044
				_			

#### SHAREHOLDING OF DIRECTORS

The shareholding of directors in the company as at 29/28 February was as follows:

	Beneficial		Non-be	Non-beneficial		olding
As at 29 February 2020 (Audited)	Direct Number	Indirect Number	Direct Number	Indirect Number	Number	%
J de V du Toit	_	_	_	6 000 000	6 000 000	0.4
FJ Gouws <sup>1</sup>	26 139 844	31 000 000	_	_	57 139 844	4.3
MIF Smith	450 000	_	_	2 300 000	2 750 000	0.2
W Theron	_	_	_	23 001 232	23 001 232	1.7
	26 589 844	31 000 000	_	31 301 232	88 891 076	6.6

	Ве	Beneficial		neficial	Total shareholding	
As at 28 February 2019 (Audited)	Direct Number	Indirect Number	Direct Number	Indirect Number	Number	%
J de V du Toit	_	_	_	6 000 000	6 000 000	0.5
FJ Gouws <sup>1</sup>	25 809 554	35 000 000	_		60 809 554	4.6
MIF Smith	250 000	_	_	2 300 000	2 550 000	0.2
W Theron		_	_	23 001 232	23 001 232	1.7
R Stassen		550 000	_	_	550 000	0.0
	26 059 554	35 550 000	_	31 301 232	92 910 786	7.0

<sup>&</sup>lt;sup>1</sup> Refer to note 33 to the group financial statements for the details of the shares pledged as securities.

The following changes occurred in the directors' shareholdings between the end of the financial year and the date of this report:

- On 20 April 2020, Mr FJ Gouws disposed of 6 000 000 PSG Konsult Limited ordinary shares.
- On 20 April 2020, Mr FJ Gouws acquired 461 467 PSG Konsult Limited ordinary shares as he elected to invest his deferred bonus award in shares.
- On 28 29 April 2020, Mr W Theron disposed of 2 062 748 PSG Konsult Limited ordinary shares.

#### **SECRETARY**

7530

The secretary of the company is S Hamit (on behalf of PSG Management Services Proprietary Limited), whose business and postal addresses are:

4th Floor, The Edge PO Box 3335
3 Howick Close Tyger Valley
Tyger Waterfront Bellville
Tyger Valley 7536
Bellville

### INDEPENDENT AUDITORS

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(1) of the Companies Act.

## **SPECIAL RESOLUTION**

The following special resolutions were passed by PSG Konsult Limited during the year under review:

- The company is authorised to remunerate its directors for their services as directors.
- The board of the company is authorised, in terms of section 45(3)(a)(ii) of the Companies Act, to approve any direct or indirect financial assistance that the board may deem fit to any director, prescribed officer or company that is related or interrelated to the company on the terms and conditions and for amounts that the board of the company may determine.
- The board of the company is authorised, in terms of section 44(3)(a)(ii) of the Companies Act, to approve any direct or indirect financial assistance that the board may deem fit to any director, prescribed officer or company that is related or interrelated to the company, for the purpose of the subscription of any options or shares issued or to be issued by the company or a related or interrelated company, on the terms and conditions and for the amounts that the board of the company may determine.
- The company and/or its subsidiaries is authorised to repurchase its own shares upon such terms as the directors may determine, but subject to the provisions of sections 46 and 48 of the Companies Act, and the MOI of the company.

No special resolutions were passed by subsidiaries during the year under review which were material to the group.

## REPORT OF THE BOARD OF DIRECTORS

for the year ended 29 February 2020

### **BORROWING POWERS**

In terms of the company's MOI, directors have unlimited borrowing powers (subject to section 45 of the Companies Act); however, Prudential Authority approval is required for any borrowings within a life insurance company in the group.

### **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The group had no material capital commitments at 29 February 2020 other than what is disclosed in note 31 to the group financial statements. The group is party to legal proceedings in the normal course of business, and appropriate provisions are made when losses are expected to materialise

### **EVENTS AFTER THE REPORTING DATE**

Our priority is to ensure employee safety and business continuity for our clients. We can report that most of PSG Konsult's operations have been classified as an essential service, but that 99% of our employees and advisers were working remotely during level 5 of the lockdown. Despite recent market volatility caused by COVID-19, PSG Konsult remains resilient. Assets under management at 31 March 2020 amounted to R207.9 billion, a decrease of about 10% compared to a 13% decrease in the JSE ALSI during March 2020 with a subsequent recovery during April 2020.

The group has a strong balance sheet and excellent liquidity. We take a prudent approach when investing assets backing our regulatory capital requirements; as such about 90% of investable shareholder assets are invested in cash, money market or related instruments. The aim is to limit market volatility on our shareholders' equity and regulatory capital; by way of example, the shareholders' assets declined by less than 1% for the month ended 31 March 2020 with a subsequent recovery during April 2020. PSG Konsult is working with various authorities and regulators to help minimise the impact of COVID-19 on society as a whole, which among other initiatives, included a R10.0 million donation into the South African Solidarity Fund.

No other events material to the understanding of these results has occurred between 29 February 2020 and the date of approval of the annual financial statements.

## INDEPENDENT AUDITOR'S REPORT

to the Shareholders of PSG Konsult Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

## **Our opinion**

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of PSG Konsult Limited (the Company) and its subsidiaries (together the Group) as at 29 February 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### What we have audited

PSG Konsult Limited's consolidated and separate financial statements set out on pages 120 to 253 comprise:

- the consolidated and company statements of financial position as at 29 February 2020;
- the consolidated income statement for the year then ended;
- the consolidated and company statements of comprehensive income for the year then ended:
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the PSG Konsult Integrated Report 2020, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

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

## Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants (including International Independence Standards) respectively.

# Our audit approach Overview



## Overall group materiality

R50.2 million, which represents 5% of consolidated profit before taxation.

## Group audit scope

- We performed full scope audits on 6 of the 39 reporting units, covering the three reportable segments (PSG Wealth, PSG Asset Management and PSG Insure).
- We performed audits of specific balances and transactions on 13 reporting units and analytical reviews on the remaining insignificant reporting units.

## Key audit matters

- Valuation of customer relationship intangible assets and goodwill; and
- Completeness of commission and administration fees.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## INDEPENDENT AUDITOR'S REPORT

to the Shareholders of PSG Konsult Limited

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality R50.2 million.

How we determined it 5% of consolidated profit before taxation.

Rationale for the materiality benchmark applied We chose consolidated profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured

by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along three reportable segments, PSG Wealth, PSG Asset Management and PSG Insure, operating across South Africa, Namibia, Botswana, Mauritius, Guernsey and Malta. The consolidated financial statements are a consolidation of 39 reporting units, comprising the Group's operating businesses across the three reportable segments and centralised functions. Based on the relative contribution of each of these reporting units to the Group's total consolidated profit before taxation, we scoped in 6 of these reporting units, and performed full scope audits. Furthermore, we included reporting units within our overall scope where such reporting units contained a significant risk or contributed materially to the total consolidated asset value, total consolidated income or total consolidated expenses of the Group. This led to a further 13 reporting units being included in our overall scope where audit procedures on specific balances and transactions were performed. For the remaining insignificant reporting units we performed analytical reviews.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other PwC network firms or other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We sent reporting instructions to all component auditors, explaining the scope, overall approach and time frame of the group audit, including instructions on the work required on significant areas and the information required to be reported to the group auditor.

As part of our assessment of the work performed by the component auditors, we attended planning and debrief meetings with component management at all three reportable segments of the Group. We attended all the Group audit committee meetings held during the financial period.

# **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## **Consolidated financial statements**

# **Key audit matter**

# How our audit addressed the key audit matter

# Valuation of customer relationship intangible assets and goodwill

Refer to pages 231 and 232 (Detailed accounting policies – Intangible assets and Impairment of non-financial assets), page 125 (Summary of significant accounting policies – Critical accounting estimates and judgements in applying accounting policies) and pages 134 to 137 (note 1 to the consolidated financial statements – Intangible assets).

As at 29 February 2020, the value of the customer relationship intangibles assets and goodwill were R 715 million and R 412 million, respectively.

We obtained an understanding and tested the effectiveness of the relevant controls implemented over the impairment assessment. Our controls testing included, among others, testing of management's review and approval of the financial impairment calculations and assumptions used.

With respect to the price-earnings multiple valuations:

- We assessed the appropriateness of the valuation methodology, using our valuations expertise. We found the price-earnings multiple valuation model to be consistent with industry norms and the requirements of IAS 36;
- We tested the mathematical accuracy of the price-earnings multiple valuations and found it to be mathematically accurate;

# Consolidated financial statements Key audit matter

# Valuation of customer relationship intangible assets and goodwill (continued)

The annual impairment assessment for goodwill was performed by management, as required by International Accounting Standard 36 – Impairment of assets (IAS 36). In addition, an impairment assessment was performed on the customer relationships where there was objective evidence of impairment indicators. The customer relationships were acquired separately or as part of past business combinations that reside within the Insure and Wealth reportable segments.

The impairment assessments performed by management were considered of most significance to our current year audit due to the complexity of the assessment process and the significant judgements applied by management when determining the recoverable amount of the assets. The significant judgements applied by management are summarised below

A market approach (price-earnings multiple valuation) is used to determine the fair value less costs to sell. Where the fair value less costs to sell is lower than the carrying value, an income approach (discounted cash flow model) is used to determine the value in use, as the recoverable amount is the higher of the fair value less costs to sell and the value in use.

Key assumptions applied by management are:

- Price-earnings ratios;
- Growth rate and terminal growth rate; and
- Discount rate.

# Completeness of commission and administration fees

Refer to pages 244 and 245 (Detailed accounting policies – Revenue Recognition) and page 161 (note 22 to the consolidated financial statements – Revenue from contracts with customers and other operating income).

Commission and administration fees of R2 billion for the year were recognised for the Group.

## How our audit addressed the key audit matter

- For a sample of CGUs, we agreed the normalised earnings used in the price-earnings multiple valuation to the actual recurring profit after tax for the year of the CGU. We found that the normalised earnings agreed to the actual recurring profit after tax for the year for the sample selected; and
- We compared the price-earnings multiples used by management in their
  valuation (as disclosed in note 1 to the consolidated financial statements)
  to our internally developed benchmarks. Making use of our valuations
  expertise, our internal benchmarks were determined using the
  price-earnings multiples of various comparable companies. We found that
  the range of price-earnings multiples applied by management was within
  our range of internally developed benchmarks.

With respect to the discounted cash flow valuations:

- We assessed the appropriateness of the valuation methodology, using our valuations expertise. We found the discounted cash flow model to be consistent with industry norms and the requirements of IAS 36;
- We tested the mathematical accuracy of the discounted cash flow model and found it to be mathematically accurate;
- We evaluated the future projected cash flows used in the discounted cash flow models to assess whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the CGUs. This included benchmarking the revenue and terminal growth rates applied against third-party and independently established rates. We found the revenue and terminal growth rates used by management to be comparable with third-party and independently established rates, after allowing for the expected future outlook;
- We compared the projected cash flows against historical performance. We noted that projected cash flows for the next financial period were within an acceptable range of the actual cash flows of the immediate past financial period of the particular CGU, after allowing for changes in economic assumptions and other relevant variables; and
- We compared the risk-free rate and discount rates used by management in their discounted cash flow model (as disclosed in note 1 to the consolidated financial statements) to our internally developed benchmarks. Making use of our valuations expertise, our internal benchmarks were determined using our view of various economic indicators. We found that the risk-free rate and discount rates applied by management were comparable with our internally developed benchmarks.

We evaluated the adequacy of the disclosure to the financial statements of the impairment assessment of goodwill and customer relationships against the requirements of the applicable financial reporting standards.

- We obtained an understanding and tested the effectiveness of the relevant controls implemented over revenue recognition. Our controls testing included, among others, testing of management's monthly review and approval of commission and other fees reported by the financial advisers.
- We selected a sample of external confirmations from product providers, indicating the commission earned by the Group's advisers for services rendered to their clients. We found that the confirmations obtained, agreed to the revenue recognised for the selected sample;

## INDEPENDENT AUDITOR'S REPORT

to the Shareholders of PSG Konsult Limited

# Consolidated financial statements Key audit matter

### How our audit addressed the key audit matter

# Completeness of commission and administration fees (continued)

Commission and administration fees are earned from services rendered to clients through a large network of PSG Konsult Limited financial advisers.

Revenue is recognised either at a point in time or over time, depending on when the performance obligations are satisfied.

The completeness of commission and administration fees recognised was considered a matter of most significance to our current year audit due to the increased risk resulting from the decentralised nature of the advisers' network, and to the various types of services offered.

- We calculated revenue earned based on contractual terms and mandates for a sample of transactions and compared these to the revenue that was recognised. We found that revenue was calculated accurately with reference to the contractual terms and mandates for the selected sample;
- We compared the names of product providers and advisers from whom
  revenue had been earned in the prior year to those in the current year
  recorded in the general ledger, and obtained underlying documentation for
  a sample in respect of any differences. We found that for the sample
  selected, the differences were supported by acceptable reasons such as
  business terminations or transfers;
- Making use of our internal forensics expertise, we selected a sample of
  individual advisers and performed probity checks on various online
  databases and corporate registries to consider any directorships,
  memberships or business connections the individuals may have, in order to
  identify conflicting business interests which had not been declared. We
  found no conflicting business interests which had not been declared and
  approved by management; and
- We selected a sample of new policies entered into with clients during the financial year and agreed these to the revenue recognised. We found that the revenue relating to the sample of new policies selected was appropriately accounted for, and the effective date of the new policy was within the financial year.

## Separate financial statements

We have determined that there are no key audit matters in respect of the separate financial statements.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "PSG Konsult Integrated Report 2020", which includes the Report of the board of directors, the Report of the audit committee and the Certificate by the company secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

# Responsibilities of the directors for the consolidated and separate financial statements

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

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

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error,
  design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis
  for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud
  may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the
  circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of PSG Konsult Limited for 21 years.

Pricewaterhouse Coopers Inc.

PricewaterhouseCoopers Inc. Director: RA Botha Registered Auditor

Cape Town 22 May 2020

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 29 February 2020

Intangible assets				
Intangible assets Intangible a		Notes		
Intangible assets				
Property and equipment         2         91 715         67 244           Right-of-use assets         3         248 220         -           Deferred income tax assets         5         81 315         101 091           Equity securities         6         2 229 474         2 353 387           Debt securities         6         6 221 400         6 62 071           Until-linked investments         6         6 3398 850         46 488 080           Loans and advances         7         138 012         128 995           Derivative financial instruments         8         2 31 31         10 592           Receivables including insurance receivables         9,15         127 303         103 758           Deferred acquisition costs         21         6 622         5 685           Receivables including insurance receivables         10         2 94 305         1690 828           Deferred acquisition costs         21         6 622         5 685           Receivables including insurance receivables         21         6 622         5 685           Receivables including insurance receivables         21         6 622         5 685           Equity attributable to owners of the parent         21         2 099 029         2 129 572	ASSETS			
Right-of-use assets	Intangible assets	1	1 144 803	1 178 249
Investment in joint ventures	Property and equipment	2	91 715	67 244
Deferred income tax assets   5	Right-of-use assets	3	248 220	_
Equity securities         6         2 229 474         2 353 387           Debt securities         6         6 212 400         6 26 20 71           Unit-linked investments         6         50 398 850         46 488 080           Investment in investment contracts         6         50 398 850         46 488 080           Investment in investment contracts         6         15 587         16 048           Loans and advances         7         138 012         128 995           Derivative financial instruments         8         23 131         10 592           Reinsurance assets         9, 15         127 303         103 758           Deferred acquisition costs         21         6 622         5 685           Receivables including insurance receivables         10         2 094 305         1 690 828           Current income tax assets         11         1073 653         945 442           Total assets         4         63 899 588         59 374 162           EQUITY         Equity attributable to owners of the parent         1         1 073 653         945 442           Equity attributable to owners of the parent         12         2 069 029         2 129 572         122 572         122 171 128         (23 023 023)         120 622         129	Investment in joint ventures	4	1 105	1 525
Debt securities	Deferred income tax assets	5	81 315	101 091
Unit-linked investments       6       50 398 850       46 488 080         Investment in investment contracts       6       15 587       16 048         Loans and advances       7       138 012       12 895         Derivative financial instruments       8       23 131       10 592         Reinsurance assets       9,15       127 303       103 758         Deferred acquisition costs       21       6 622       5 685         Receivables including insurance receivables       10       2.094 305       16908 828         Current income tax assets       13 093       21 167         Cash and cash equivalents (including money market funds)       11       1073 653       945 442         Total assets         EQUITY         Equity attributable to owners of the parent       2       2 069 029       2 129 572         Treasury shares       12       (171 128)       (230 723)         Other reserves       13       305 855       2 989 274         Non-controlling interest       14       278 647       225 308         Total equity       3 584 502       3 214 582         LIABILITIES         Insurance contracts       15       554 469       542 086	Equity securities	6	2 229 474	2 353 387
Investment in investment contracts  Loans and advances  7 138 012 128 995  Reinsurance assets  8 23 131 10 592  Reinsurance assets  9, 15 127 303 103 758  Deferred acquisition costs  21 6 622 5 685  Receivables including insurance receivables  Current income tax assets  10 2 094 305 1690 828  Receivables including insurance receivables  Current income tax assets  11 0 303 21 167  Cash and cash equivalents (including money market funds)  11 1 073 653 945 442  Total assets  EQUITY  Equity attributable to owners of the parent  Stated capital Treasury shares  21 (171 128) (230 723)  Other reserves  13 (394 319) (360 826)  Retained earnings  1 802 273 1451 251  ANOn-controlling interest  Total equity  LIABILITIES  Insurance contracts  Deferred income tax liabilities  15 554 469 542 086  Deferred income tax liabilities and on consolidation of mutual funds  19 30 939 31 27 350 796  Deferred fensurance acquisition revenue  12 7 079 4 904  Total liabilities  10 15 588 298 208  10 20 23 56 383 2 153 524  Current income tax liabilities  10 2 2 3 56 385  10 2 2 2 356 383  10 2 2 2 356 383  10 2 153 524  Current income tax liabilities  10 2 2 2 356 383  2 153 524  Current income tax liabilities	Debt securities	6	6 212 400	6 262 071
Loans and advances         7         138 012         128 995           Derivative financial instruments         8         23 131         10 592           Recisurance assets         9, 15         127 303         103 758           Deferred acquisition costs         21         6 622         5 685           Receivables including insurance receivables         10         2 094 305         1 690 828           Current income tax assets         13 093         21 167           Cash and cash equivalents (including money market funds)         11         1073 653         945 442           Total assets         63 899 588         59 374 162           EQUITY         Equity attributable to owners of the parent         2         2 069 029         2 129 572           Teasury shares         12         (171 128)         (230 723)           Other reserves         13         (394 319)         (360 826)           Retained earnings         1         1802 273         1451 251           Non-controlling interest         14         278 647         225 308           Total equity         3 305 855         2 989 274           Non-controlling interest         15         554 469         542 086           Deferred income tax liabilities         5	Unit-linked investments	6	50 398 850	46 488 080
Derivative financial instruments         8         23 131         10 592           Reinsurance assets         9, 15         127 303         103 758           Deferred acquisition costs         21         6 622         5 685           Receivables including insurance receivables         10         2 094 305         1 690 828           Current income tax assets         13 093         21 167           Cash and cash equivalents (including money market funds)         11         1 073 653         945 442           Total assets         63 899 588         59 374 162           EQUITY         Equity attributable to owners of the parent         3 20 69 029         2 129 572           Stated capital         12         2 069 029         2 129 572           Treasury shares         12         (171 128)         (230 723)           Other reserves         13         394 319)         (360 826)           Retained earnings         1         1802 273         1 451 251           Non-controlling interest         14         278 647         225 308           Total equity         3 584 502         3 214 582           LIABILITIES         15         554 469         542 086           Deferred income tax liabilities         5         69 701	Investment in investment contracts	6	15 587	16 048
Reinsurance assets  Pefrered acquisition costs  Receivables including insurance receivables  Current income tax assets  Cash and cash equivalents (including money market funds)  Total assets  EQUITY  Equity attributable to owners of the parent  Stated capital  Treasury shares  12 2069 029 2129 572  Treasury shares  12 (171 128) (230 723)  Other reserves  13 (394 319) (360 826)  Retained earnings  Total equity  Non-controlling interest  Total equity  LIABILITIES  Insurance contracts  Borrowings  Borrowings  16 - 112 314  Lease liabilities  17 304 964 - Derivative financial instruments  Insurance acquisition of mutual funds  Deferred reinsurance acquisition revenue  21 7 079 4 904  Treat liabilities  10 3 934 2 161  Total liabilities  10 4 0 2 356 383 2 155 524  Current income tax liabilities  17 10 30 964 - Derivative financial instruments  18 26 694 209 25 25 32 120  Total equity  Tota	Loans and advances	7	138 012	128 995
Deferred acquisition costs	Derivative financial instruments	8	23 131	10 592
Receivables including insurance receivables   10   2 094 305   1 690 828   2 1 167   3 093   21 167   3 093   21 167   3 093   3 095   442   3 095   3 095 442   3 095   3 095 442   3 095   3 095 442   3 095   3 095 442   3 095   3 095 442   3 095   3 095 442   3 095   3 095 442   3 095   3 0	Reinsurance assets	9, 15	127 303	103 758
Current income tax assets Cash and cash equivalents (including money market funds)  11 1073 653 945 442  Total assets  EQUITY  Equity attributable to owners of the parent Stated capital 12 2069 029 2 129 572 Treasury shares 12 (171 128) (230 723) Other reserves 13 (394 319) (360 826) Retained earnings 1 1802 273 1 451 251  Non-controlling interest 14 278 647 225 308  Total equity 3 584 502 3 214 582  LIABILITIES Insurance contracts 15 554 469 542 086 Deferred income tax liabilities 5 69 701 47 702 Borrowings 16 - 112 314 Lease liabilities 17 304 964 - 122 314 Lease liabilities 17 304 964 - 122 314 Lease liabilities 17 304 964 - 123 314 Lease liabilities 18 26 694 209 25 932 120 Third-party liabilities arising on consolidation of mutual funds 19 30 293 931 27 350 796 Deferred reinsurance acquisition revenue 21 7 079 4 904 Trade and other payables 20 2 356 383 2 153 524 Current income tax liabilities 3 944 2 161 Total liabilities 3 944 2 161 Total liabilities 3 944 2 161 Total liabilities 3 944 2 161	Deferred acquisition costs	21	6 622	5 685
1	Receivables including insurance receivables	10	2 094 305	1 690 828
Total assets   63 899 588   59 374 162	Current income tax assets		13 093	21 167
EQUITY Equity attributable to owners of the parent Stated capital 12 2 069 029 2 129 572 Treasury shares 12 (171 128) (230 723) Other reserves 13 (394 319) (360 826) Retained earnings 1802 273 1 451 251  Non-controlling interest 14 278 647 225 308 Total equity 3 3 584 502 3 214 582  LIABILITIES Insurance contracts 15 554 469 542 086 Deferred income tax liabilities 5 69 701 47 702 Borrowings 16 - 112 314 Lease liabilities 17 304 964 - Derivative financial instruments 18 30 406 13 973 Investment contracts 18 26 694 209 25 932 120 Third-party liabilities arising on consolidation of mutual funds 19 30 293 931 27 350 796 Deferred reinsurance acquisition revenue 21 7 079 4 904 Trade and other payables 20 2 356 383 2 153 524 Current income tax liabilities 3 944 2 161 Total liabilities 3 944 2 161 Total liabilities 5 6 159 580	Cash and cash equivalents (including money market funds)	11	1 073 653	945 442
Stated capital   12   2 069 029   2 129 572   17	Total assets		63 899 588	59 374 162
Stated capital   12   2 069 029   2 129 572   17	FOURTY			
Stated capital       12       2 069 029       2 129 572         Treasury shares       12       (171 128)       (230 723)         Other reserves       13       (394 319)       (360 826)         Retained earnings       1 802 273       1 451 251         Non-controlling interest       14       278 647       225 308         Total equity       3 584 502       3 214 582         LIABILITIES         Insurance contracts       15       554 469       542 086         Deferred income tax liabilities       5       69 701       47 702         Borrowings       16       -       112 314         Lease liabilities       17       304 964       -         Derivative financial instruments       8       30 406       13 973         Investment contracts       18       26 694 209       25 932 120         Third-party liabilities arising on consolidation of mutual funds       19       30 293 931       27 350 796         Deferred reinsurance acquisition revenue       21       7 079       4 904         Trade and other payables       20       2 356 383       2 153 524         Current income tax liabilities       60 315 086       56 159 580				
Treasury shares       12       (171 128)       (230 723)         Other reserves       13       (394 319)       (360 826)         Retained earnings       1 802 273       1 451 251         Non-controlling interest       14       278 647       225 308         Total equity         LIABILITIES         Insurance contracts       15       554 469       542 086         Deferred income tax liabilities       5       69 701       47 702         Borrowings       16       -       112 314         Lease liabilities       17       304 964       -         Derivative financial instruments       8       30 406       13 973         Investment contracts       18       26 694 209       25 932 120         Third-party liabilities arising on consolidation of mutual funds       19       30 293 931       27 350 796         Deferred reinsurance acquisition revenue       21       7 079       4 904         Trade and other payables       20       2 356 383       2 153 524         Current income tax liabilities       60 315 086       56 159 580		17	2 060 020	2 120 572
Color   Colo	•			
Retained earnings   1802 273	•		1 1	,
Non-controlling interest   14   278 647   225 308   2989 274   225 308   276 647   225 308   226 647   226 647   2		13		
Non-controlling interest       14       278 647       225 308         Total equity       3 584 502       3 214 582         LIABILITIES         Insurance contracts       15       554 469       542 086         Deferred income tax liabilities       5       69 701       47 702         Borrowings       16       -       112 314         Lease liabilities       17       304 964       -         Derivative financial instruments       8       30 406       13 973         Investment contracts       18       26 694 209       25 932 120         Third-party liabilities arising on consolidation of mutual funds       19       30 293 931       27 350 796         Deferred reinsurance acquisition revenue       21       7 079       4 904         Trade and other payables       20       2 356 383       2 153 524         Current income tax liabilities       3 944       2 161         Total liabilities	Retailled earlings			
Total equity   3 584 502   3 214 582				
State   Stat	Non-controlling interest	14	278 647	225 308
15	Total equity		3 584 502	3 214 582
Deferred income tax liabilities 5 69 701 47 702 80 80 80 80 80 80 80 80 80 80 80 80 80	LIABILITIES			
Borrowings   16	Insurance contracts	15	554 469	542 086
Borrowings	Deferred income tax liabilities	5	69 701	47 702
Lease liabilities       17       304 964       —         Derivative financial instruments       8       30 406       13 973         Investment contracts       18       26 694 209       25 932 120         Third-party liabilities arising on consolidation of mutual funds       19       30 293 931       27 350 796         Deferred reinsurance acquisition revenue       21       7 079       4 904         Trade and other payables       20       2 356 383       2 153 524         Current income tax liabilities       3 944       2 161         Total liabilities       60 315 086       56 159 580		16	_	112 314
18	Lease liabilities	17	304 964	_
Third-party liabilities arising on consolidation of mutual funds     19     30 293 931     27 350 796       Deferred reinsurance acquisition revenue     21     7 079     4 904       Trade and other payables     20     2 356 383     2 153 524       Current income tax liabilities     3 944     2 161       Total liabilities     60 315 086     56 159 580	Derivative financial instruments	8	30 406	13 973
Third-party liabilities arising on consolidation of mutual funds     19     30 293 931     27 350 796       Deferred reinsurance acquisition revenue     21     7 079     4 904       Trade and other payables     20     2 356 383     2 153 524       Current income tax liabilities     3 944     2 161       Total liabilities     60 315 086     56 159 580	Investment contracts	-		
Deferred reinsurance acquisition revenue       21       7 079       4 904         Trade and other payables       20       2 356 383       2 153 524         Current income tax liabilities       3 944       2 161         Total liabilities       60 315 086       56 159 580				
Trade and other payables       20       2 356 383       2 153 524         Current income tax liabilities       3 944       2 161         Total liabilities       60 315 086       56 159 580	Deferred reinsurance acquisition revenue	21	7 079	
Current income tax liabilities         3 944 2 161           Total liabilities         60 315 086 56 159 580	Trade and other payables	20	2 356 383	
	Current income tax liabilities		3 944	
Total equity and liabilities 63 899 588 59 374 162	Total liabilities		60 315 086	56 159 580
39 3/4 102	Total equity and liabilities		63 800 588	59 37/1 162
	rotal equity and habilities		03 033 388	33 374 102

# **CONSOLIDATED INCOME STATEMENT**

	Notes	2020 R000	2019 R000
Gross written premium Less: Reinsurance written premium		1 520 299 (462 179)	1 256 763 (355 297)
Net written premium Change in unearned premium — Gross		1 058 120 32 721	901 466
– Reinsurers' share		6 165	2 859
Net insurance premium revenue Revenue from contracts with customers and other operating income Interest income on amortised cost financial instruments Interest income on fair value through profit or loss financial instruments Dividend income Net fair value gains and losses on financial instruments Fair value adjustment to investment contract liabilities	22 23 23 23 24 18	1 097 006 3 678 801 145 328 1 446 269 646 607 (141 842) (505 539)	936 761 3 361 163 147 696 1 256 793 479 981 646 786 (1 061 253)
Fair value adjustment to third-party liabilities  Total income	19	(1 309 620) 5 057 010	(1 196 594) 4 571 333
Insurance claims and loss adjustment expenses Insurance claims and loss adjustment expenses recovered from reinsurers	25 25	(943 290) 279 958	(803 746) 221 752
Net insurance benefits and claims Commission paid Depreciation and amortisation Employee benefit expenses Marketing, administration and other expenses	26.1 26.2 26.3 26.4	(663 332) (1 509 684) (144 067) (1 010 402) (679 188)	(581 994) (1 367 697) (81 799) (950 471) (643 783)
Total expenses		(4 006 673)	(3 625 744)
Total (loss)/profit from joint ventures		(420)	431
Profit before finance costs and taxation Finance costs	27	1 049 917 (45 303)	946 020 (34 297)
Profit before taxation Taxation	28	1 004 614 (297 053)	911 723 (269 179)
Profit for the year		707 561	642 544
Attributable to: Owners of the parent Non-controlling interest		646 957 60 604	602 174 40 370
		707 561	642 544
Earnings per share Basic earnings per share (cents) Diluted earnings per share (cents)	29 29	48.2 48.1	45.4 45.0

# **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2020 R000	2019 R000
Profit for the year Other comprehensive income for the year, net of taxation	28	707 561 10 998	642 544 11 524
Items that are or may be reclassified to profit or loss: Currency translation adjustments Recycling adjustment on sale of foreign subsidiaries		10 998 -	11 663 (139)
Total comprehensive income for the year		718 559	654 068
Attributable to: Owners of the parent Non-controlling interest		657 955 60 604 718 559	613 698 40 370 654 068

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Railance at 1 March 2018		Attributa	ble to equity	holders of t	he group		
Comprehensive income   Profit for the year		capital	shares	reserves <sup>1</sup>	earnings	controlling interest	Total R000
Profit for the year   Cher comprehensive income for the year   Cher Comprehe	Balance at 1 March 2018	1 908 804	(192 247)	(386 722)	1 175 226	235 654	2 740 715
Transactions with owners   220 768   (38 476)   14 372   (326 149)   (50 716)   (180 180 180 160 161 180 180 180 180 180 180 180 180 180 18	Profit for the year	-	- -	_ 11 524	_		642 544 11 524
Share-based payment costs         —         —         39 538         —         —         198 245           Treasury shares sold         —         (234 268)         —         —         —         (234 268)           Treasury shares sold treasury shares sor decimings         —         —         —         —         —         —         —         (234 268)         —		220 768	(38 476)				654 068 (180 201)
Balance at 28 February 2019       2 129 572       (230 723)       (360 826)       1 451 251       225 308       3 214         Adjustment on initial application of IFRS 16       —       —       —       —       (12 555)       —       (10 54)       —       —       —       —       —       —       —       —       —       —       —       —       —       —       —       —	Share-based payment costs Treasury shares sold Treasury shares purchased Transactions with non-controlling interest Release of profits from treasury shares to retained earnings Current tax on equity-settled share-based payments Deferred tax on equity-settled share-based payments Loss on issue of shares in terms of share scheme Release of share-based payment reserve to retained earnings on vested share options	_ _	198 245 (234 268) — (2 453) —	39 538 - - - - 20 845 3 372 (108 849)	- - (13 315) 2 453 - - - (59 466)	(43 548) - - - -	220 768 39 538 198 245 (234 268) (56 863) ————————————————————————————————————
Adjusted balance at 1 March 2019 Comprehensive income Profit for the year Other comprehensive income for the year Transactions with owners    2 129 572   (230 723)   (360 826)   1 438 696   225 308   3 202		2 129 572	(230 723)	(360 826)			3 214 582
Comprehensive income           Profit for the year         -         -         -         646 957         60 604         707           Other comprehensive income for the year         -         -         10 998         -         -         10           Transactions with owners         (60 543)         59 595         (44 491)         (283 380)         (7 265)         (336           Issue of ordinary shares         24 145         -         -         -         -         24           Repurchase and cancellation of ordinary shares         (84 688)         -         -         -         -         (84           Share-based payment costs         -         -         26 306         -         -         26           Treasury shares sold         -         227 7772         -         -         -         227           Treasury shares purchased         -         (146 322)         -         -         -         (2 262)         (2	Adjustment on initial application of IFRS 16	_	_	_	(12 555)	_	(12 555)
Transactions with owners         (60 543)         59 595         (44 491)         (283 380)         (7 265)         (336)           Issue of ordinary shares         24 145         -         -         -         -         24           Repurchase and cancellation of ordinary shares         (84 688)         -         -         -         -         (84           Share-based payment costs         -         -         26 306         -         -         26           Treasury shares sold         -         227 772         -         -         -         227           Treasury shares purchased         -         (146 322)         -         -         -         (146 322)         -         -         -         (146 322)         -         -         -         (2 262)         (2	<b>Comprehensive income</b> Profit for the year	2 129 572 - -	(230 723) - -	_			3 202 027 707 561 10 998
Saue of ordinary shares   24 145	Total comprehensive income for the year	_	_	10 998	646 957	60 604	718 559
Repurchase and cancellation of ordinary shares       (84 688)       -       -       -       -       (84 688)         Share-based payment costs       -       -       26 306       -       -       26 306         Treasury shares sold       -       227 772       -       -       -       227 772         Treasury shares purchased       -       (146 322)       -       -       -       -       (146 322)       -       -       -       (2 262)       (2 262)			59 595	(44 491)	(283 380)	(7 265)	(336 084)
retained earnings – (21 855) – 21 855 – Current tax on equity-settled share-based payments – 9 584 – 9	Repurchase and cancellation of ordinary shares Share-based payment costs Treasury shares sold Treasury shares purchased Transactions with non-controlling interest Release of profits from treasury shares to retained earnings Current tax on equity-settled share-based payments		(146 322) -	-	- - - - - 21 855	- - - - (2 262) - -	24 145 (84 688) 26 306 227 772 (146 322) (2 262) - 9 584
Deferred tax on equity-settled share-based payments  (31 054) (31 054)  Loss on issue of shares in terms of share scheme Release of share-based payment reserve to retained earnings on vested share options  22 507 (22 507) -	Deferred tax on equity-settled share-based payments Loss on issue of shares in terms of share scheme Release of share-based payment reserve to retained earnings on vested share options	- - -	- - -	(71 834) 22 507			(31 054) (71 834) - (287 731)
Balance at 29 February 2020 2 069 029 (171 128) (394 319) 1 802 273 278 647 3 584	Balance at 29 February 2020	2 069 029	(171 128)	(394 319)	1 802 273	278 647	3 584 502

<sup>&</sup>lt;sup>1</sup> Refer to note 13 for detail of the other reserves.

## **CONSOLIDATED STATEMENT OF CASH FLOWS**

		2020	2019
	Notes	R000	R000
Cash flows from operating activities			
Cash utilised in operations <sup>1</sup>	34.1	(1 256 928)	(1 016 172)
Interest received		1 591 597	1 404 489
Dividends received		646 607	479 981
Finance costs		(45 303)	(34 297)
Taxation paid	34.2	(259 480)	(222 391)
Operating cash flows before policyholder cash movement		676 493	611 610
Policyholder cash movement		22 485	7 111
Net cash flow from operating activities		698 978	618 721
Cash flows from investing activities			
Acquisition of subsidiaries (including collective investment schemes)	34.4	_	(1 226 304)
Deferred consideration paid for acquisition of businesses		(23 521)	
Acquisition of intangible assets		(45 394)	(94 672)
Proceeds from disposal of intangible assets		10 845	9 322
Disposal of subsidiaries (including collective investment schemes)	34.5	1 817	(32 100)
Proceeds from disposal of property and equipment		2 715	850
Proceeds from disposal of assets and liabilities held for sale	34.7		7 169
Purchases of property and equipment		(47 849)	(23 527)
Loans advanced to joint ventures		(734)	(809)
Net cash flow from investing activities		(102 121)	(1 360 071)
Cash flows from financing activities			
Dividends paid to equity holders of the group		(282 728)	(255 821)
Dividends paid to non-controlling interest		(5 003)	(7 168)
Acquisition from non-controlling interest (ordinary shares)	34.6	(431)	(54 011)
Advance of borrowings	34.3	570	
Repayments of borrowings	34.3	(100 000)	(742)
Lease liabilities paid – principal portion	17	(36 910)	_
Treasury shares sold by subsidiary		92 057	198 245
Purchase of treasury shares		(146 322)	(234 268)
Shares issued	12	15 326	111 920
Shares repurchased and cancelled		(13 691)	
Net cash flow from financing activities		(477 132)	(241 845)
Net increase/(decrease) in cash and cash equivalents		119 725	(983 195)
Cash and cash equivalents at the beginning of the year		945 442	1 920 626
Exchange gains on cash and cash equivalents		8 486	8 011
Cash and cash equivalents at the end of the year	34.9	1 073 653	945 442

The movement in cash utilised in operations can vary significantly as a result of daily fluctuations in cash linked to investment contracts, cash held by the stockbroking business and cash utilised for the loan facility obtained by the group on the loan facilities provided to clients on their share portfolios at PSG Securities. PSG Life, the group's linked insurance company, issues linked policies to policyholders (where the value of policy benefits is directly linked to the fair value of the supporting assets). When these policies mature, the company raises a debtor for the money receivable from the third-party investment provider, and raises a creditor for the amount owing to the client. A timing difference occurs at month-end where the money was received from the third-party investment provider, but only paid out by the company after month-end, resulting in significant fluctuations in the working capital of the company. Similar working capital fluctuations occur at PSG Securities Limited, the group's stockbroking business, mainly due to the timing of the close of the JSE in terms of client settlements. Refer to page 133 for the impact of the client-related balances on the cash utilised in operations.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 29 February 2020

The principal accounting policies applied in the preparation of these group and company financial statements are set out in Annexure A. The accounting policies applied are in terms of IFRS and are consistent with those applied in the previous annual financial statements, except for the mandatory adoption of IFRS 16 — Leases, which is effective for years commencing 1 March 2019. The group has applied the standard retrospectively without restating comparative figures. Refer to note 37 for further detail.

### 1. BASIS OF PREPARATION

The group and company financial statements of PSG Konsult Limited have been prepared in accordance with the JSE Listings Requirements and the requirements of the Companies Act. The JSE Listings Requirements require annual financial statements to be prepared in accordance with the framework concepts and the recognition and measurement requirements of IFRS, as defined by IAS 1; the IFRIC interpretations; the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee; the Financial Reporting Pronouncements, as issued by the Financial Reporting Standards Council, and in the manner required by the Companies Act.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) classified as 'at fair value through profit or loss', long-term insurance contract liabilities that are measured in terms of the financial soundness valuation (FSV) basis as set out in Standard of Actuarial Practice (SAP) 104 — Calculation of the value of assets, liabilities and solvency capital requirement of long-term insurers and investment in a joint venture using the equity method of accounting.

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

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

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

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 2.1 Intangible assets

## Initial recognition as part of a business combination

Intangible assets acquired as part of business combinations are recognised at their fair value. The fair value is determined by using a discounted cash flow valuation method based on assumptions and estimates regarding future revenue growth, weighted cost of capital, working capital and other economic factors. These assumptions reflect management's best estimates but are subject to inherent uncertainties, which may not be controlled by management.

The discount rate is based on the long-term risk-free rate with risk premiums added for market and other company and asset-specific risks. No business combinations occurred during the 2020 financial year which resulted in the recognition of an intangible asset. Intangible assets acquired through business combinations during the 2019 financial year were valued using discount rates, ranging between 13.1% and 19.1%.

## Useful lives of customer relationships

Intangible assets (excluding goodwill) are amortised over their estimated useful lives. The amortisation method used best reflects the pattern in which the asset's future economic benefits are consumed by the group.

The useful life of key customer relationships is estimated based on the cancellation experience of the existing business/revenue stream and the useful life of customer relationships of other players in the market.

No business combinations occurred during the 2020 financial year which resulted in the recognition of customer relationships. For the key customer relationships recognised during the 2019 financial year as part of a business combination, a useful life of 20 years and an average cancellation rate of 5% were assumed. A maximum useful life of 20 years was used for the other customer relationships recognised during the 2020 financial year (2019: maximum useful life of 20 years).

Refer to the intangible asset accounting policy in Annexure A and note 1 for further detail.

## **Estimated impairment**

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy on goodwill. The recoverable amounts of CGUs have been determined by applying a price-earnings ratio to obtain the fair value less costs of disposal. The range of price-earnings ratios used varied from 5.0 to 7.5 (2019: 5.0 to 7.5). Alternatively, a value-in-use calculation is performed when considered necessary.

Customer relationships are evaluated for indicators of impairment using the most recent price-earnings ratios for similar transactions in the market. The range of price-earnings ratios used varied from 5.0 to 7.5 (2019: 5.0 to 7.5). When these impairment tests indicated that the assets may need to be impaired, management assessed the recoverable amount of the CGUs based on value-in-use calculations. Refer to note 1 for further detail.

## **SEGMENT REPORTING**

## for the year ended 29 February 2020

The composition of the reportable segments represents the internal reporting structure and the monthly reporting to the chief operating decision-maker (CODM). The CODM, for the purpose of IFRS 8 – Operating Segments, has been identified as the CEO, supported by the group Manco. The group's internal reporting structure is reviewed in order to assess performance and allocate resources. The group is organised into three reportable segments, namely:

- PSG Wealth deriving income mainly from total managed assets and total platform assets
- PSG Asset Management deriving income mainly from total assets under management and administration
- PSG Insure deriving income mainly from written premiums and underwriting

Corporate support costs refer to a variety of services and functions that are performed centrally for the individual business units within each business segment, as well as housing the group's executive office. Besides the traditional accounting and secretarial services provided to group divisions and subsidiaries, the corporate office also provides legal, risk, IT, marketing, HR, payroll, internal audit and corporate finance services. The strategic elements of IT, in terms of both services and infrastructure, are also centralised in the corporate office. The corporate costs are allocated to the three reportable segments.

## 1. DESCRIPTION OF BUSINESS SEGMENTS

PSG Wealth, which consists of five business units — Distribution, Securities, LISP and Life Platform, Multi Management and Employee Benefits — is designed to meet the needs of individuals, families and businesses. Through its highly skilled wealth managers, PSG Wealth offers a wide range of personalised services (including portfolio management, stockbroking, local and offshore investments, estate planning, financial planning, local and offshore fiduciary services, multi-managed solutions and retirement products). The Wealth offices are fully equipped to deliver a high-quality personal service to customers.

PSG Asset Management is an established investment management company with a proven investment track record. It offers investors a simple, but comprehensive range of local and global investment products. The division's products include both local and international unit trust funds.

PSG Insure, through its registered insurance brokers and PSG's short-term insurance company, Western National Insurance Company Limited, offers a full range of tailor-made short-term insurance products and services from personal (home, car and household insurance) to commercial (business and agri-insurance) requirements. To harness the insurance solutions available to customers effectively, the division's expert insurance specialists, through a strict due diligence process, will simplify the process of selecting the most appropriate solution for its clients. In addition to the intermediary services which PSG Insure offers, PSG Short-Term Administration supports clients through the claim process, administrative issues and general policy maintenance, including an annual reappraisal of their portfolio.

The CODM considers the performance of reportable segments based on total core income as a measure of growth and headline earnings as a measure of profitability. In order to evaluate the core results of the group, the CODM segregates the income statement by eliminating the impact of the linked investment policies issued and the consolidation of the collective investment schemes from the core operations in the group.

A subsidiary of the group, PSG Life Limited, is a linked insurance company that issues linked policies to policyholders (where the value of policy benefits is directly linked to the fair value of the supporting assets), and as such does not expose the group to the market risk of fair value adjustments on the financial asset as this risk is assumed by the policyholder.

The group consolidates collective investment schemes, in terms of IFRS 10 – Consolidated Financial Statements, over which the group has control. The consolidation of these funds does not impact total earnings, comprehensive income, shareholders' funds or the net asset value of the group; however, it requires the group to recognise the income statement impact as part of that of the group.

## 2. HEADLINE EARNINGS PER REPORTABLE SEGMENT

For the year ended 29 February 2020	Wealth R000	Asset Management R000	Insure R000	Total R000
Headline earnings <sup>1</sup>	376 384	146 420	121 604	644 408
<ul><li>recurring</li><li>non-recurring</li></ul>	376 384 -	146 420 -	121 604 -	644 408 -
Recurring headline earnings — excluding intangible asset amortisation ${\sf cost^2}$	409 739	146 927	142 913	699 579

For the year ended 28 February 2019	Wealth R000	Asset Management R000	Insure R000	Total R000
Headline earnings <sup>1</sup>	355 228	167 279	81 381	603 888
<ul><li>recurring</li><li>non-recurring</li></ul>	338 594 16 634	167 279 —	85 226 (3 845)	591 099 12 789
Recurring headline earnings — excluding intangible asset amortisation cost <sup>2</sup>	370 172	167 786	103 370	641 328

Headline earnings, calculated in terms of the requirements stipulated in Circular 1/2019 as issued by SAICA, comprise recurring and non-recurring headline earnings. Recurring headline earnings are calculated by excluding non-recurring headline earnings to increase comparability of the performance of the group from one year to another. Non-recurring headline earnings include one-off gains and losses and the resulting tax charge on these items.

## 3. INCOME PER REPORTABLE SEGMENT

For the year ended 29 February 2020	Wealth R000	Asset Management R000	Insure R000	Total R000
<b>Total IFRS reported income</b> Linked investment business and other income	2 432 425	525 144	2 099 441	5 057 010
	11 859	-	-	11 859
Total core income	2 444 284	525 144	2 099 441	5 068 869
Total segment income	3 200 941	827 744	2 139 181	6 167 866
Intersegment income	(756 657)	(302 600)	(39 740)	(1 098 997)

For the year ended 28 February 2019	Wealth R000	Asset Management R000	Insure R000	Total R000
<b>Total IFRS reported income</b> Linked investment business and other income	2 245 411	562 264	1 763 658	4 571 333
	32 244	—	—	32 244
Total core income	2 277 655	562 264	1 763 658	4 603 577
Total segment income	3 013 329	850 375	1 818 958	5 682 662
Intersegment income	(735 674)	(288 111)	(55 300)	(1 079 085)

Intersegment income and expenses consist of fees charged at market-related rates. The group accounts for intersegment income and expenses by eliminating these transactions to only reflect transactions with third parties. Intersegment income is eliminated by deducting it from total segment income to reflect income generated by segment from external customers.

The group mainly operates in the Republic of South Africa, with 93.1% (2019: 93.1%) of the total income from external customers (total IFRS reported income) generated in the Republic of South Africa.

Given the nature of the operations, there is no single external customer that provides 10% or more of the group's income (2019: none).

<sup>&</sup>lt;sup>2</sup> The intangible asset amortisation cost includes the amortisation on customer relationships. It excludes the amortisation on computer software and other intangible assets.

# **SEGMENT REPORTING**

for the year ended 29 February 2020

## 4. DIVISIONAL INCOME STATEMENT

The profit or loss information follows a similar format to the consolidated income statement. The divisional income statement reflects the core business operations of the group.

For the year ended 29 February 2020	Wealth R000	Asset Management R000	Insure R000	Total R000
Total income	2 444 284	525 144	2 099 441	5 068 869
Total expenses	(1 881 814)	(332 053)	(1 840 709)	(4 054 576)
	562 470	193 091	258 732	1 014 293
Total loss from joint ventures	_	-	(420)	(420)
Profit before finance costs and taxation	562 470	193 091	258 312	1 013 873
Finance costs <sup>1</sup>	(37 512)	(1 444)	(4 544)	(43 500)
Profit before taxation	524 958	191 647	253 768	970 373
Taxation	(141 882)	(45 216)	(75 714)	(262 812)
Profit for the year	383 076	146 431	178 054	707 561
Attributable to:				
Owners of the parent	376 735	146 431	123 791	646 957
Non-controlling interest	6 341	_	54 263	60 604
	383 076	146 431	178 054	707 561
Headline earnings	376 384	146 420	121 604	644 408
Recurring headline earnings	376 384	146 420	121 604	644 408

For the year ended 28 February 2019	Wealth R000	Asset Management R000	Insure R000	Total R000
Total income	2 277 655	562 264	1 763 658	4 603 577
Total expenses	(1 742 373)	(338 509)	(1 601 460)	(3 682 342)
Total profit from joint ventures	535 282	223 755	162 198	921 235
	—	—	431	431
<b>Profit before finance costs and taxation</b>	535 282	223 755	162 629	921 666
Finance costs <sup>1</sup>	(22 132)	(300)	(12)	(22 444)
<b>Profit before taxation</b> Taxation	513 150	111 691	84 971	899 222
	(151 651)	(56 197)	(48 830)	(256 678)
Profit for the year	361 499	55 494	36 141	642 544
Attributable to: Owners of the parent Non-controlling interest	355 360	167 258	79 556	602 174
	6 139	-	34 231	40 370
	361 499	167 258	113 787	642 544
Headline earnings	355 228	167 279	81 381	603 888
Recurring headline earnings	338 594	167 279	85 226	591 099

<sup>&</sup>lt;sup>1</sup> Finance costs in the PSG Wealth division includes the finance charge on the funding utilised to provide loan facilities to clients on their share portfolios at PSG Securities (secured by the underlying JSE Top 100 equity securities held in excess of four times the value of the loan facilities) on which PSG Wealth receives a margin. The finance costs of R37.5 million (2019: R22.1 million) consist of R4.6 million (2019: R9.8 million) on the loan facilities, with the remaining portion of the finance charge on the contracts for difference (CFD) margin, lease liabilities and the bank overdrafts.

## 5. STATEMENT OF FINANCIAL POSITION (CLIENT VS OWN)

In order to evaluate the consolidated financial position of the group, the CODM segregates the statement of financial position of the group between own balances and client-related balances.

Client-related balances represent the investment contract liabilities and related linked client assets of PSG Life Limited, the broker and clearing accounts, and the settlement control accounts of the stockbroking business, the collective investment schemes consolidated under IFRS 10 — Consolidated Financial Statements and corresponding third-party liabilities, the short-term claim control accounts and related bank accounts, as well as the CFD assets and related liabilities.

As at 29 February 2020	Total IFRS reported R000	Own balances R000	Client-related balances R000
ASSETS			
Equity securities	2 229 474	20 173	2 209 301
Debt securities <sup>1</sup>	6 212 400	52 372	6 160 028
Unit-linked investments	50 398 850	677 147	49 721 703
Investment in investment contracts	15 587	_	15 587
Receivables including insurance receivables <sup>1</sup>	2 094 305	353 962	1 740 343
Derivative financial instruments	23 131		23 131
Cash and cash equivalents (including money market funds) <sup>1</sup>	1 073 653	2 319 875	(1 246 222)
Other assets <sup>2, 3</sup>	1 852 188	1 852 188	
Total assets	63 899 588	5 275 717	58 623 871
EQUITY			
Equity attributable to owners of the parent	3 305 855	3 305 855	_
Non-controlling interest	278 647	278 647	_
Total equity	3 584 502	3 584 502	_
LIABILITIES			
Investment contracts	26 694 209	_	26 694 209
Third-party liabilities arising on consolidation of mutual funds <sup>1</sup>	30 293 931	_	30 293 931
Derivative financial instruments	30 406	-	30 406
Trade and other payables <sup>1</sup>	2 356 383	751 058	1 605 325
Other liabilities <sup>3, 4</sup>	940 157	940 157	_
Total liabilities	60 315 086	1 691 215	58 623 871
Total equity and liabilities	63 899 588	5 275 717	58 623 871

<sup>&</sup>lt;sup>1</sup> The client-related balances include the impact of the consolidation of the PSG Money Market Fund. The cash invested therein was derecognised and all of the fund's underlying highly liquid debt securities, receivables and trade and other payables were recognised. Third-party cash invested in the PSG Money Market Fund is included under third-party liabilities arising on consolidation of mutual funds.

Other assets consist of property and equipment, right-of-use assets, intangible assets, investment in joint ventures, current and deferred income tax assets, loans and advances, reinsurance assets and deferred acquisition costs.

<sup>&</sup>lt;sup>3</sup> The increase in other assets and other liabilities, from the comparative year, is primarily due to the inclusion of the right-of-use assets of R248.2 million and lease liabilities of R305.0 million recognised due to the adoption of IFRS 16. Refer to note 37 for further details.

Other liabilities consist of deferred reinsurance acquisition revenue, lease liabilities, current and deferred income tax liabilities and insurance contracts.

# **SEGMENT REPORTING**

for the year ended 29 February 2020

# 5. STATEMENT OF FINANCIAL POSITION (CLIENT VS OWN) (continued)

As at 28 February 2019	Total IFRS reported R000	Own balances R000	Client-related balances R000
ASSETS			
Equity securities	2 353 387	16 444	2 336 943
Debt securities <sup>1</sup>	6 262 071	52 207	6 209 864
Unit-linked investments	46 488 080	769 414	45 718 666
Investment in investment contracts	16 048	_	16 048
Receivables including insurance receivables <sup>1</sup>	1 690 828	369 874	1 320 954
Derivative financial instruments	10 592	_	10 592
Cash and cash equivalents (including money market funds) <sup>1</sup>	945 442	1 848 840	(903 398)
Other assets <sup>2</sup>	1 607 714	1 607 714	_
Total assets	59 374 162	4 664 493	54 709 669
EQUITY			
Equity attributable to owners of the parent	2 989 274	2 989 274	_
Non-controlling interest	225 308	225 308	_
Total equity	3 214 582	3 214 582	_
LIABILITIES			
Borrowings <sup>3</sup>	112 314	1 725	110 589
Investment contracts	25 932 120	_	25 932 120
Third-party liabilities arising on consolidation of mutual funds <sup>1</sup>	27 350 796	_	27 350 796
Derivative financial instruments	13 973	_	13 973
Trade and other payables <sup>1</sup>	2 153 524	851 333	1 302 191
Other liabilities <sup>4</sup>	596 853	596 853	-
Total liabilities	56 159 580	1 449 911	54 709 669
Total equity and liabilities	59 374 162	4 664 493	54 709 669

<sup>&</sup>lt;sup>1</sup> The client-related balances include the impact of the consolidation of the PSG Money Market Fund. The cash invested therein was derecognised and all of the fund's underlying highly liquid debt securities, receivables and trade and other payables were recognised. Third-party cash invested in the PSG Money Market Fund is included under third-party liabilities arising on consolidation of mutual funds.

Other assets consist of property and equipment, intangible assets, investment in joint ventures, current and deferred income tax assets, loans and advances, reinsurance assets and deferred acquisition costs.

<sup>&</sup>lt;sup>3</sup> The DMTN programme funding raised in order to internally fund the clients' Scriptfin loans has been reflected under client-related balances.

<sup>&</sup>lt;sup>4</sup> Other liabilities consist of deferred reinsurance acquisition revenue, current and deferred income tax liabilities and insurance contracts.

## 6. INCOME STATEMENT (CLIENT VS OWN)

In order to evaluate the consolidated income statement of the group, the CODM segregates the income statement by eliminating the impact of the linked investment policies issued and the consolidation of the collective investment schemes from the core operations of the group.

For the year ended 29 February 2020	Total IFRS reported R000	Core business R000	Linked investment business and other R000
Revenue from contracts with customers and other operating income <sup>1</sup>	3 678 801	3 753 354	(74 553)
Investment income <sup>2</sup>	2 238 204	234 941	2 003 263
Net fair value gains and losses on financial instruments	(141 842)	(16 432)	(125 410)
Fair value adjustment to investment contract liabilities Fair value adjustment to third-party liabilities	(505 539) (1 309 620)	_	(505 539) (1 309 620)
Net insurance premium revenue	1 097 006	1 097 006	(1 309 020)
Total income	5 057 010	5 068 869	(11 859)
Insurance claims and loss adjustment expenses	(943 290)	(943 290)	_
Other <sup>1, 3</sup>	(3 063 383)	(3 111 286)	47 903
Total expenses	(4 006 673)	(4 054 576)	47 903
Total loss from joint ventures	(420)	(420)	_
Profit before finance costs and taxation	1 049 917	1 013 873	36 044
Finance costs	(45 303)	(43 500)	(1 803)
Profit before taxation	1 004 614	970 373	34 241
Taxation	(297 053)	(262 812)	(34 241)
Profit for the year	707 561	707 561	_
Attributable to:			
Owners of the parent	646 957	646 957	_
Non-controlling interest	60 604	60 604	_
	707 561	707 561	_

<sup>&</sup>lt;sup>1</sup> The linked investment business and other income statement includes the impact of the fees eliminated between the collective investment schemes (consolidated under IFRS 10 – Consolidated Financial Statements) and the collective investment scheme management company, PSG Collective Investments (RF) Limited.

Investment income consists of interest income on amortised cost financial instruments, interest income on fair value through profit or loss financial instruments and dividend income.

<sup>3</sup> Other consists of insurance claims and loss adjustment expenses recovered from reinsurers, commission paid, depreciation and amortisation, employee benefit expenses, marketing, administration and other expenses.

# **SEGMENT REPORTING**

for the year ended 29 February 2020

# 6. INCOME STATEMENT (CLIENT VS OWN) (continued)

For the year ended 28 February 2019	Total IFRS reported R000	Core business R000	Linked investment business and other R000
Revenue from contracts with customers and other operating income <sup>1</sup>	3 361 163	3 450 885	(89 722)
Investment income <sup>2</sup>	1 884 470 646 786	213 587 2 344	1 670 883 644 442
Net fair value gains and losses on financial instruments Fair value adjustment to investment contract liabilities	(1 061 253)	2 344	(1 061 253)
Fair value adjustment to third-party liabilities	(1 196 594)	_	(1 196 594)
Net insurance premium revenue	936 761	936 761	(1 150 554)
Total income	4 571 333	4 603 577	(32 244)
Insurance claims and loss adjustment expenses	(803 746)	(803 746)	_
Other <sup>1, 3</sup>	(2 821 998)	(2 878 596)	56 598
Total expenses	(3 625 744)	(3 682 342)	56 598
Total profit from joint ventures	431	431	_
Profit before finance costs and taxation	946 020	921 666	24 354
Finance costs	(34 297)	(22 444)	(11 853)
Profit before taxation	911 723	899 222	12 501
Taxation	(269 179)	(256 678)	(12 501)
Profit for the year	642 544	642 544	_
Attributable to:			
Owners of the parent	602 174	602 174	_
Non-controlling interest	40 370	40 370	_
	642 544	642 544	_

<sup>&</sup>lt;sup>1</sup> The linked investment business and other income statement includes the impact of the fees eliminated between the collective investment schemes (consolidated under IFRS 10 – Consolidated Financial Statements) and the collective investment scheme management company, PSG Collective Investments (RF) Limited.

## 7. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER OPERATING INCOME

The revenue from contracts with customers and other operating income relating to the core business operations of the group has been disaggregated as follows in accordance with IFRS 15:

	2020 R000	2019 R000
Revenue from contracts with customers Brokerage Commission, administration and other fees¹ Management and performance fees Policy administration fees	207 258 2 169 204 1 135 033 86 585	209 778 1 908 996 1 142 631 72 674
Other operating income Reinsurance commission income <sup>1</sup> Other	136 883 18 391 3 753 354	106 233 10 573 3 450 885

<sup>&</sup>lt;sup>1</sup> Reinsurance commission income was previously included within commission, administration and other fees, however, it is now disclosed as part of other operating income. This change had no impact on the income statement.

Investment income consists of interest income on amortised cost financial instruments, interest income on fair value through profit or loss financial instruments and dividend income.

<sup>3</sup> Other consists of insurance claims and loss adjustment expenses recovered from reinsurers, commission paid, depreciation and amortisation, employee benefit expenses, marketing, administration and other expenses.

## 8. STATEMENT OF CASH FLOWS (CLIENT VS OWN)

In order to assist the CODM to evaluate the consolidated statement of cash flows of the group, the statement of cash flows is segregated between cash flows relating to own balances and client-related balances.

For the year ended 29 February 2020	Total IFRS reported R000	Own balances R000	Client-related balances R000
Cash flows from operating activities	698 978	941 802	(242 824)
Cash (utilised in)/generated by operations	(1 256 928)	1 003 001	(2 259 929)
Interest received	1 591 597	231 240	1 360 357
Dividends received	646 607	3 701	642 906
Finance costs	(45 303)	(43 500)	(1 803)
Taxation paid	(259 480)	(252 640)	(6 840)
Policyholder cash movement	22 485	_	22 485
Cash flows from investing activities	(102 121)	(102 121)	-
Cash flows from financing activities	(477 132)	(377 132)	(100 000)
Repayment of borrowings <sup>1</sup>	(100 000)	_	(100 000)
Other <sup>2</sup>	(377 132)	(377 132)	
Net increase/(decrease) in cash and cash equivalents	119 725	462 549	(342 824)
Cash and cash equivalents at the beginning of the year	945 442	1 848 840	(903 398)
Exchange gains on cash and cash equivalents	8 486	8 486	_
Cash and cash equivalents at the end of the year	1 073 653	2 319 875	(1 246 222)

For the year ended 28 February 2019	Total IFRS reported R000	Own balances R000	Client-related balances R000
Cash flows from operating activities	618 721	670 490	(51 769)
Cash (utilised in)/generated by operations Interest received Dividends received Finance costs Taxation (paid)/refunded Policyholder cash movement	(1 016 172) 1 404 489 479 981 (34 297) (222 391) 7 111		1 194 670
Cash flows from investing activities	(1 360 071)	(153 709)	(1 206 362)
Acquisition of subsidiaries (including collective investment schemes) Disposal of subsidiaries (including collective investment schemes) Other <sup>3</sup>	(1 226 304) (32 100) (101 667)	(52 042) - (101 667)	(1 174 262) (32 100) —
Cash flows from financing activities	(241 845)	(241 845)	_
Net (decrease)/increase in cash and cash equivalents Cash and cash equivalents at the beginning of the year Exchange gains on cash and cash equivalents	(983 195) 1 920 626 8 011	274 936 1 565 893 8 011	(1 258 131) 354 733 —
Cash and cash equivalents at the end of the year	945 442	1 848 840	(903 398)

The repayment of borrowings under client-related balances relates to the redemption of the notes issued under the DMTN programme.

Other consists of cash flows relating to dividends paid, the principal portion of lease liabilities paid, shares issued, shares repurchased and cancelled, the purchase and sale of treasury shares and other.

<sup>3</sup> Other consists of cash flows relating to the acquisition of intangible assets, purchases of property and equipment, proceeds from disposal of assets and liabilities held for sale, proceeds from disposal of intangible assets and other.

# **NOTES TO THE GROUP FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 1. INTANGIBLE ASSETS

	Trademarks R000	Goodwill R000	Deferred acquisition costs R000	Customer relation- ships R000	Other intangibles R000	Total R000
As at 29 February 2020 Cost Accumulated amortisation and	-	486 243	28 466	1 077 955	52 620	1 655 273
impairment	_	(74 087)	(10 964)	(363 026)	(52 404)	(510 470)
Balance at the end of the year	_	412 156	17 502	714 929	216	1 144 803
<b>Reconciliation</b> Balance at the beginning of the year Additions Disposals Disposal of subsidiaries (refer to	-	416 167 - (1 812)	17 938 2 138 -	743 641 34 695 (8 236)	503 184 –	1 178 249 37 017 (10 048)
note 34.5) Amortisation	- -	(2 199) –	– (2 574)	(36) (55 135)	– (471)	(2 235) (58 180)
Balance at the end of the year	_	412 156	17 502	714 929	216	1 144 803
As at 28 February 2019 Cost Accumulated amortisation and impairment	9 989 (9 989)	490 254 (74 087)	26 328 (8 390)	1 056 895 (313 254)	62 988 (62 485)	1 646 454 (468 205)
Balance at the end of the year		416 167	17 938	743 641	503	1 178 249
Reconciliation Balance at the beginning of the year Additions Disposals Acquisition of subsidiaries (refer to note 34.4) Reclassification to assets held for sale Impairment Amortisation	-	390 099 - (4 437) 34 939 (3 600) (834)	15 744 3 139 - - - - (945)	620 326 87 355 (6 569) 95 880 (3 122) – (50 229)	1 636 74 - - - - (1 207)	1 027 805 90 568 (11 006) 130 819 (6 722) (834) (52 381)
Balance at the end of the year	_	416 167	17 938	743 641	503	1 178 249

Included in other intangibles is computer software to the value of R0.1 million (2019: R0.4 million).

# 1. INTANGIBLE ASSETS (continued)

## **Customer relationships**

The CGU groups to which the customer relationships balance relates to is as follows:

CGU group	Reportable segment	2020 R000	
Wealth distribution	PSG Wealth	352 481	355 200
Products and platform	PSG Wealth	91 802	97 980
Securities	PSG Wealth	10 651	11 795
Asset management	PSG Asset Management	1 182	1 689
Short-term distribution	PSG Insure	223 677	237 673
Short-term administration	PSG Insure	19 981	22 732
Short-term licence business	PSG Insure	15 155	16 572
		714 929	743 641

Included in customer relationships are the following material individual CGUs and their respective remaining amortisation period:

		Remaining amortisation period		Carrying value	
Individual CGU CG	CGU group	2020	2019	2020 R000	2019 R000
Wealth adviser office (no. 4)	Products and platform	11 years	12 years	66 713	72 778
AIFA commercial and industrial	Short-term distribution	18 years and 3 months	19 years and 3 months	53 986	56 944
Wealth adviser office (no. 1)	Wealth distribution	14 years	15 years	38 153	40 878
AIFA personal lines	Short-term distribution	18 years and 9 months	19 years and 9 months	32 991	34 751
Wealth adviser office (no. 2)	Wealth distribution	14 years	15 years	28 221	30 236
Multinet Makelaars	Short-term distribution	6 years and 1 month	7 years and 1 month	24 106	28 042
Wealth adviser office (no. 3)	Wealth distribution	16 years and 3 months	17 years and 3 months	13 245	14 060
Diagonal Street Financial Services	Short-term distribution, Short-term administration	10 years and 6 months	11 years and 6 months	12 375	13 554
Tlotlisa Securities (T-Sec)	Wealth distribution, Securities	9 years and 2 months	10 years and 2 months	11 000	12 200
Wealth adviser office (no. 6)	Products and platform	13 years	14 years	10 759	14 467
Wealth adviser office (no. 7)	Wealth distribution	18 years	19 years	9 989	10 543
Multifund	Short-term distribution, Short-term administration	10 years	11 years	8 812	9 913
Insurance Solutions	Short-term licence business	10 years	11 years	8 800	9 680
PSG Short-Term Administration	Short-term administration	6 years and 2 months	7 years and 2 months	8 280	9 620
				327 430	357 666

The above mentioned individual customer relationships relate to the original acquisitions of the respective books of business and/or entities and now form part of a larger CGU group.

Customer relationships are amortised over a maximum period of 20 years, which represents management's best estimate of the period over which economic benefits are expected to be derived. This estimate is based on the cancellation experience of the existing business/revenue stream and the useful life of customer relationships of other players in the market.

# **NOTES TO THE GROUP FINANCIAL STATEMENTS**

for the year ended 29 February 2020

## 1. INTANGIBLE ASSETS (continued)

## **Customer relationships (continued)**

The amortisation charge on the customer relationships for the year ended 29 February 2020 was R55.1 million (28 February 2019: R50.2 million). The amortisation charge is sensitive to the rate of attrition of the client base which impacts management's useful life assessment, which is illustrated in the table below:

Assumptions	Scenario 1 Years	Scenario 2 Years	Scenario 1 Amortisation charge on customer relationships would have increased to R000	Scenario 2 Amortisation charge on customer relationships would have increased to R000
29 February 2020 Amortisation period	15	10	70 702	106 053
<b>28 February 2019</b> Amortisation period	15	10	65 027	97 541

## Goodwill

The CGU groups to which the goodwill balance relates to is as follows:

CGU group	Reportable segment	2020 R000	2019 R000
Wealth distribution	PSG Wealth	122 426	122 426
Products and platform	PSG Wealth	18 728	18 728
Securities	PSG Wealth	23 974	23 974
Asset management	PSG Asset Management	8 719	8 719
Short-term distribution	PSG Insure	156 656	160 667
Short-term administration	PSG Insure	7 458	7 458
Short-term licence business	PSG Insure	74 195	74 195
		412 156	416 167

For impairment testing purposes, goodwill is allocated to CGUs at the lowest level of operating activity to which it relates. The wealth distribution and short-term distribution CGU groups are assessed at an individual adviser office level. The following are the material offices to which goodwill was allocated:

Individual CGU	CGU group	2020 R000	2019 R000
100% offices	Short-term distribution	99 170	99 170
Advance Wealth Management	Wealth distribution	50 310	50 310
Tlotlisa Securities (T-Sec)	Wealth distribution, Securities	37 366	37 366
AIFA commercial and industrial	Short-term distribution	20 798	21 217
AIFA personal lines	Short-term distribution	10 321	11 714
Wealth adviser office (no. 5)	Wealth distribution	9 466	9 466
Insure adviser office (no. 1)	Short-term distribution	9 047	9 047
Wealth adviser office (no. 2)	Wealth distribution	7 457	7 457
Insure adviser office (no. 2)	Short-term distribution	6 574	6 574
		250 509	252 321

## 1. INTANGIBLE ASSETS (continued)

## Impairment assessment

When goodwill is evaluated for impairment on an annual basis, the carrying value is assessed on a PE ratio basis whereby the PE ratio is multiplied by the current year earnings of the CGU to which the goodwill was allocated. PE ratios used by management are determined with reference to similar listed companies, as well as recent transactions that occurred within the group. The range of PE ratios used varied from 5.0 to 7.5 (2019: 5.0 to 7.5).

Customer relationships were evaluated for indicators of impairment using the most recent PE ratios for similar transactions in the market. The range of PE ratios used varied from 5.0 to 7.5 (2019: 5.0 to 7.5).

Where the impairment tests described above indicated that the intangible assets may need to be impaired, management assessed the recoverable amount of the CGUs based on value-in-use calculations of the various CGUs. These calculations use cash flow projections based on financial budgets approved by management covering no longer than a five-year planning period. Where appropriate, cash flows were extrapolated into perpetuity by using a terminal growth rate model.

A key input used in the models to determine the value in use of the CGUs is the pre-tax discount rate applied to management's forecast cash flows, which reflects the current market assessments of the time value of money and the risk specific to the CGU. The assumptions have been disclosed below:

	<b>2020</b> %	<b>2019</b> %
Risk-free rate (2020: R209; 2019: R209) Tax rate Growth rate Terminal growth rate Discount rate	9.8 28.0 3.0 3.0 18.2	9.4 28.0 3.0 3.0 18.3

Management's assessment takes into account the current economic conditions prevalent in the Republic of South Africa.

For those CGU groups where a value-in-use calculation was performed, a sensitivity analysis was performed on the calculated value. If the discount rate increases by 10%, the value in use would decrease on average by 11% (2019: 11%). Should the discount rate decrease by 10%, the value in use would increase on average by 14% (2019: 14%). Management has considered and assessed reasonably possible changes in key assumptions and have not identified any instances that could cause the carrying amount of the CGU groups to exceed the value in use. These sensitivities and other relevant factors were considered in management's determination that no intangible assets need to be impaired (2019: Rnil).

# **NOTES TO THE GROUP FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 2. PROPERTY AND EQUIPMENT

	Motor Vehicles	Office equipment	Computer equipment	Total	
	R000	R000	R000	R000	
As at 29 February 2020					
Cost	1 483	137 336	110 096	248 915	
Accumulated depreciation and impairment	(916)	(71 984)	(84 300)	(157 200)	
Balance at the end of the year	567	65 352	25 796	91 715	
Reconciliation					
Balance at the beginning of the year	525	35 370	31 349	67 244	
Additions	436	46 314	13 971	60 721	
Disposals	(204)	(449)	(1 563)	(2 216)	
Depreciation	(190)	(15 846)	(17 916)	(33 952)	
Disposal of subsidiaries (refer to note 34.5) Exchange differences		(37) –	(48) 3	(85) 3	
Balance at the end of the year	567	65 352	25 796	91 715	
As at 28 February 2019					
Cost	1 364	96 021	99 898	197 283	
Accumulated depreciation and impairment	(839)	(60 651)	(68 549)	(130 039)	
Balance at the end of the year	525	35 370	31 349	67 244	
Balance at the beginning of the year	698	37 473	36 115	74 286	
Additions	25	10 659	12 843	23 527	
Disposals	_	(283)	(323)	(606)	
Depreciation	(175)	(12 369)	(16 874)	(29 418)	
Reclassification to assets held for sale	(27)	(124)	(455)	(606)	
Impairment	_	(11)	_	(11)	
Exchange differences	4	25	43	72	
Exertainge americanees					

Depreciation expense of R34.0 million (2019: R29.4 million) has been charged as part of depreciation and amortisation as disclosed in note 26.2.

## 3. RIGHT-OF-USE ASSETS

	Buildings R000	Total R000
As at 29 February 2020		
Cost	300 059	300 059
Accumulated depreciation and impairment	(51 839)	(51 839)
Balance at the end of the year	248 220	248 220
Reconciliation		
Balance at the beginning of the year	_	-
Adoption of IFRS 16	150 393	150 393
Additions	122 845	122 845
Modifications	27 751	27 751
Terminations	(873)	(873)
Depreciation	(51 935)	(51 935)
Exchange differences	39	39
Balance at the end of the year	248 220	248 220

Depreciation expense of R51.9 million has been charged as part of depreciation and amortisation as disclosed in note 26.2.

## 4. INVESTMENT IN JOINT VENTURES

	2020 R000	2019 R000
Unlisted ordinary share investments	1 105	1 525
<b>Reconciliation</b> Balance at the beginning of the year Share of (losses)/profits after taxation	1 525 (420)	1 094 431
Balance at the end of the year	1 105	1 525
Carrying value Shares at cost Share of profits and reserves since acquisition Dividends received	8 524 9 894 (17 313)	8 524 10 314 (17 313)
Balance at the end of the year	1 105	1 525
Loan granted to joint venture <sup>1</sup> Jan Jonker Property Investment Trust	6 059	5 325
Unsecured loan bearing interest at Namibian prime rate plus 2% with no repayment terms	6 059	5 325

<sup>&</sup>lt;sup>1</sup> The loan granted to the joint venture is recoverable on demand and is included under note 10 (Receivables including insurance receivables).

PSG Konsult Limited obtained the investment in Jan Jonker Property Investment Trust through the acquisition of the subsidiary, Western Group Holdings Limited, on 1 November 2012.

for the year ended 29 February 2020

### 5. DEFERRED INCOME TAX

	2020 R000	2019 R000
Analysis of the net deferred income tax balance <sup>1</sup> :		
Deferred income tax assets	81 315	101 091
Deferred income tax liabilities	(69 701)	(47 702)
Net deferred income tax assets	11 614	53 389
Deferred income tax assets		
To be recovered within 12 months	62 944	79 337
To be recovered after 12 months	18 371	21 754
	81 315	101 091
Deferred income tax liabilities		
To be recovered within 12 months <sup>2</sup>	17 819	23 212
To be recovered after 12 months	(87 520)	(70 914)
	(69 701)	(47 702)
1 Calculated on a net basis per subsidiary company, assuming that a company either has a deferred income tax asset or liability. 2 One subsidiary company reported a net deferred income tax liability at 29 February 2020 (28 February 2019: one), with a debit balance for the deferred income tax liability's current portion. This represents a current deferred income tax asset that exceeds the current deferred income tax liability and a non-current deferred income tax liability that exceeds the non-current deferred income tax asset.		
The gross movement of the deferred income tax is as follows:		
Balance at the beginning of the year	53 389	83 197
Adoption of IFRS 16 (refer to note 37)	4 882	_
Other movements	1 134	3 452
Disposal of books of business	1 474	1 241
Disposal of subsidiaries (refer to note 34.5)	(38)	(26.046)
Acquisition of subsidiaries (refer to note 34.4) Reclassified to assets and liabilities held for sale		(26 846) 780
Tax (charge)/credit to equity	(31 054)	3 372
Charge to profit or loss	(18 173)	(11 807)
Balance at the end of the year	11 614	53 389

### Creation of deferred tax assets and recognition of deferred tax liabilities

The deferred income tax assets and liabilities were calculated in full on all temporary differences under the liability method using an effective tax rate of 28% (2019: 28%) in South Africa and the official tax rates in the foreign subsidiaries, where applicable.

The recoverability of the deferred income tax assets was assessed, as set out in the accounting policies in Annexure A. Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is possible.

The deferred income tax asset of R5.5 million (2019: R10.6 million) raised due to tax losses relates to subsidiaries that have suffered a loss in either the current or preceding year. Based on approved budgets prepared by management of these subsidiaries, the group considers it probable that the deferred income tax asset will be used against future taxable profits. The group has unused accumulated losses of R11.5 million (2019: R2.1 million) for which no deferred income tax asset has been raised.

## 5. DEFERRED INCOME TAX (continued)

The gross movement in the deferred income tax assets and liabilities during the year per category is as follows:

Deferred income tax assets	Deferred revenue R000	Provisions for other liabilities and charges R000	Lease liabilities R000	Tax losses carried forward R000	Accruals not currently deductible and other differences R000	Total R000
Carrying value at 1 March 2018 Credit/(charge) to profit or loss Credit to equity Other movements <sup>2</sup>	4 438 638 –	76 165 3 911 3 372 2 226	- - -	9 982 385 — 262	69 173 (19 255) – 916	159 758 (14 321) 3 372 3 404
Carrying value at 28 February 2019	5 076	85 674	-	10 629	50 834	152 213
Adoption of IFRS 16 (Charge)/credit to profit or loss Charge to equity Disposal of subsidiaries (refer to note 34.5) Other movements <sup>2</sup>	- (127) - - -	- (2 821) (31 054) - (226)	50 206 35 117 - - -	- (6 459) - (1) 1 332	(3 213) 28 - (37) 433	46 993 25 738 (31 054) (38) 1 539
Carrying value at 29 February 2020	4 949	51 573	85 323	5 501	48 045	195 391

Deferred income tax liabilities	Deferred acquisition cost R000	Prepaid expenses R000	Unrealised appreciation of investments R000	Right- of-use assets R000	Other intangible assets R000	Foreign exchange and other R000	Total R000
Carrying value at 1 March 2018 (Charge)/credit to profit	(4 408)	(2 659)	(10 253)	-	(54 115)	(5 126)	(76 561)
or loss Acquisition of subsidiaries	(615)	833	(2 760)	_	(87)	5 143	2 514
(refer to note 34.4)	_	-	_	_	(26 846)	_	(26 846)
Disposal of books of business Other movements	_	_	_	_	1 241 828	_	1 241 828
Carrying value at					020		
28 February 2019	(5 023)	(1 826)	(13 013)	_	(78 979)	17	(98 824)
Adoption of IFRS 16 (Charge)/credit to profit	-	-	-	(42 111)	-	-	(42 111)
or loss	122	(1 854)	(17 721)	(27 316)	6 081	(3 223)	(43 911)
Disposal of books of business Other movements	_	_	- 18	_	1 474	(423)	1 474 (405)
			10			(423)	(403)
Carrying value at 29 February 2020	(4 901)	(3 680)	(30 716)	(69 427)	(71 424)	(3 629)	(183 777)

<sup>1</sup> The movement schedule shows the deferred tax on a gross basis, i.e. breaks the respective entities' net deferred income tax asset/liability into the various categories.

<sup>&</sup>lt;sup>2</sup> The other movements mainly relate to the deferred tax impact of the exchange differences on the conversion of the group's foreign subsidiaries.

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# 6. FINANCIAL INSTRUMENTS

	2020		2019	9
Instrument per category	Fair value through profit or loss R000	Amortised cost R000	Fair value through profit or loss R000	Amortised cost R000
Equity securities Debt securities Unit-linked investments	2 229 474 6 212 400 50 398 850	- - -	2 353 387 6 195 523 46 488 080	66 548 –
Investment in investment contracts	15 587 58 856 311	-	16 048 55 053 038	66 548

# **Equity securities**

Reconciliation	Fair value through profit or loss R000	Total R000
Carrying value at 1 March 2018 Additions Disposals Unrealised fair value net gains Exchange differences Realised gains Reclassification to assets held for sale Dividends and interest reinvested	2 321 482 261 699 (282 408) 34 881 488 3 259 (8) 13 994	2 321 482 261 699 (282 408) 34 881 488 3 259 (8) 13 994
Carrying value at 28 February 2019	2 353 387	2 353 387
Additions Disposals Unrealised fair value net losses Exchange differences Realised losses Dividends and interest reinvested Carrying value at 29 February 2020	423 991 (462 417) (154 017) 4 758 (6 437) 70 209	423 991 (462 417) (154 017) 4 758 (6 437) 70 209 2 229 474
	2020 R000	2019 R000
Direct investments Consolidated collective investment schemes Own balances Investments linked to investment contracts	112 362 20 173 2 096 939 2 229 474	160 144 16 444 2 176 799 2 353 387
Current portion Non-current portion	259 406 1 970 068 2 229 474	256 729 2 096 658 2 353 387

# 6. FINANCIAL INSTRUMENTS (continued) **Debt securities**

Reconciliation	Fair value through profit or loss R000	Amortised cost R000	Total R000
Carrying value at 1 March 2018 Additions Acquisition of subsidiaries (refer to note 34.4) Disposals Maturities Unrealised fair value net losses Realised gains Interest and dividends reinvested Finance income	2 422 886 2 549 417 3 391 088 (1 883 731) (539 625) (2 123) 38 418 219 193	159 929 - - (105 234) - - - 11 853	2 582 815 2 549 417 3 391 088 (1 883 731) (644 859) (2 123) 38 418 219 193 11 853
Carrying value at 28 February 2019	6 195 523	66 548	6 262 071
Additions Disposals Maturities Exchange differences Unrealised fair value net losses Realised gains Interest and dividends reinvested Finance income Carrying value at 29 February 2020	11 487 334 (5 501 666) (6 824 044) 1 109 (4 873) 324 624 534 393	(69 079) - - - - 728 1 803	11 487 334 (5 501 666) (6 893 123) 1 109 (4 873) 324 624 535 121 1 803
, 3 ,			
		2020 R000	2019 R000
Direct investments Consolidated collective investment schemes Own balances Investments linked to investment contracts		5 789 117 52 372 370 911 6 212 400	5 841 398 52 207 368 466 6 262 071
Current portion Non-current portion		4 666 245 1 546 155 6 212 400	4 470 573 1 791 498 6 262 071

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# 6. FINANCIAL INSTRUMENTS (continued)

**Unit-linked investments** 

Reconciliation	Fair value through profit or loss	Total R000
Reconciliation	KUUU	KUUU
Carrying value at 1 March 2018 Additions Acquisition of subsidiaries (refer to note 34.4) Disposals Disposal of subsidiaries (refer to note 34.5) Exchange differences	42 196 090 10 881 371 251 697 (7 048 046) (1 785 201) 59 458	42 196 090 10 881 371 251 697 (7 048 046) (1 785 201) 59 458
Unrealised fair value net losses Realised gains Reclassification to assets held for sale Interest and dividends reinvested	(27 535) 523 846 (20) 1 436 420	(27 535) 523 846 (20) 1 436 420
Carrying value at 28 February 2019	46 488 080	46 488 080
Additions Disposals Exchange differences Unrealised fair value net losses Realised gains Interest and dividends reinvested Carrying value at 29 February 2020	17 521 994 (14 805 442) 9 263 (1 434 724) 1 131 063 1 488 616 50 398 850	17 521 994 (14 805 442) 9 263 (1 434 724) 1 131 063 1 488 616 50 398 850
	2020 R000	2019 R000
Direct investments Consolidated collective investment schemes Own balances Investments linked to investment contracts	25 541 501 677 147 24 180 202 50 398 850	22 355 944 769 414 23 362 722 46 488 080
Current portion Non-current portion	2 324 528 48 074 322	2 914 151 43 573 929
	50 398 850	46 488 080

# 6. FINANCIAL INSTRUMENTS (continued) **Investment in investment contracts**

Reconciliation	Fair value through profit or loss R000	Total R000
Carrying value at 1 March 2018 Investment contracts benefits paid Fair value adjustment and reinvestments to investment contracts	14 798 (936) 2 186	14 798 (936) 2 186
Carrying value at 28 February 2019	16 048	16 048
Investment contracts benefits paid Fair value adjustment and reinvestments to investment contracts	(111) (350)	(111) (350)
Carrying value at 29 February 2020	15 587	15 587
	2020 R000	2019 R000
Investments linked to investment contracts	15 587	16 048
Current portion Non-current portion	- 15 587	- 16 048
	15 587	16 048

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### 7. LOANS AND ADVANCES

	2020 R000	2019 R000
Secured Loans to short-term insurance clients (i) Loans to financial advisers (ii)	2 772 94 443	2 790 84 377
	97 215	87 167
Unsecured Loans to financial advisers (ii) Loans with non-controlling interest (iii) Other (iii)	39 750 468 579	37 180 468 4 180
	40 797	41 828
Total loans and advances	138 012	128 995
Current portion Non-current portion	77 537 60 475	74 105 54 890
	138 012	128 995

(i) Loans to short-term insurance clients

- · These loans are mainly through Hi-Five Corporate Finance Proprietary Limited, a subsidiary of Western Group Holdings Limited
- They accrue interest at rates ranging between 4.85% and 8.10% (2019: 4.85% and 8.10%)
- The repayment terms and conditions of the loans are negotiated on a case-by-case basis

## (ii) Loans to financial advisers

The balance of the secured loans to financial advisers is made up as follows:

- R92.8 million (2019: R82.7 million) is repayable by monthly instalments and the effective interest rates applied range between 11.07% and 13.07% (2019: 11.06% and 12.52%)
- R1.6 million (2019: R1.7 million) is interest-free and repayable on demand

The unsecured loans to financial advisers balance consists of:

- R10.5 million (2019: R14.7 million) is repayable by monthly instalments and the effective interest rate applied range between 12.07% and 12.57% (2019: 12.05%)
- R32.7 million (2019: R25.7 million) is interest-free and repayable on demand
- An expected credit loss of R3.4 million (2019: R3.2 million)

# (iii) Other loans and advances

The remaining loans and advances consist of:

- R3.2 million in the 2019 financial year, accruing interest at rates ranging between 8.20% and 9.82% with fixed repayment dates
- The remaining balance is interest-free and repayable on demand

### **Analysis of loans to financial advisers**

The loans to financial advisers have been categorised as follows:

Category	Description
Stage 1	These are loans which are up-to-date with no indication of a significant increase in credit risk.
Stage 2	These are loans which have had a significant increase in credit risk, but are not credit impaired, due to the following:  the adviser's books of business are not performing as expected; or  the adviser has missed repayments, other than due to the group's administrative reasons, and this has not been rectified within a month.
Stage 3	These are loans which have assessed to be credit impaired as a result of:  the adviser no longer being employed by the group;  legal is trying to recover the loan; or  the loan is more than three months in arrears.
Write-off	Loans are written off when there is no reasonable expectation of further recovery.

## 7. LOANS AND ADVANCES (continued)

# Reconciliation of loans to financial advisers (excluding expected credit loss provision)

	Stage 1 R000	Stage 2 R000	Stage 3 R000	Total R000
Carrying value at 1 March 2018  New loans granted/advances on existing loans  Loan repayments/derecognised (excluding write-offs)  Interest accrued for the year  Transfers between stages  Write-offs	97 827 90 260 (79 115) 10 917 (305)	3 765 3 762 (3 547) 502 174	1 630 - (414) - 131 (803)	103 222 94 022 (83 076) 11 419 – (803)
Carrying value at 28 February 2019	119 584	4 656	544	124 784
New loans granted/advances on existing loans Loan repayments/derecognised (excluding write-offs) Interest accrued for the year Transfers between stages Write-offs	79 782 (77 105) 11 065 453	3 114 (4 184) 296 (632)	- (104) - 179 (18)	82 896 (81 393) 11 361 – (18)
Carrying value at 29 February 2020	133 779	3 250	601	137 630

Under IFRS 9, loss allowances for loans to financial advisers are measured under the general expected credit loss model.

# Reconciliation of expected credit loss provision on loans to financial advisers

	Stage 1 R000	Stage 2 R000	Stage 3 R000	Total R000
Carrying value at 1 March 2018 (Charge)/credit to profit or loss In respect of financial assets originated during	(2 187)	(1 286)	(1 625)	(5 098)
the year In respect of financial assets originated during	(320)	(44)	(21)	(385)
prior years	514	506	433	1 453
Transfers between stages	636	(514)	(122)	_
Write-offs	_	_	803	803
Carrying value at 28 February 2019	(1 357)	(1 338)	(532)	(3 227)
(Charge)/credit to profit or loss In respect of financial assets originated during the year In respect of financial assets originated during	(159)	(1 106)	-	(1 265)
prior years	534	625	(122)	1 037
Transfers between stages	(43)	11	32	_
Write-offs	_	_	18	18
Carrying value at 29 February 2020	(1 025)	(1 808)	(604)	(3 437)

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### 8. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 R000	2019 R000
Derivative financial assets Derivative financial liabilities	23 131 (30 406)	10 592 (13 973)
Net derivative financial instruments	(7 275)	(3 381)
Derivative financial assets Current portion Non-current portion	23 131	10 592
	23 131	10 592
Derivative financial liabilities Current portion Non-current portion	(30 406)	(13 973)
	(30 406)	(13 973)
Analysis of net derivative balance Equity traded derivatives		
Contracts for difference	(7 275)	(3 381)
Reconciliation of net derivative balance Balance at the beginning of the year Additions Disposals	(3 381) - (3 894)	(8 003) 4 622 —
Balance at the end of the year	(7 275)	(3 381)

The notional principal amounts of the outstanding contracts for difference assets and liabilities at 29 February 2020 were R135.0 million (28 February 2019: R113.3 million) and R149.7 million (28 February 2019: R110.3 million) respectively.

### 9. REINSURANCE ASSETS

	2020 R000	2019 R000
Reinsurers' share of insurance liabilities	127 303	103 758
Balance at the beginning of the year Movement for the year	103 758 23 545	80 544 23 214
Total assets arising from reinsurance contracts	127 303	103 758
Current portion Non-current portion	127 303 -	103 758 —
	127 303	103 758

Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured, are included under note 10 (Receivables including insurance receivables).

#### 10. RECEIVABLES INCLUDING INSURANCE RECEIVABLES

	2020	2019
	R000	R000
Trade receivables	181 244	169 933
Receivables due from related parties (refer to note 33) (i)	79 614	75 653
Prepayments	35 671	24 091
Brokers and clearing houses and client accounts (ii)	1 625 666	1 277 978
Rental and other deposits	5 423	7 281
VAT receivable	10 655	3 955
Contracts for difference (iii)	43 485	20 031
Sundry debtors	60	869
	1 981 818	1 579 791
Insurance receivables <sup>1</sup>		
Due from contract holders and reinsurers	112 487	111 037
Total receivables including insurance receivables <sup>2</sup>	2 094 305	1 690 828
Current portion	2 088 246	1 685 447
Non-current portion	6 059	5 381
Non current portion		
	2 094 305	1 690 828

<sup>&</sup>lt;sup>1</sup> The insurance receivables are accounted for in terms of IFRS 4.

All non-current receivables are due within five years from the end of the reporting period.

## (i) Receivables due from related parties

- Includes balances of R6.1 million (2019: R5.3 million) that accrue interest. The effective interest rate applied to these balances is 12.36% (2019: 12.50%) and there are no fixed repayment terms.
- The remaining balances are interest-free and repayable on demand.

### (ii) Brokers and clearing houses and client accounts

- This represents amounts owing by the JSE for trades conducted during the last few days before the end of the financial year.
   These balances fluctuate on a daily basis depending on the activity in the market.
- Included in client accounts are balances of R161.8 million (2019: R113.7 million) which accrue interest at prime.
- The remaining balance is interest-free.

#### (iii) Contracts for difference

- Contracts for difference consist of collateral assets and margin accounts held by the underlying banking institutions on behalf of
  clients and are valued at the carrying value after processing the daily market and interest adjustments.
- The balance on 29 February 2020 and 28 February 2019 only represents the margin receivable at year-end from the financial institutions and accrues interest at SAFEX plus 2%.

The group applies the simplified approach to providing for expected credit losses on the financial receivables excluding insurance receivables, as prescribed by IFRS 9, which requires the use of lifetime expected loss provisions for all receivables at amortised cost. In assessing the impairment that should be raised, credit enhancements such as security held were taken into account (refer to page 187 for further detail). An insignificant portion of the receivables were not classified as stage 1. Based on this assessment, the expected credit loss provision was deemed to be immaterial.

<sup>&</sup>lt;sup>2</sup> Includes non-financial assets of R46.3 million (2019: R28.1 million).

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### 11. CASH AND CASH EQUIVALENTS (INCLUDING MONEY MARKET FUNDS)

	2020 R000	2019 R000
Cash at bank and in hand Short-term deposits	674 006 399 647	587 202 358 240
	1 073 653	945 442

The effective interest rate on cash and cash equivalents was 6.32% (2019: 6.64%). The short-term deposits have an average maturity of 30 days or less.

Impairments on cash and cash equivalents are measured on a 12-month expected credit loss basis and reflect the short-term maturities of the exposures. The group considers that its cash and cash equivalents have good credit quality based on the external credit ratings of the counterparties. No impairment is considered necessary.

Cash and cash equivalents included above relating to investment contract liabilities amounted to R30.6 million (2019: R8.1 million). Refer to note 18.

The cash invested in the PSG Money Market Fund is derecognised as a result of the consolidation of the fund in terms of IFRS 10 — Consolidated Financial Statements from 28 February 2019. Refer to note 34.4 for further details.

#### 12 STATED CAPITAL

### **Authorised**

3 billion shares with no par value (2019: 3 billion shares with no par value)

There were no changes to the authorised stated capital during the current reporting period (2019: no changes).

Issued shares	Number of shares (thousands)	Stated capital R000
As at 1 March 2018 Issue of ordinary shares	1 342 242 22 643	1 908 804 220 768
As at 28 February 2019	1 364 885	2 129 572
Issue of ordinary shares Repurchase and cancellation of ordinary shares	2 379 (10 341)	24 145 (84 688)
As at 29 February 2020	1 356 923	2 069 029

The shares issued during the current financial year were to fulfil the group's obligation towards the share options which vested on 18 April 2019 and 1 August 2019 respectively.

During October 2019 the company repurchased and cancelled 8.8 million ordinary shares. The weighted average cost price of the shares acquired were R8.08 per share. PSG Konsult repurchased and cancelled a further 1.5 million shares at a cost of R13.7 million during February 2020 at a weighted average cost price of R8.83 per share. The total cost of R84.7 million (weighted average cost price of R8.19 per share) was deducted from stated capital. The buy back and cancellation were approved by shareholders at last year's annual general meeting.

The shares issued during the previous financial year were to fulfil the group's obligation towards the share options which vested on 20 April 2018, 1 June 2018 and 1 August 2018 respectively.

All shares issued by the company were fully paid. The unissued shares in the company are placed under the control of the directors until the next AGM. The directors are authorised to buy back shares under general approval, subject to certain limitations and the JSE Listings Requirements.

### 12. STATED CAPITAL (continued)

Summary of the cash flow impact of the shares issued during the respective financial years	2020 R000	2019 R000
Issue of ordinary shares¹ Loss on issue of shares in terms of share scheme	24 145 (8 819)	220 768 (108 848)
Cash inflow	15 326	111 920

<sup>&</sup>lt;sup>1</sup> The decrease in the number of shares issued during the current financial year compared to the prior financial year was due to the existing treasury shares, held by the PSG Konsult Group Share Incentive Trust, primarily being utilised for the share scheme obligations.

#### **Treasury shares**

The shares bought back as treasury shares during the current financial year, by the PSG Konsult Group Share Incentive Trust to fulfil the share incentive scheme and deferred bonus obligations, are reflected as a deduction against equity. Refer to note 38 for the share analysis.

Analysis of treasury shares	Number of shares (thousands)	Treasury shares R000
As at 1 March 2018 Treasury shares sold Treasury shares purchased Release of profits on disposal from treasury shares to retained earnings	24 789 (20 580) 24 009	192 247 (198 245) 234 268 2 453
As at 28 February 2019	28 218	230 723
Treasury shares sold or cancelled Treasury shares purchased Release of profits on disposal from treasury shares to retained earnings	(24 613) 14 964 –	(227 772) 146 322 21 855
As at 29 February 2020	18 569	171 128

## **Share incentive scheme**

During the current and prior financial years, the group operated an equity-settled share incentive scheme in terms of the PSG Konsult Group Share Incentive Scheme (number of grants under current scheme – 2020: nine; 2019: nine). In terms of the scheme, share options are granted to executive directors, and senior and middle management.

In terms of the share incentive scheme, share options are allocated to participants at grant date at market price. The settlement of the purchase consideration payable by the employee in terms of the share options granted occurs on delivery. The only vesting requirement is that the employee must remain in the employment of the group at the relevant tranche vesting date in order to exercise options.

The assumptions made regarding share options issued are set out in this note.

The total equity-settled share-based payment costs recognised in the income statement for the scheme were R26.3 million (2019: R39.5 million). The share-based payment costs expensed during the year were credited to other reserves (as part of equity – refer to note 13).

The weighted average strike price of share options exercised in terms of the equity-settled share scheme during the year under review was R6.64 per share (2019: R5.01 per share).

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### 12. STATED CAPITAL (continued)

#### Share incentive scheme (continued)

The total fair value of the 218.2 million share options granted is R265.3 million (2019: 198.1 million share options granted with fair value of R214.8 million) and was determined using the Black-Scholes valuation model for share options issued prior to 1 March 2019, and using a Modified Binomial Tree model for share options issued subsequent to this date. The fair value of the options granted during 2020 is R50.5 million (2019: R42.6 million).

Vesting of shares occurs as follows:	%
2 years after grant date	25
3 years after grant date	25
4 years after grant date	25
5 years after grant date	25
	100

Granting of share options occurred as follows:	Number of share options	Strike price R	Volatility used <sup>1</sup> %	Dividend yield %	Risk-free rate %	Fair value of share price R
1 March 2011	27 761 084	1.54	4.74	5.65	7.89	1.75
1 July 2012	11 753 248	1.83	2.93	5.85	7.38	1.80
1 March 2013 <sup>2</sup>	46 250 000	2.83	30.00	6.00	6.20	2.40
1 June 2013 <sup>3</sup>	1 000 000	2.80	24.00	4.20	7.26	2.55
1 August 2013 <sup>4</sup>	300 000	3.40	24.00	3.46	7.26	3.50
1 March 2014 <sup>5</sup>	25 000 000	5.06	29.25	2.23	8.07	4.30
1 April 2014	240 000	0.00	29.25	2.23	8.07	4.30
1 April 2015 <sup>6</sup>	14 755 778	7.27	24.74	1.99	7.06	7.25
1 April 2016 <sup>7</sup>	27 700 778	6.81	34.72	2.24	8.42	6.84
1 August 2016 <sup>8</sup>	150 000	6.83	34.14	2.26	7.79	6.77
1 April 20179	22 739 006	7.59	26.76	2.35	7.62	7.55
1 April 2018 <sup>10</sup>	20 475 000	8.74	22.06	2.45	7.81	8.90
1 April 2019 <sup>11</sup>	18 000 000	10.15	28.17	2.51 - 2.59	7.03 - 7.38	9.95
1 June 2019	300 000	10.27	27.99	2.46 - 2.51	6.92 - 7.29	9.60
1 November 2019	250 000	8.20	28.21	2.08 - 2.34	6.76 - 7.24	9.12
1 February 2020	1 500 000	9.26	28.28	2.75 - 2.87	6.29 - 6.72	9.00
	218 174 894					

<sup>&</sup>lt;sup>1</sup> Volatility set at historic trend levels of PSG Konsult shares.

<sup>&</sup>lt;sup>2</sup> During the 2019 financial year, 8.36 million shares vested with a weighted average strike price of R2.83 per share.

<sup>&</sup>lt;sup>3</sup> During the 2019 financial year, 0.25 million shares were cancelled.

<sup>&</sup>lt;sup>4</sup> During the 2019 financial year, 0.08 million shares vested with a weighted average strike price of R3.40 per share.

<sup>&</sup>lt;sup>5</sup> During the 2020 financial year, 4.93 million shares vested with a weighted average strike price of R5.06 per share (2019: 4.93 million shares vested with a weighted average strike price of R5.06 per share, and 0.05 million shares were cancelled).

<sup>&</sup>lt;sup>6</sup> During the 2020 financial year, 2.73 million shares vested with a weighted average strike price of R7.27 per share, and 0.27 million shares were cancelled (2019: 2.77 million shares vested with a weighted average strike price of R7.27 per share, and 0.16 million shares were cancelled).

<sup>&</sup>lt;sup>7</sup> During the 2020 financial year, 6.45 million shares vested with a weighted average strike price of R6.81 per share, and 0.44 million shares were cancelled (2019: 6.51 million shares vested with a weighted average strike price of R6.81 per share, and 0.42 million shares were cancelled).

<sup>8</sup> During the 2020 financial year, 0.01 million shares vested with a weighted average strike price of R6.83 per share (2019: 0.01 million shares vested with a weighted average strike price of R6.83 per share and 0.10 million shares were cancelled).

<sup>9</sup> During the 2020 financial year, 5.26 million shares vested with a weighted average strike price of R7.59 per share and 2.60 million shares were cancelled (2019: 1.65 million shares were cancelled).

<sup>&</sup>lt;sup>10</sup> During the 2020 financial year, 2.10 million shares were cancelled (2019: 0.70 million shares were cancelled).

<sup>&</sup>lt;sup>11</sup> During the 2020 financial year, 1.38 million shares were cancelled.

# 12. STATED CAPITAL (continued)

**Share incentive scheme (continued)** 

	202	20	201	9
Analysis of outstanding share options by financial year of maturity	Weighted average strike price R	Number	Weighted average strike price R	Number
29 February 2020 28 February 2021 28 February 2022 28 February 2023 29 February 2024 28 February 2025	- 7.56 8.18 8.82 9.42 10.05	17 515 760 19 725 730 13 488 660 9 087 500 4 668 750	6.64 7.58 7.63 8.15 8.74	19 379 258 19 398 008 16 668 573 10 208 664 4 943 750
Analysis of share options		64 486 400	2020 Number	70 598 253 2019 Number
Number of share options allocated at the beginning of Number of share options cancelled during the year Number of share options vested during the year Number of share options allocated during the year Number of share options allocated at the end of the year	,		70 598 253 (6 782 595) (19 379 258) 20 050 000 64 486 400	76 112 755 (3 334 092) (22 655 410) 20 475 000 70 598 253
Analysis of outstanding scheme shares per 1 March 2014 1 April 2015 1 April 2016 1 August 2016 1 April 2017 1 April 2018 1 April 2019 1 June 2019 1 November 2019 1 February 2020	award		2 458 781 12 449 140 25 000 13 203 479 17 675 000 16 625 000 300 000 250 000 1 500 000	4 925 000 5 458 872 19 342 225 37 500 21 059 656 19 775 000 — —

The weighted average PSG Konsult share price for the year was R9.33 (2019: R9.84).

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## 13. OTHER RESERVES

	Foreign currency translation R000	Share-based payment R000	Common control R000	Total R000
Carrying value at 1 March 2018 Share-based payment costs Currency translation adjustments	(7 560) - 11 663	80 175 39 538	(459 337) —	(386 722) 39 538 11 663
Deferred tax on equity-settled share-based payments Current tax on equity-settled share-based payments	-	3 372 20 845	_	3 372 20 845
Loss on issue of shares in terms of share scheme Release of share-based payment reserve to retained	_	(108 849)	_	(108 849)
earnings Currency translation recycling in respect of foreign	_	59 466	_	59 466
subsidiary sold	(139)	_	_	(139)
Carrying value at 28 February 2019	3 964	94 547	(459 337)	(360 826)
Share-based payment costs Currency translation adjustments	- 10 998	26 306	-	26 306 10 998
Deferred tax on equity-settled share-based payments	-	(31 054)	-	(31 054)
Current tax on equity-settled share-based payments Loss on issue of shares in terms of share scheme Release of share-based payment reserve to retained	_	9 584 (71 834)	-	9 584 (71 834)
earnings	_	22 507	_	22 507
Carrying value at 29 February 2020	14 962	50 056	(459 337)	(394 319)

The common control reserve originated from various business combinations concluded with companies within the PSG Group. IFRS 3 – Business Combinations did not apply to these business combinations, as it was effected between parties that are ultimately controlled by PSG Group Limited, otherwise known as a common control transaction. The group elected to apply 'predecessor accounting'. Refer to note 3.3 of the detailed accounting policies for further explanation of the common control accounting policy.

The material transactions concluded in prior financial years were the acquisition of PSG Securities Limited on 1 November 2006, the acquisition of PSG Fixed Income and Commodities Proprietary Limited on 1 March 2010 and the acquisition of PSG Asset Management Holdings Proprietary Limited on 1 March 2011. These companies were all bought from subsidiaries within the PSG Group, with the ultimate holding company being PSG Group Limited.

### 14. NON-CONTROLLING INTEREST

	2020 R000	2019 R000
Balance at the beginning of the year Profit for the year Dividends paid Additional interest acquired from non-controlling interest Disposal of subsidiaries (refer to note 34.5)	225 308 60 604 (5 003) (431) (1 831)	235 654 40 370 (7 168) (43 548)
Balance at the end of the year	278 647	225 308
		i

## 15. INSURANCE CONTRACTS AND REINSURANCE ASSETS

	2020 R000	2019 R000
Gross		
Long-term insurance contracts (refer to a)	19 844	20 800
Short-term insurance contracts		
<ul> <li>claims reported and loss adjustment expenses (refer to b)</li> </ul>	185 970	155 560
<ul> <li>claims incurred but not reported (refer to c)</li> </ul>	104 594	86 747
<ul> <li>unearned premiums and unexpired risk provision (refer to d)</li> </ul>	244 061	278 979
Total insurance liabilities – gross	554 469	542 086
Current parties	534 625	521 286
Current portion Non-current portion	19 844	20 800
Non current portion	13 044	20 000
Recoverable from reinsurers		
Long-term insurance contracts (refer to a)	-	_
Short-term insurance contracts		
<ul> <li>claims reported and loss adjustment expenses (refer to b)</li> </ul>	77 056	66 621
- claims incurred but not reported (refer to c)	27 957	21 390
<ul> <li>unearned premiums and unexpired risk provision (refer to d)</li> </ul>	22 290	15 747
Total reinsurers' share of insurance liabilities	127 303	103 758
Current portion	127 303	103 758
Non-current portion	-	103 730
· · · · · · · · · · · · · · · · · · ·		
Net		
Long-term insurance contracts (refer to a)	19 844	20 800
Short-term insurance contracts	400.044	00.030
- claims reported and loss adjustment expenses (refer to b)	108 914	88 939
<ul> <li>claims incurred but not reported (refer to c)</li> <li>unearned premiums and unexpired risk provision (refer to d)</li> </ul>	76 637 221 771	65 357 263 232
Total insurance liabilities – net	427 166	438 328

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### 15. INSURANCE CONTRACTS AND REINSURANCE ASSETS (continued)

The gross claims reported, the loss adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvages. The amounts for salvage at 29 February 2020 and 28 February 2019 are not material.

### Movements in insurance contracts and reinsurance assets:

	2020 R000	2019 R000
a) Long-term insurance contracts		
Balance at the beginning of the year	20 800	21 551
Liabilities released for payments on death, surrender and other terminations for the year	(2 856)	(2 701)
Fees deducted from account balances	(138)	(154)
Transfer to policyholder funds	1 101	1 557
Changes in unit prices	776	547
Exchange differences	161	_
Balance at the end of the year	19 844	20 800

Refer to page 202 for the significant assumptions used in the long-term insurance contract liabilities.

	2020			2019		
	Gross R000	Reinsurance R000	Net R000	Gross R000	Reinsurance R000	Net R000
b) Claims reported and loss adjustment expenses						
Balance at the beginning of the year	155 560	(66 621)	88 939	121 099	(48 505)	72 594
Cash paid for claims settled in the year Increase in liabilities	(891 601)	262 709	(628 892)	(762 556)	199 217	(563 339)
<ul> <li>arising from current year claims</li> </ul>	1 076 614	(339 553)	737 061	917 579	(265 256)	652 323
<ul> <li>arising from prior year claims</li> </ul>	(155 007)	66 029	(88 978)	(120 526)	45 744	(74 782)
Other movements	404	380	784	(36)	2 179	2 143
Balance at the end of the year	185 970	(77 056)	108 914	155 560	(66 621)	88 939
c) Provision for IBNR						
Balance at the beginning of the year	86 747	(21 390)	65 357	85 076	(19 149)	65 927
Charged to the income statement	17 631	(6 435)	11 196	1 671	(2 241)	(570)
Net exchange differences	216	(132)	84			
Balance at the end of the year	104 594	(27 957)	76 637	86 747	(21 390)	65 357
d) Provision for unearned						
premiums and unexpired risk provision						
Balance at the beginning of the year	278 979	(15 747)	263 232	314 983	(12 890)	302 093
Charged to the income statement	(32 721)	(6 165)	(38 886)	(32 436)	(2 859)	(35 295)
Other movements	(2 197)	(378)	(2 575)	(3 568)	2	(3 566)
Balance at the end of the year	244 061	(22 290)	221 771	278 979	(15 747)	263 232

### **Claims development tables**

Due to the nature of the short-term insurance contracts, the uncertainty about the amount and timing of claims payments is typically resolved within one year. The corresponding reinsurance contracts are therefore estimated to realise within the next 12 months.

### Liability adequacy test

An unexpired risk reserve is required if the group believes that its unearned premium reserve will prove insufficient to cover the unexpired risk on its books at the valuation date.

#### 16. BORROWINGS

	2020 R000	2019 R000
Secured		
Bank loans (i)	_	9 362
DMTN programme (ii)	_	101 227
	_	110 589
Unsecured (iii) Other short-term loans	_	1 725
Total borrowings	_	112 314
Current portion Non-current portion	-	12 314 100 000
	-	112 314

### (i) Bank loans

- These include a non-recourse facility obtained from Investec Bank Limited, which is secured by the underlying JSE equity securities
  and cash held by the clients in their beneficiary distribution accounts in terms of the loan facility entered into with PSG Scriptfin
  Proprietary Limited.
- The non-recourse collateralised revolving facility was entered into between Investec Bank Limited, PSG Scriptfin Proprietary Limited and the underlying client, and is repayable by the client to Investec Bank Limited upon written notice to the client. This non-recourse loan has a balance of Rnil (2019: R9.4 million), and is secured by assets with a market value of Rnil at 29 February 2020 (28 February 2019: R32.2 million). Interest is charged at prime less 1.5% and is settled on a daily basis depending on the value of the security.

### (ii) DMTN programme

- PSG Konsult Treasury Limited established a R3.0 billion DMTN programme during the 2018 financial year.
- The maiden note issued of R100.0 million was fully subscribed to by ABSA Alternative Asset Managers. The note has a three-year term
  with a floating interest rate of the three-month Johannesburg Interbank Agreed Rate plus a margin of 2.18%. The capital is repayable
  on 12 July 2020.
- PSG Konsult Limited provided an irrevocable, unconditional guarantee for all the obligations and liabilities of PSG Konsult Treasury Limited to and in favour of the noteholders of the notes issued.
- The group negotiated the early redemption of the R100.0 million notes, which were redeemed on 12 July 2019 utilising surplus cash.

## (iii) Unsecured borrowings

• The unsecured borrowings are interest-free and repayable on demand.

The continual focus on optimising cash flow management and debt funding positions led to the establishment of PSG Konsult Treasury Limited, which centralises the management of the group's liquidity and solvency positions to ensure that capital is utilised appropriately to maximise shareholder returns.

Details of the group's exposure to risks arising from secured and unsecured borrowings are set out in note 36.

for the year ended 29 February 2020

# 17. LEASE LIABILITIES

	2020	2019
	R000	R000
Balance at the beginning of the year	_	_
Adoption of IFRS 16	179 305	_
Additions	135 698	_
Lease payments <sup>1</sup>	(62 309)	-
Modifications	27 751	_
Terminations	(927)	_
Finance cost	25 399	_
Exchange differences	47	_
Balance at the end of the year	304 964	_
Current portion	46 459	_
Non-current portion	258 505	_
	304 964	_
Maturity analysis – contractual undiscounted cash flows		
Less than 1 year	76 380	_
Between 1 and 5 years	249 868	-
Over 5 years	91 749	_
	417 997	_
Exposure to potential undiscounted cash flows which are not included in the lease liability:		
Extension options	64 559	-

<sup>&</sup>lt;sup>1</sup> The lease payments include interest of R25.4 million, which has been presented on the statement of cash flows within operating activities (as finance costs). The capital repayments of R36.9 million have been disclosed within financing activities.

### 18. INVESTMENT CONTRACTS

	2020 R000	2019 R000
Balance at the beginning of the year	25 932 120	24 278 949
Investment contract receipts	3 453 184	3 707 539
Investment contract benefits paid	(2 908 660)	(2 871 905)
Interest charge	1 803	11 853
Commission and administration expenses	(289 777)	(255 569)
Fair value adjustment to investment contract liabilities	505 539	1 061 253
Balance at the end of the year	26 694 209	25 932 120
Current portion	2 945 720	2 946 079
Non-current portion	23 748 489	22 986 041
	26 694 209	25 932 120
Fair value through profit or loss	26 694 209	25 873 713
At amortised cost	_	58 407
	26 694 209	25 932 120
Investment contracts are represented by the following investments:		
Equity securities	2 096 939	2 176 799
Debt securities	370 911	368 466
Unit-linked investments	24 180 202	23 362 722
Investment in investment contracts	15 587	16 048
Cash and cash equivalents	30 570	8 085
	26 694 209	25 932 120

### 19. THIRD-PARTY LIABILITIES ARISING ON CONSOLIDATION OF MUTUAL FUNDS

	2020 R000	2019 R000
Balance at the beginning of the year	27 350 796	22 585 256
Net capital contributions received or change in effective ownership Fair value adjustment to third-party liabilities	1 633 515 1 309 620	3 101 153 1 196 594
Acquisition of subsidiaries (refer to note 34.4) Disposal of subsidiaries (refer to note 34.5)		2 468 208 (2 000 415)
Balance at the end of the year	30 293 931	27 350 796
Current portion	30 293 931	27 350 796
Non-current portion		_
	30 293 931	27 350 796

These mutual fund liabilities relate to certain collective investment schemes which have been classified as investments in subsidiaries — refer to Annexure B. Consequently, fund interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value. A maturity analysis is not possible as it is dependent on external unitholders' behaviour outside of the group's control.

The group's own credit risk is not applicable in the measurement of these liabilities, as these liabilities are specifically referenced to assets and liabilities contained in separate legal structures that could not be attached in the event of a group entity holding the controlling units defaulting.

for the year ended 29 February 2020

## 20. TRADE AND OTHER PAYABLES

	2020 R000	2019 R000
Trade payables	524 192	511 727
Contracts for difference (i)	28 341	21 400
Deferred revenue	17 675	18 130
Purchase consideration payable (ii)	59 185	91 655
VAT payable	22 069	27 010
Unallocated premiums	83 957	104 309
Short-term claim creditors	22 281	18 166
Settlement control account (iii)	1 526 000	1 243 599
Amounts due to intermediaries	21 568	22 034
Amounts due to reinsurers	45 707	70 853
Amounts due to policyholders	5 408	15 214
Foreign reinsurers' reserve deposits	_	9 427
Total trade and other payables <sup>1</sup>	2 356 383	2 153 524
Current portion	2 337 055	2 117 415
•	19 328	36 109
Non-current portion	19 328	30 109
	2 356 383	2 153 524

<sup>&</sup>lt;sup>1</sup> Includes non-financial liabilities of R276.5 million (2019: R288.9 million).

# (i) Contracts for difference

• The balance represents the margin payable at year-end by the group to clients and accrues interest at SAFEX less 2%.

## (ii) Purchase consideration payable

- Relates to balances payable to advisers for books of business acquired during the current and previous financial years, which will be settled in cash on varying dates based on the respective agreements, subject to profit guarantees.
- The amounts payable are interest-free.

## (iii) Settlement control account

- Represents the settlement of trades done by clients in the last few days before year-end.
- The settlement to the clients takes place within three days after the transaction date.

## 21. DEFERRED ACQUISITION COSTS AND DEFERRED REINSURANCE ACQUISITION REVENUE

	2020 R000	2019 R000
<b>Deferred acquisition costs</b> Balance at the beginning of the year Movement for the year	5 685 937	4 820 865
Balance at the end of the year	6 622	5 685
<b>Deferred reinsurance acquisition revenue</b> Balance at the beginning of the year Movement for the year	4 904 2 175	3 681 1 223
Balance at the end of the year	7 079	4 904

## 22. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER OPERATING INCOME

	2020 R000	2019 R000
Revenue from contracts with customers  Commission and administration fees  Management and performance fees¹  Policy administration fees  Dealing and structuring (including brokerage)  Management fee rebates²	2 025 722 917 068 86 585 384 907 109 352	1 798 561 934 319 72 674 332 558 106 245
Other operating income Reinsurance commission income <sup>3</sup> Profit on disposal of investment in subsidiaries (refer to note 34.5) Profit on disposal of property and equipment Profit on disposal of intangible assets Income from related parties (refer to note 33) Sundry income	136 883 1 558 1 100 797 446 14 383 3 678 801	106 233 - 302 74 498 9 699 3 361 163

<sup>1</sup> Includes management fees and performance fees received from related-party offshore unit trusts and local unit trusts of R586.0 million (2019: R614.2 million). Refer to note 33

Refer to note 7 of the segment report for the disaggregation of revenue recognised in accordance with IFRS 15.

<sup>&</sup>lt;sup>2</sup> Management fee rebates accrue to the collective investment schemes which are consolidated under IFRS 10 – Consolidated Financial Statements.

<sup>3</sup> Reinsurance commission income was previously included within revenue from contracts with customers, however, it is now disclosed as part of other operating income. This change had no impact on the income statement.

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# 23. INVESTMENT INCOME

	2020 R000	2019 R000
Interest income <sup>1</sup>		
Interest income on amortised cost financial instruments		
Loans and advances	11 783	20 805
Receivables including insurance receivables	11 865	10 592
Contracts for difference – interest received on margin	14 729	13 378
Interest received from related parties (refer to note 33)	436	340
Cash and short-term funds (including money market funds)	105 246	101 961
Debt securities	728	-
Other	541	620
	145 328	147 696
Interest income on fair value through profit or loss financial instruments		
Equity securities	14 739	1 694
Debt securities <sup>2</sup>	533 938	218 486
Unit-linked investments	897 592	969 806
Cash and short-term funds (including money market funds)	_	66 807
	1 446 269	1 256 793
	1 591 597	1 404 489
Dividend income <sup>1</sup>		
Equity securities — at fair value through profit or loss	55 462	13 008
Debt securities — at fair value through profit or loss	454	707
Unit-linked investments – at fair value through profit or loss	590 691	466 266
	646 607	479 981
Total investment income	2 238 204	1 884 470

<sup>&</sup>lt;sup>1</sup> Includes interest received of R5.3 million (2019: R72.4 million) and dividends received of R166.1 million (2019: R105.8 million) from related-party local investment schemes. Refer to note 33.

R1.2 million interest income (2019: R1.2 million) was earned on impaired financial assets during the year.

Sciences, Refer to note 33.

Includes interest received of R10.1 million (2019: R9.2 million) from the investments the consolidated collective investment schemes have in related-party debt securities. Refer to note 33.

# 24. NET FAIR VALUE GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2020 R000	2019 R000
Foreign exchange gains Foreign exchange losses Movement on financial assets measured at amortised cost Fair value adjustment on contingent consideration Net fair value gains on financial assets designated at fair value through profit or loss:	13 367 (12 303) 1 803 4	66 790 (4 999) 11 853 214
Unrealised fair value (losses)/gains Realised fair value gains	(1 593 963) 1 449 250 (141 842)	7 839 565 089 646 786

## 25. NET INSURANCE BENEFITS AND CLAIMS

	Gross	Reinsurance	Net
	R000	R000	R000
2020			
Short-term insurance contracts			
Claims paid	930 264	(279 991)	650 273
Movement in the expected cost of outstanding claims	47 638	(17 250)	30 388
Salvages	(38 664)	17 283	(21 381)
Individual life long-term insurance contracts — death, maturity, surrender, sick leave benefits and transfers to policyholder liabilities			
Insurance policy benefits paid	2 856	-	2 856
Movement to insurance policy liabilities	1 196	-	1 196
Total claims and loss adjustment expenses	943 290	(279 958)	663 332
2019			
Short-term insurance contracts			
Claims paid	800 971	(212 811)	588 160
Movement in the expected cost of outstanding claims	36 167	(22 535)	13 632
Salvages	(37 883)	13 594	(24 289)
Individual life long-term insurance contracts – death, maturity, surrender,			
sick leave benefits and transfers to policyholder liabilities			
Insurance policy benefits paid	2 701	_	2 701
Movement to insurance policy liabilities	1 790	_	1 790
Total claims and loss adjustment expenses	803 746	(221 752)	581 994

for the year ended 29 February 2020

# 26. EXPENSES (EXCLUDING NET INSURANCE BENEFITS AND CLAIMS)

	2020 R000	2019 R000
<b>26.1 Commission paid</b> Commission paid to brokers and financial planners	1 509 684	1 367 697
<b>26.2 Depreciation and amortisation</b> Depreciation	85 887	29 418
Motor vehicles Office equipment Computer equipment Right-of-use assets	190 15 846 17 916 51 935	175 12 369 16 874 –
Amortisation of intangible assets Customer relationships Other	58 180 55 135 3 045	52 381 50 229 2 152
26.3 Employee benefit expenses Salaries, wages, allowances and terminations Social security costs (e.g. Unemployment Insurance Fund, group life, skills development levy, medical benefits, national insurance) Equity-settled share-based payment costs Pension/provident costs — defined contribution plans	144 067 858 000 67 686 26 306 58 410	81 799 802 051 60 558 39 538 48 324
r ension/provident costs — defined continuation plans	1 010 402	950 471

# 26. EXPENSES (EXCLUDING NET INSURANCE BENEFITS AND CLAIMS) (continued)

	2020 R000	2019 R000
.4 Marketing, administration and other expenses		
Lease expenses	21 108	82 111
Lease expense in respect of short-term leases	20 344	_
Lease expense in respect of low-value items	764	-
Operating lease rentals in terms of IAS 17	_	82 111
Auditor's remuneration	17 513	15 585
Audit services – current year	15 206	13 676
Audit services – prior year	994	650
Tax services	487	1 010
Other services	826	249
Management fees paid	182 827	151 200
Marketing expenses	56 029	48 871
Professional fees	33 243	31 452
Other administration expenses	357 742	296 435
JSE and STRATE expenses	48 543	48 735
Research and administration systems	52 998	53 838
IT expenses	87 312	68 172
Office expenses	39 986	29 032
Telephone expenses Travel expenses	14 748 26 259	13 428 23 260
Other expenses	87 896	59 970
•		
Impairment of financial and insurance assets	10 125	15 479 834
Impairment of intangible assets  Loss on disposal of property and equipment	601	834 58
Loss on disposal of property and equipment  Loss on disposal of intangible assets	801	1 758
2005 On disposal of intengine assets	679 188	643 783
	0/9 100	043 763

Refer to the report of the board of directors for detail of directors' remuneration on pages 111 and 112.

# 27. FINANCE COSTS

	2020 R000	2019 R000
Contracts for difference — interest paid on margin Investment contract liabilities at amortised cost Lease liabilities Other borrowings	11 766 1 803 25 399 6 335 45 303	10 369 11 853 - 12 075 34 297

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# 28. TAXATION

	2020 R000	2019 R000
Current taxation		
Current year	273 623	251 077
Prior year	553	(156)
	274 176	250 921
Deferred taxation		
Current year	9 293	13 547
Prior year	801	508
	10 094	14 055
Foreign current taxation		
Current year	4 704	6 451
	4 704	6 451
Foreign deferred taxation		
Current year	8 079	(2 248)
	8 079	(2 248)
Total income statement charge	297 053	269 179
	2020	2019
Reconciliation of effective rate of taxation	%	%
South African normal taxation rate	28.0	28.0
Adjusted for:	(0.0)	(4.7)
Non-taxable income <sup>1</sup>	(2.2) 0.1	(1.7) 0.1
Capital gains tax differential in rates Non-deductible charges²	1.0	1.4
Prior year underprovision	0.2	-
Deferred tax assets not recognised for tax losses	0.9	1.1
Foreign tax rate differential	(1.1)	(0.7)
Dividend withholding tax	0.1	0.1
Tax in policyholder funds	3.6	1.3
Tax deductible expenses not accounted for in income statement	(0.9)	(0.1)
	(0.1)	_
Portfolio transfer between tax authorities  Effective rate of taxation	29.6	29.5

<sup>1</sup> Non-taxable income relates primarily to dividend income, unrealised fair value gains and the non-taxable portion of the returns generated by PSG Life Limited.

<sup>&</sup>lt;sup>2</sup> Amortisation on customer relationships is the major contributor to the non-deductible charges.

# 28. TAXATION (continued)

	2020 R000	2019 R000
Unutilised tax losses Gross calculated tax losses at the end of the year available for utilisation against future		
taxable income Deferred income tax asset provided on	21 721 (10 217)	37 724 (35 584)
Available for future utilisation	11 504	2 140
The tax impact relating to components of other comprehensive income is as follows:		
Before tax Currency translation adjustments Recycling adjustment on sale of foreign subsidiaries	10 998 -	11 663 (139)
After tax Currency translation adjustments Recycling adjustment on sale of foreign subsidiaries	10 998 -	11 663 (139)
Other comprehensive income for the year, net of tax	10 998	11 524

The total deferred income tax, recognised in equity, relating to share-based payment transactions, was a debit of R36.0 million on 29 February 2020 (28 February 2019: credit of R3.8 million).

## 29. EARNINGS PER SHARE

	2020 R000	2019 R000
The calculations of earnings per share is based on the following:		
Profit attributable to ordinary shareholders  Non-headline earnings (net of non-controlling interest and related tax effect):	646 957	602 174
(Profit)/loss on disposal of intangible assets (including goodwill)	(602)	2 626
Gross amount Non-controlling interest Tax effect	(797) 68 127	2 518 757 (649)
Profit on disposal of property and equipment	(389)	(167)
Gross amount Non-controlling interest Tax effect	(499) 14 96	(232) 4 61
Profit on disposal of investment in subsidiaries	(1 558)	
Gross amount Non-controlling interest Tax effect	(1 558) - -	- - -
Profit on sale of assets and liabilities held for sale	_	(616)
Gross amount Non-controlling interest Tax effect	- - -	(616) - -
Currency translation recycling in respect of foreign subsidiary sold and other	_	(129)
Gross amount Non-controlling interest Tax effect	_ _ _	(129)
Headline earnings	644 408	603 888

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# 29. EARNINGS PER SHARE (continued)

The weighted average number of shares and diluted weighted average number of shares were calculated as follows:

	2020 Number of shares 000	2019 Number of shares 000
Number of shares at the beginning of the year Weighted number of shares issued during the year Net movement in treasury shares	1 364 885 (1 228) (22 732)	1 342 242 8 375 (25 523)
<b>Weighted number of shares at the end of the year</b> Number of bonus element shares to be issued in terms of share option scheme	1 340 925 5 249	1 325 094 11 868
Diluted weighted number of shares at the end of the year	1 346 174	1 336 962
	2020 R000	2019 R000
Basic Profit attributable to ordinary shareholders Headline earnings Weighted average number of ordinary shares in issue (000) Attributable earnings per share (cents) Headline earnings per share (cents) Net asset value per share (cents) Tangible net asset value per share (cents)	646 957 644 408 1 340 925 48.2 48.1 247.0 161.5	602 174 603 888 1 325 094 45.4 45.6 223.6 135.5
<b>Diluted</b> Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares (arising from the share incentive schemes set out in note 12). A calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the volume-weighted average annual JSE-listed share price of the company's shares) based on the monetary value of the equity-settled share options granted to participants.		
Profit attributable to ordinary shareholders Headline earnings Diluted weighted average number of ordinary shares in issue (000) Diluted attributable earnings per share (cents) Diluted headline earnings per share (cents)	646 957 644 408 1 346 174 48.1 47.9	602 174 603 888 1 336 962 45.0 45.2

<sup>&</sup>lt;sup>1</sup> The tangible net asset value excludes intangible assets.

#### 30. DIVIDEND PER SHARE

	2020 R000	2019 R000
Normal dividend	282 728	255 821

#### Interim

7.5 cents per share (2019: 7.0 cents per share)

#### Final

15.0 cents per share (2019: 13.5 cents per share)

Dividends are not accounted for until they have been approved by the company's board of directors.

## 31. CAPITAL COMMITMENTS AND CONTINGENCIES

Other than operating lease commitments (disclosed below), the group had the following capital commitments and contingencies as at 29 February 2020:

- PSG Konsult Treasury Limited, a wholly owned subsidiary, established a DMTN programme during the 2018 financial year. PSG Konsult
  Limited provided an irrevocable, unconditional guarantee for all the obligations and liabilities of PSG Konsult Treasury Limited to and
  in favour of the noteholders of the notes issued. The balance of the amount owing as at 29 February 2020 is Rnil (28 February 2019:
  R101.2 million).
- PSG Scriptfin Proprietary Limited, a wholly owned subsidiary, has a recourse facility from Investec Bank Limited with a balance of Rnil
  as at 29 February 2020 (28 February 2019: Rnil) and PSG Konsult Limited provided an irrevocable, unconditional guarantee for all the
  obligations and liabilities of PSG Scriptfin Proprietary Limited, under this facility, to Investec Bank Limited, limited to R150.0 million.
- PSG Konsult Limited has also issued letters of support, in the ordinary course of business, for the activities of certain subsidiaries in the group.
- The group, like all other financial services groups in South Africa, is subject to litigation in the normal course of its business.
   Appropriate provisions are made when losses are expected to materialise. There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which the group is aware, which may have, or have during the previous 12 months, had a material effect on the financial position of the group.

	2020 R000	-	2019 R000
Operating lease commitments			
Future minimum lease commitments in terms of operating leases of premises:			
Due within 1 year		_	59 442
Due within 1 to 5 years		_	151 491
Due after 5 years		-	25 794
		-	236 727

Effective 1 March 2019, lease commitments for buildings are now capitalised and disclosed (as required under IFRS 16) as lease liabilities in the statement of financial position.

## 32. BORROWING POWERS

In terms of the company's MOI, borrowing powers are unlimited. Details of actual borrowings of the group are disclosed in note 16 to the group financial statements.

for the year ended 29 February 2020

## 33. RELATED-PARTY TRANSACTIONS

PSG Konsult Limited, its subsidiaries and joint ventures enter into various financial services transactions with members of the PSG Group and PSG Konsult Limited Group. These transactions include a range of investment, administrative, advisory and corporate services in the normal course of business. All intergroup transactions have been eliminated on consolidation.

The related-party transactions are similar to those disclosed in the prior financial year.

Related-party balances	2020 R000	2019 R000
Receivables including insurance receivables  Due from companies in the PSG Konsult Limited Group		
PSG Konsult Employee Trust Jan Jonker Property Investment Trust	7 6 059	_ 5 325
Due from PSG unit trusts		
Local unit trusts	54 968	57 209
Offshore unit trusts	18 580	13 119
	79 614	75 653
Refer to note 10 for the detail of the receivables due from related parties.		
Trade and other payables Due to PSG unit trusts		
Local unit trusts	5 630	5 683
Offshore unit trusts	4 823	3 186
	10 453	8 869
Debt securities Investments in the debt securities of companies in the PSG Group		
Capitec Bank Limited	104 631	143 931
Unit-linked investments Investments in PSG unit trusts		
Unit trusts	20 724 809	19 899 536

# 33. RELATED-PARTY TRANSACTIONS (continued)

	2020	2040
Related-party transactions	2020 R000	2019 R000
Revenue from contracts with customers and other operating income		
Received from companies in the PSG Group		
PSG Corporate Services Proprietary Limited Capitec Bank Holdings Limited Group	266 180	250 248
Capitee bank Holdings Limited Group	100	240
Received from PSG unit trusts		
Local unit trusts	421 247	479 196
Offshore unit trusts	164 741	134 980
	586 434	614 674
Interest income		
Received from companies in the PSG Konsult Limited Group		
Jan Jonker Property Investment Trust	436	340
Received from companies in the PSG Group		
Capitec Bank Limited	10 129	9 232
Received from PSG unit trusts		
Local unit trusts (including money market funds)	5 307	72 394
	15 872	81 966
Dividend income		
Received from PSG unit trusts		
Local unit trusts	166 117	105 808
Commission paid		
Paid to companies in the PSG Group		
PSG Corporate Services Proprietary Limited	301	200
Marketing, administration and other expenses		
Paid to companies in the PSG Group		
PSG Capital Proprietary Limited	1 055	1 278
Grayston Elliot Proprietary Limited	307	180
Paid to PSG unit trusts		
Local unit trusts Offshore unit trusts	63 890 49 719	63 572 37 953
Olishole unit trusts		
	114 971	102 983

The shareholding of directors and the directors' remuneration is set out in the report of the board of directors on pages 111 to 113.

for the year ended 29 February 2020

### 33. RELATED-PARTY TRANSACTIONS (continued)

### **Key management**

Key management refers to those persons who have authority and responsibility for planning, directing and controlling the activities of the group. Key management is considered to be the board of directors and the prescribed officers. For the detail of the audited directors' and prescribed officers' remuneration, refer to the report of the board of directors on pages 111 and 112.

During the 2013 financial year, preference share funding of R61.3 million was advanced to a related-party of Mr FJ Gouws, CEO of PSG Konsult, by a subsidiary of PSG Group Limited. The proceeds from the preference share funding were utilised to acquire 35 million shares in PSG Konsult Limited (the PSG Konsult shares). During the 2020 financial year, the repayment term of the preference share funding was extended for a further three years. The preference share funding is therefore repayable after 10 years, carrying a fixed dividend rate of 8.5%, and the PSG Konsult shares serve as security. At the redemption date, should the market value of the PSG Konsult shares be less than the preference share funding redemption amount, the counterparty has an option to put the PSG Konsult shares to PSG Group Limited at an amount equal to the preference share funding redemption amount. The value of the remaining 31.0 million PSG Konsult shares that serve as security amounted to R244.9 million at 29 February 2020. The outstanding loan balance amounted to R27.8 million at 29 February 2020 and will be settled in full during May 2020 utilising proceeds from the disposal of 3.5 million PSG Konsult shares on 20 April 2020 and the receipt of year-end dividends.

During the prior financial year, a non-executive director, Mr ZL Combi, obtained a margin facility loan on the standard terms which the group makes available to PSG Securities clients. As at 29 February 2020 the loan value was R1.9 million (28 February 2019: R2.9 million), with an effective interest rate of 9.8% (2019: 10.3%).

During the current financial year, an entity associated with Mr CA Otto, a non-executive director of PSG Group Limited, obtained a margin facility loan on the standard terms which the group makes available to PSG Securities clients. As at 29 February 2020 the loan value was R13.8 million, with an effective interest rate of 9.8%.

#### 34. NOTES TO THE STATEMENT OF CASH FLOWS

	2020 R000	2019 R000
34.1 Cash utilised in operations		0.45.000
Profit before finance costs and taxation	1 049 917	946 020
Adjustment for non-cash items and other:	05.007	20.410
Depreciation of property and equipment and right-of-t		29 418
Impairment charges	10 125 58 180	6 265 52 381
Amortisation of intangible assets		
Interest income	(1 591 597)	(1 404 489)
Dividend income	(646 607)	(479 981)
Share of losses/(profits) of joint ventures	420	(431)
Profit on disposal of investment in subsidiaries	(1 558)	(202)
Profit on disposal of property and equipment	(1 100)	(302)
Profit on disposal of intangible assets	(797)	(74)
Loss on disposal of intangible assets	-	1 758
Loss on disposal of property and equipment	601	58
Net fair value losses/(gains) on financial instruments	142 906	(584 995)
Fair value adjustment to investment contract liabilities	505 539	1 061 253
Fair value adjustment to third-party liabilities	1 309 620	1 196 594
Equity-settled share-based payment costs	26 306	39 538
Net foreign exchange gains	(15 133)	(61 791)
	932 709	801 222
Changes in working capital		
Receivables including insurance receivables	(419 415)	8 386
Reinsurance assets	(23 545)	(23 214)
Deferred acquisition costs	(937)	(865)
Deferred reinsurance acquisition revenue	2 175	1 223
Loans and advances	(10 773)	14 941
Trade and other payables	253 628	(3 150)
Other financial instruments	(3 627 306)	(4 924 605)
Third-party liabilities arising on consolidation of mutua		3 101 151
Borrowings	(9 362)	9 362
Insurance contracts	12 383	(623)
	(1 256 928)	(1 016 172)
	(1 = 0 0 0 = 0)	, , , , , , , , , , , , , , , , , , , ,

# 34. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

				2020 R000	2019 R000
34.2	<b>Taxation paid</b> Charge to profit or loss Movement in deferred taxation Charge to other reserves Reclassified to assets and liabilities held for sale Disposal of investment in subsidiaries Movement in net taxation asset/liability			(297 053) 18 173 9 565 - (22) 9 857 (259 480)	(269 179) 11 807 20 830 156 - 13 995 (222 391)
		Bank Ioans R000	DMTN programme R000	Other short-term loans R000	Total R000
34.3	Reconciliation of movement in liabilities to the statement of cash flows				
	Carrying value at 1 March 2018 Cash flows – advance of borrowings Cash flows – repayment of borrowings¹ Other non-cash movements	9 362 - -	101 228 - (9 188) 9 187	2 467 — (742) —	103 695 9 362 (9 930) 9 187
	Carrying value at 28 February 2019	9 362	101 227	1 725	112 314
	Cash flows – advance of borrowings Cash flows – repayment of borrowings¹ Disposal of investment in subsidiaries Other non-cash movements	(9 362) - -	(105 452) - 4 225	570 - (2 295) -	570 (114 814) (2 295) 4 225
	Carrying value at 29 February 2020	_	_	_	_
	Cash flows relating to financing activities Cash flows relating to operating activities	- (9 362)	(100 000) (5 452)	570 —	(99 430) (14 814)
		(9 362)	(105 452)	570	(114 244)

<sup>&</sup>lt;sup>1</sup> Includes the capital repaid and the interest payments.

for the year ended 29 February 2020

## 34. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

#### 34.4 Acquisition of subsidiaries

## For the year ended 28 February 2019

## i) AIFA brokerage businesses

PSG Konsult Limited, through its subsidiary PSG Wealth Financial Planning Proprietary Limited, acquired the commercial and industrial short-term insurance and the personal lines short-term insurance brokerage business of AIFA. The effective dates of these transactions were 1 June 2018 and 1 December 2018 respectively following the fulfilment of suspensive conditions.

Details of the net assets and goodwill acquired are as follows:	Commercial and industrial R000	Personal lines R000
Cash consideration paid Cash due on effective dates	32 766 32 765	18 526 18 526
Total purchase consideration Less: Fair value of net assets acquired	65 531 (42 597)	37 052 (25 338)
Goodwill recognised on acquisition  The remaining purchase consideration for these transactions will be paid in two 25% tranches over the next two years.	22 934	11 714
Cash consideration paid Cash and cash equivalents acquired Net cash outflow in the 2019 financial year	(32 766) ———————————————————————————————————	(18 526) ————————————————————————————————————

The goodwill is mainly attributable to the workforce of the acquired business.

The fair value of the assets and liabilities arising from the acquisition are as follows:	Commercial and industrial R000	Personal lines R000
Intangible assets – Customer relationships	59 162	35 191
Deferred income tax liabilities	(16 565)	(9 853)
Total identifiable net assets	42 597	25 338

The income, included in the consolidated income statement, contributed by the AIFA brokerage businesses, was R124.2 million for the 2019 financial year. These businesses also contributed a profit after taxation of R14.8 million over the same period.

Had the AIFA brokerage businesses been consolidated from 1 March 2018, the consolidated income statement would have shown additional income of R92.2 million and profit after taxation of R11.7 million for the 2019 financial year.

# 34. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

#### 34.4 Acquisition of subsidiaries (continued)

# For the year ended 28 February 2019 (continued)

# ii) Acquisition of collective investment schemes

The group obtained control of the PSG Wealth Global Preserver Feeder Fund and the PSG Money Market Fund during the 2019 financial year. These funds were consolidated in accordance with IFRS 10 — Consolidated Financial Statements and are collective investment schemes managed by entities within the group.

Fund consolidated	PSG Wealth Global Preserver Feeder Fund	PSG Money Market Fund
% interest in fund on effective date Date of acquisition	31 31 August 2018	49 28 February 2019
Details of the net assets acquired are as follows:	2019 R000	2019 R000
Debt securities Unit-linked investments Receivables including insurance receivables Cash and cash equivalents (including money market funds) Third-party liabilities arising on consolidation of mutual funds Trade and other payables Net asset value Fair value of interest held before the business combination Total consideration paid	992 065 553 9 542 (689 002) (382) 312 776 (312 776)	3 391 088 - 759 61 821 (1 779 206) (1 245) 1 673 217 (1 673 217)
Cash consideration paid Cash and cash equivalents derecognised Cash and cash equivalents acquired Net cash inflow/(outflow) in the 2019 financial year	9 542 9 542	(1 245 625) 61 821 (1 183 804)

The detail of the net assets acquired, as disclosed above, represent fair value. All the gross contractual receivables are expected to be collected.

The total income and profit or loss that were included in the consolidated income statement during the 2019 financial year, as a result of consolidating the PSG Wealth Global Preserver Feeder Fund, was R2.1 million and Rnil respectively. Had this fund been consolidated from 1 March 2018, additional income of R1.3 million and profit of Rnil would have been recognised in the consolidated income statement.

Had the PSG Money Market Fund been consolidated from 1 March 2018, additional income of R15.8 million and profit of Rnil would have been recognised in the consolidated income statement.

Summary of cash flows for the year ended 28 February 2019	2019 R000
i) AIFA brokerage businesses	(51 292)
ii) Acquisition of collective investment schemes	
<ul> <li>PSG Wealth Global Preserver Feeder Fund</li> </ul>	9 542
<ul> <li>PSG Money Market Fund</li> </ul>	(1 183 804)
iii) Other business combinations	(750)
Net cash flow from acquisition of subsidiaries	(1 226 304)

for the year ended 29 February 2020

# 34. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

#### 34.5 Disposal of subsidiaries

# For the year ended 29 February 2020

# i) Disposal of subsidiaries

PSG Konsult Limited, through its subsidiary PSG Distribution Holdings Proprietary Limited, disposed of its investment in the PSG Optimum Group for a consideration of R2.5 million. The profit of R1.6 million resulting from the sale has been disclosed as part of revenue from contracts with customers and other operating income.

# For the year ended 28 February 2019

#### i) Disposal of collective investment schemes

The group deconsolidated the PSG Multi-Management Foreign Flexible Fund of Funds and the PSG Wealth Income Fund of Funds during the 2019 financial year as the group lost control of these funds, due to a decrease in the effective interest in the funds.

Details of the net assets disposed of are as follows:	PSG Multi Management Foreign Flexible Fund of Funds R000	PSG Wealth Income Fund of Funds R000
Unit-linked investments Receivables including insurance receivables Cash and cash equivalents (including money market funds) Third-party liabilities arising on consolidation of mutual funds Trade and other payables	133 049 186 008 17 182 (228 106) (2 511)	2 797 522 1 228 14 918 (1 772 309) (1 611)
Net asset value Transfer to unit-linked investments	105 622 (105 622)	1 039 748 (1 039 748)
Cash consideration received Cash and cash equivalents given up	(17 182)	(14 918)
Net cash outflow in the 2019 financial year	(17 182)	(14 918)
Summary of cash flows for the year ending 28 February 2019		2019 R000
<ul> <li>i) Disposal of collective investment schemes</li> <li>— PSG Multi Management Foreign Flexible Fund of Funds</li> <li>— PSG Wealth Income Fund of Funds</li> </ul>		(17 182) (14 918)
Net cash flow from disposal of subsidiaries		(32 100)

# 34.6 Transactions with non-controlling interest For the year ended 28 February 2019

Western Group Holdings Limited concluded an agreement with Santam, effective 1 November 2018. The result of this transaction was as follows:

- Western Group Holdings Limited repurchased its shares held by Santam.
- Santam acquired a 40% interest directly in Western National Insurance (RSA) Proprietary Limited.

The consideration was paid in full during the 2019 financial year.

# 34.7 Assets and liabilities held for sale

# For the year ended 28 February 2019

PSG Konsult Limited, through its subsidiary PSG Konsult (Mauritius) Limited, entered into an agreement to sell its 70% interest held in the PSG Wealth Limited (Mauritius) and PSG Securities Limited (Mauritius) businesses. The transaction was subject to suspensive conditions and was treated as held for sale on 31 August 2018.

The businesses were sold for R7.2 million, effective 1 November 2018, after the fulfilment of the suspensive conditions.

# 34.8 Other acquisitions – standardising of revenue sharing model For the year ended 29 February 2020

The group, through its subsidiary PSG Wealth Financial Planning Proprietary Limited, concluded further revenue sharing arrangements with a number of its advisers during the financial year. The purpose of these transactions was to standardise the revenue sharing arrangements between the advisers and PSG Konsult.

# 34. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

# 34.8 Other acquisitions – standardising of revenue sharing model (continued)

# For the year ended 29 February 2020 (continued)

A total cash consideration of R2.4 million was paid on the effective dates. These transactions did not qualify for accounting in terms of IFRS 3 – Business Combinations, as the assets acquired (the right to an increased share in the income stream of the adviser) did not constitute a business acquired.

These transactions did not have a material impact on our headline earnings during the year ended 29 February 2020.

# For the year ended 28 February 2019

The group, through its subsidiary PSG Wealth Financial Planning Proprietary Limited, concluded further revenue sharing arrangements with a number of its advisers during the financial year. The purpose of these transactions was to standardise the revenue sharing arrangements between the advisers and PSG Konsult.

A total cash consideration of R38.9 million was paid on the effective dates. These transactions did not qualify for accounting in terms of IFRS 3 – Business Combinations, as the assets acquired (the right to an increased share in the income stream of the adviser) did not constitute a business acquired.

These transactions contributed R3.3 million to headline earnings during the 2019 financial year, net of amortisation cost of R1.5 million.

As at 29 February 2020, there is no indication that any of the advisers, with whom these transactions were concluded, will not achieve the profit guarantee attached to the asset-for-share transactions. The fair value of the contingent consideration receivable is therefore Rnil on 29 February 2020.

	2020 R000	2019 R000
<b>34.9 Cash and equivalents at the end of the year</b> Cash and cash equivalents (including money market funds)	1 073 653	945 442

#### 35. EVENTS AFTER THE REPORTING DATE

In terms of IAS 10 — Events after the Reporting Period, non-adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 29 February 2020. It was concluded that the declaration of COVID-19 as a pandemic and the implementation of a nationwide lockdown is such an event.

Management has assessed the impact of COVID-19, specifically on the group's shareholders' assets and the impairment assessments performed for accounting standards that require the use of forward-looking information, such as expected credit losses and impairment assessments on non-financial assets. COVID-19 did not have a significant impact on either, with shareholders' assets declining by less than 1% for the month ended 31 March 2020 with a subsequent recovery during April 2020.

No other events material to the understanding of these results has occurred between the end of the reporting period and the date of approval of the consolidated financial statements.

#### 36. RISK MANAGEMENT

Risk management is a priority because it affects every part of the business. It is a pre-emptive process that allows the group to assess and analyse risk in an integrated fashion, identifying potential areas in advance and then proactively create processes and measures for compliance. PSG Konsult believes that risk management is key in ensuring the sustainability of the business model.

Fundamentally, the board of directors' responsibility in managing risk is to protect the interests of all of the group's stakeholders, being the shareholders, policyholders, employees, regulatory bodies and related parties, while increasing shareholder value. It fully accepts responsibility for risk management and internal controls, and in so doing the board of directors has deployed a number of control mechanisms to prevent and mitigate the potential impact of risk.

The primary responsibility for risk management at an operational level rests with the Exco. Management and various specialist board committees are tasked with integrating the management of risk into the day-to-day activities of the group. The group defines the roles, responsibility and accountability for managing, reporting and escalating risks and issues throughout the group by applying the three layers of defence approach, as set out in the risk report on page 89. This approach incorporates the oversight, management and assurance of risk management, essentially giving three independent views of risk in the organisation.

The group is continuously enhancing its risk management capabilities, particularly in line with the Prudential Authority requirements. Its framework, policies and support processes are regularly updated to reflect these enhancements.

Financial instruments and insurance assets and liabilities are grouped into classes in order to facilitate effective financial risk management and disclosure in terms of IFRS 7 – Financial Instruments: Disclosures and IFRS 13 – Fair Value Measurement. Refer to the following pages for further detail.

for the year ended 29 February 2020

# 36. RISK MANAGEMENT (continued) Financial risk management

		2020				
		2020			2019	
Assets	Own balances R000	Client- related balances R000	Total R000	Own balances R000	Client- related balances R000	Total R000
Financial instruments carried at						
fair value through profit or loss						
Equity securities	20 173	2 209 301	2 229 474	16 444	2 336 943	2 353 387
Quoted Unquoted	18 853 1 320	2 200 494 8 807	2 219 347 10 127	16 204 240	2 336 943	2 353 147 240
Debt securities	52 372	2 917 588	2 969 960	44 066	2 760 369	2 804 435
Government debt securities – quoted	15 869	514 332	530 201	18 049	414 391	432 440
Other debt securities – quoted	36 503	2 403 256	2 439 759	26 017	2 345 978	2 371 995
Jnit-linked investments	677 147	49 721 703	50 398 850	769 414	45 718 666	46 488 080
Collective investment schemes	651 002	49 448 130	50 099 132	749 684	45 283 537	46 033 221
Other unit-linked investments	26 145	273 573	299 718	19 730	435 129	454 859
nvestment in investment contracts Derivative financial instruments	_	15 587 23 131	15 587 23 131	_	16 048 10 592	16 048 10 592
Cash and cash equivalents <sup>2</sup>	1 546 645	(1 546 645)	-	1 202 774	(1 202 774)	10 332
Designated						
Debt securities	_	3 242 440	3 242 440	_	3 391 088	3 391 088
Government debt securities – quoted Other debt securities – quoted	_	427 779 2 814 661	427 779 2 814 661	_ _	727 348 2 663 740	727 348 2 663 740
Financial instruments carried at						
amortised cost						
Debt securities	_			8 141	58 407	66 548
Other debt securities – unquoted	-		420.042	8 141	58 407	66 548
Loans and advances <sup>1</sup>	138 012		138 012	128 995		128 995
Secured Unsecured	97 215 40 797	_	97 215 40 797	87 167 41 828	_	87 167 41 828
Receivables including insurance						
receivables <sup>1</sup>	195 147	1 740 343	1 935 490	230 776	1 320 954	1 551 730
Trade receivables	110 050	71 192	181 242	146 973	22 945	169 918
Brokers and clearing houses and client accounts	_	1 625 666	1 625 666	_	1 277 978	1 277 978
Contracts for difference	_	43 485	43 485	_	20 031	20 031
Receivables due from related parties	79 614	-	79 614	75 653	-	75 653
Rental and other deposits and sundry debtors	5 483	_	5 483	8 150	_	8 150
Cash and cash equivalents <sup>1</sup>	773 230	300 423	1 073 653	646 066	299 376	945 442
nsurance assets						
Reinsurance assets <sup>1</sup>	127 303	-	127 303	103 758	_	103 758
Deferred acquisition costs <sup>1</sup> Receivables including insurance	6 622	_	6 622	5 685	_	5 685
receivables including insurance	112 487	_	112 487	111 037	_	111 037
Receivables due from contract holders						
and reinsurers	112 487	_	112 487	111 037	_	111 037

<sup>&</sup>lt;sup>1</sup> Carrying value approximates fair value.

<sup>&</sup>lt;sup>2</sup> The investment in the PSG Money Market Fund was classified at fair value through profit or loss on adoption of IFRS 9. The client-related balances include the impact of the consolidation of the PSG Money Market Fund.

Financial risk management (continued)

		2020			2019		
Liabilities	Own balances R000	Client- related balances R000	Total R000	Own balances R000	Client- related balances R000	Total R000	
Financial liabilities carried at fair value through profit or loss							
Derivative financial instruments Trade and other payables	59 185	30 406 –	30 406 59 185	91 655	13 973 —	13 973 91 655	
Purchase consideration payable	59 185	-	59 185	91 655	_	91 655	
<b>Designated</b> Investment contracts Third-party liabilities arising on consolidation of mutual funds	-	26 694 209 30 293 931	26 694 209 30 293 931	-	25 873 713 27 350 796	25 873 713 27 350 796	
Financial liabilities carried at amortised cost Borrowings <sup>1</sup>	_	_	_	1 725	110 589	112 314	
Secured Unsecured		-	-	_ 1 725	110 589	110 589 1 725	
Lease liabilities Investment contracts Trade and other payables¹	304 964 - 357 883	- - 1 595 548	304 964 - 1 953 431	- - 377 860	58 407 1 302 191	- 58 407 1 680 051	
Trade payables, settlement control account and other payables Contracts for difference	357 883 -	1 567 207 28 341	1 925 090 28 341	377 860 –	1 280 791 21 400	1 658 651 21 400	
Insurance liabilities Insurance contracts Deferred reinsurance acquisition revenue <sup>1</sup> Trade and other payables <sup>1</sup>	554 469 7 079 67 275	- - -	554 469 7 079 67 275	542 086 4 904 92 887	- - -	542 086 4 904 92 887	
Amounts due to intermediaries Amounts due to reinsurers	21 568 45 707		21 568 45 707	22 034 70 853		22 034 70 853	
Total financial and insurance liabilities	1 350 855	58 614 094	59 964 949	1 111 117	54 709 669	55 820 786	

<sup>&</sup>lt;sup>1</sup> Carrying value approximates fair value.

for the year ended 29 February 2020

# 36. RISK MANAGEMENT (continued)

# Financial risk management (continued)

The group's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

In addition to the shareholder asset and liability balances, known as 'own balances', the group has client-related assets and liabilities relating to the following stakeholders:

Policyholders of the linked investment contracts	A subsidiary of the group, PSG Life Limited, is a linked insurance company and issues linked policies to policyholders (where the value of policy benefits is directly linked to the fair value of the supporting assets). Investment contracts included within financial liabilities on the statement of financial position are therefore fully matched by investments as analysed in note 18.
Third-party mutual fund investors	The group consolidates collective investment schemes, in terms of IFRS 10 — Consolidated Financial Statements, over which the group has control. The consolidation of these funds does not impact total earnings, comprehensive income, shareholders' funds or the net asset value of the group; however, it requires the group to recognise the income statement and statement of financial position impact as part of that of the group.
CFD clients	The group enters into CFD with clients whereby the group provides leveraged exposure to equities specified by the clients. The holders of the CFD carry the financial risk of these instruments and therefore a movement in the individual share prices, for example, would not have an impact on the group's profit after taxation, but would result in a corresponding movement in the value of the CFD liabilities.
Stockbroking clients	Included under receivables are broker and clearing accounts at the stockbroking business which represents amounts owing by the JSE for trades conducted during the last few days before the end of the financial year. These balances fluctuate on a daily basis depending on the activity in the market. The control account for the settlement of these transactions is included under trade and other payables, with the settlement to the clients taking place within three days after the transaction date.

The financial risks arising from the client-related assets and liabilities are assumed by the respective stakeholders and therefore do not have a direct impact on the group's profit after taxation. The movement in client-related balances will indirectly impact the fee which PSG Konsult receives for managing and administering assets on behalf of clients. This impact has been taken into consideration in the respective sensitivities performed.

# Financial risk management (continued)

# Market risk

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

Assets         Price risk         52 628 324         48 841 467           Equity securities         2 229 474         2 353 387           Unit-linked investments         50 398 850         46 488 080           Foreign exchange risk         13 542 331         10 039 262           Equity securities         847 696         767 105           Unit-linked investments         12 447 616         9 104 858           Loans and advances         3 922         1 138           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521) <t< th=""><th></th><th></th><th></th></t<>			
Price risk         52 628 324         48 841 467           Equity securities         2 229 474         2 353 387           Unit-linked investments         50 398 850         46 488 080           Foreign exchange risk         13 542 331         10 039 262           Equity securities         847 696         767 105           Unit-linked investments         12 447 616         9 104 858           Loans and advances         3 922         11 38           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 20 71           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         5 93 398 850         46 488 080           Labilities         (51 931 004)         (48 005 609)           Investment contracts         (51 931 004)         (48 005 609)           Invest	Summary of assets and liabilities subject to market risk		
Price risk         52 628 324         48 841 467           Equity securities         2 229 474         2 353 387           Unit-linked investments         50 398 850         46 488 080           Foreign exchange risk         13 542 331         10 039 262           Equity securities         847 696         767 105           Unit-linked investments         12 447 616         9 104 858           Loans and advances         3 922         11 38           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 20 71           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         5 93 398 850         46 488 080           Labilities         (51 931 004)         (48 005 609)           Investment contracts         (51 931 004)         (48 005 609)           Invest	Assets		
Unit-linked investments         50 398 850         46 488 080           Foreign exchange risk         13 542 331         10 039 262           Equity securities         847 696         767 105           Unit-linked investments         12 447 616         9 104 858           Loans and advances         3 922         1 138           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1662 767           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         5 0 398 850         46 488 080           Loans and cash equivalents         (51 931 004)         (48 005 609)           Investment contracts         (51 931 004)         (48 005 609		52 628 324	48 841 467
Unit-linked investments         50 398 850         46 488 080           Foreign exchange risk         13 542 331         10 039 262           Equity securities         847 696         767 105           Unit-linked investments         12 447 616         9 104 858           Loans and advances         3 922         1 138           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1662 767           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         5 0 398 850         46 488 080           Loans and cash equivalents         (51 931 004)         (48 005 609)           Investment contracts         (51 931 004)         (48 005 609	Equity securities	2 229 474	2 353 387
Equity securities         847 696         767 105           Unit-linked investments         12 447 616         9 104 858           Loans and advances         3 922         1 138           Recisurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         (51 931 004)         (48 005 609)           Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Investment contracts         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (9 907           Lease liabilities         (29 018)         (12 707)           Investment contracts		50 398 850	
Unit-linked investments         12 447 616         9 104 888           Loans and advances         3 922         1 138           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 599           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         Total cash equivalents         (51 931 004)         (48 005 609)           Investment contracts         (51 931 004)         (48 005 609)         (48 005 609)           Investment contracts         (13 400 581)         (9 907 617)         (9 907 617)           Borrowings         (3 891)         (959)         (959)         (959)         (959)         (959)         (959)         (959)         (959)         (959)         (959)         (959)         (959)         (959)	Foreign exchange risk	13 542 331	10 039 262
Loans and advances         3 922         1 138           Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3891)         (959)           Lease liabilities         (290 18)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds	Equity securities	847 696	767 105
Reinsurance assets         15 904         7 388           Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         (51 931 004)         (48 005 609           Investment contracts         (51 931 004)         (48 005 609           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 533 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (29 018)         (12 707)           Investment contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)	. ,	12 447 616	9 104 858
Receivables including insurance receivables         72 592         31 264           Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         (51 931 004)         (48 005 609)           Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Trade and other payables         (57 148 107)         (52 906 832)           Interest rate risk         (57 148 107) </td <td>Loans and advances</td> <td>3 922</td> <td>1 138</td>	Loans and advances	3 922	1 138
Cash and cash equivalents         154 601         127 509           Interest rate risk         59 870 892         55 487 355           Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         1 073 653         945 442           Liabilities         7 1073 653         945 442           Liabilities         (51 931 004)         (48 005 609)           Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6132 701)           Trade and other payables         (57 148 107)         (52 906 832)           Borrowings         (57 148		15 904	
Debt securities			
Debt securities         6 212 400         6 262 071           Unit-linked investments         50 398 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         (112 314)         (24 581 683)         (23 739 273)           Lease liabilities         (24 581 683)         (23	Cash and cash equivalents	154 601	127 509
Unit-linked investments         50 338 850         46 488 080           Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities         Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (29 44)         —           Insurance contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (57 148 107)         (52 906 832)           Borrowings         (57 148 107)         (52 906 832)           Borrowings         (71 23 14)           Lease liabilities         (304 964)         —	Interest rate risk	59 870 892	55 487 355
Loans and advances         138 012         128 995           Receivables including insurance receivables         2 047 977         1 662 767           Cash and cash equivalents         1 073 653         945 442           Liabilities           Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         -         (112 314)           Lease liabilities         (30 4 964)         -           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)	Debt securities	6 212 400	6 262 071
Receivables including insurance receivables       2 047 977       1 662 767         Cash and cash equivalents       945 442         Liabilities       Price risk       (51 931 004)       (48 005 609)         Investment contracts       (26 277 141)       (25 539 521)         Third-party liabilities arising on consolidation of mutual funds       (25 653 863)       (22 516 088)         Foreign exchange risk       (13 400 581)       (9 907 617)         Borrowings       (3 891)       (959)         Lease liabilities       (294)       —         Insurance contracts       (29 018)       (12 707)         Investment contracts       (4 438 026)       (3 751 245)         Third-party liabilities arising on consolidation of mutual funds       (8 910 230)       (6 132 701)         Trade and other payables       (57 148 107)       (52 906 832)         Borrowings       —       (112 314)         Lease liabilities       (304 964)       —         Investment contracts       (24 581 683)       (23 739 273)         Third-party liabilities arising on consolidation of mutual funds       (30 181 569)       (27 190 652)	Unit-linked investments	50 398 850	46 488 080
Cash and cash equivalents         1 073 653         945 442           Liabilities         Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (294)         -           Insurance contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         -         (112 314)           Lease liabilities         (304 964)         -           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)         (27 190 652)	Loans and advances	138 012	128 995
Liabilities         (51 931 004)         (48 005 609)           Price risk         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (26 277 141)         (25 539 521)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (294)         -           Insurance contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         -         (112 314)           Lease liabilities         (304 964)         -           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)         (27 190 652)	Receivables including insurance receivables	2 047 977	1 662 767
Price risk         (51 931 004)         (48 005 609)           Investment contracts         (26 277 141)         (25 539 521)           Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (294)         -           Insurance contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         -         (112 314)           Lease liabilities         (304 964)         -           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)         (27 190 652)	Cash and cash equivalents	1 073 653	945 442
Investment contracts Third-party liabilities arising on consolidation of mutual funds  Foreign exchange risk  Foreign exchange risk  (13 400 581) (9 907 617)  Borrowings  (13 891) (959)  Lease liabilities  (294) - Insurance contracts  (290 18) (12 707)  Investment contracts  (4 438 026) (3 751 245)  Third-party liabilities arising on consolidation of mutual funds  Trade and other payables  Interest rate risk  (57 148 107) (52 906 832)  Borrowings  (304 964) - Investment contracts  (304 964) (27 190 652)	Liabilities		
Third-party liabilities arising on consolidation of mutual funds         (25 653 863)         (22 516 088)           Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (294)         —           Insurance contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         —         (112 314)           Lease liabilities         (304 964)         —           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)         (27 190 652)	Price risk	(51 931 004)	(48 005 609)
Foreign exchange risk         (13 400 581)         (9 907 617)           Borrowings         (3 891)         (959)           Lease liabilities         (294)         —           Insurance contracts         (29 018)         (12 707)           Investment contracts         (4 438 026)         (3 751 245)           Third-party liabilities arising on consolidation of mutual funds         (8 910 230)         (6 132 701)           Trade and other payables         (19 122)         (10 005)           Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         —         (112 314)           Lease liabilities         (304 964)         —           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)         (27 190 652)	Investment contracts	(26 277 141)	(25 539 521)
Somewings   (3 891) (959)     Lease liabilities   (294)	Third-party liabilities arising on consolidation of mutual funds	(25 653 863)	(22 516 088)
Lease liabilities       (294)       -         Insurance contracts       (29 018)       (12 707)         Investment contracts       (4 438 026)       (3 751 245)         Third-party liabilities arising on consolidation of mutual funds       (8 910 230)       (6 132 701)         Trade and other payables       (19 122)       (10 005)         Interest rate risk       (57 148 107)       (52 906 832)         Borrowings       -       (112 314)         Lease liabilities       (304 964)       -         Investment contracts       (24 581 683)       (23 739 273)         Third-party liabilities arising on consolidation of mutual funds       (30 181 569)       (27 190 652)	Foreign exchange risk	(13 400 581)	(9 907 617)
Insurance contracts   (29 018) (12 707)     Investment contracts   (4 438 026) (3 751 245)     Third-party liabilities arising on consolidation of mutual funds   (8 910 230) (6 132 701)     Trade and other payables   (19 122) (10 005)     Interest rate risk   (57 148 107) (52 906 832)     Borrowings   - (112 314)     Lease liabilities   (304 964)   -     Investment contracts   (24 581 683) (23 739 273)     Third-party liabilities arising on consolidation of mutual funds   (30 181 569) (27 190 652)	Borrowings	(3 891)	(959)
Investment contracts	Lease liabilities	(294)	
Third-party liabilities arising on consolidation of mutual funds       (8 910 230)       (6 132 701)         Trade and other payables       (19 122)       (10 005)         Interest rate risk       (57 148 107)       (52 906 832)         Borrowings       -       (112 314)         Lease liabilities       (304 964)       -         Investment contracts       (24 581 683)       (23 739 273)         Third-party liabilities arising on consolidation of mutual funds       (30 181 569)       (27 190 652)	Insurance contracts	(29 018)	(12 707)
Trade and other payables       (19 122)       (10 005)         Interest rate risk       (57 148 107)       (52 906 832)         Borrowings       -       (112 314)         Lease liabilities       (304 964)       -         Investment contracts       (24 581 683)       (23 739 273)         Third-party liabilities arising on consolidation of mutual funds       (30 181 569)       (27 190 652)	Investment contracts	(4 438 026)	(3 751 245)
Interest rate risk         (57 148 107)         (52 906 832)           Borrowings         -         (112 314)           Lease liabilities         (304 964)         -           Investment contracts         (24 581 683)         (23 739 273)           Third-party liabilities arising on consolidation of mutual funds         (30 181 569)         (27 190 652)	Third-party liabilities arising on consolidation of mutual funds	(8 910 230)	(6 132 701)
Borrowings	Trade and other payables	(19 122)	(10 005)
Lease liabilities       (304 964)       —         Investment contracts       (24 581 683)       (23 739 273)         Third-party liabilities arising on consolidation of mutual funds       (30 181 569)       (27 190 652)	Interest rate risk	(57 148 107)	(52 906 832)
Investment contracts (24 581 683) (23 739 273) Third-party liabilities arising on consolidation of mutual funds (30 181 569) (27 190 652)	Borrowings	_	(112 314)
Third-party liabilities arising on consolidation of mutual funds (30 181 569) (27 190 652)	Lease liabilities	(304 964)	_
	Investment contracts	(24 581 683)	(23 739 273)
Trade and other payables (2 079 891) (1 864 593)	Third-party liabilities arising on consolidation of mutual funds	(30 181 569)	(27 190 652)
	Trade and other payables	(2 079 891)	(1 864 593)

# Risk management

Refer to page 91 for the mitigating controls put in place as part of the risk management framework to address market risk.

for the year ended 29 February 2020

# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

# Market risk (continued)

Price risk

# Equity securities

The group is exposed to price risk due to changes in the market values of its equity securities held by the group and classified on the consolidated statement of financial position at fair value through profit or loss.

Although the group follows a policy of diversification, some concentration of price risk towards certain sectors exists and is analysed below:

Direct investments – Investments linked to investment contracts investment schemes		Direct inve			
2020 R000	2019 R000	2020 R000	2019 R000	2020 R000	2019 R000
54 756	39 874	8 787	12 980	_	1 113
739 539	771 572	47 173	77 721	5 871	7 061
88 121	95 923	_	_	724	686
424 166	528 148	35 142	37 188	6 439	4 092
342 673	259 373	14 119	19 513	631	950
133 082	205 282	7 141	11 340	2 598	572
305 795	276 627	_	1 402	2 590	1 730
2 088 132	2 176 799	112 362	160 144	18 853	16 204
	2020 R000 54 756 739 539 88 121 424 166 342 673 133 082 305 795	investment contracts           2020         2019           R000         R000           54 756         39 874           739 539         771 572           88 121         95 923           424 166         528 148           342 673         259 373           133 082         205 282           305 795         276 627	Investments linked to investment contracts	Consolidated collective investment schemes   Consolidated collective investment schemes	Investments linked to investment schemes

Included in the group's quoted equity securities are those equity securities relating to:

- investments linked to investment contracts amounting to R2.1 billion (2019: R2.2 billion); and
- equity securities relating to the consolidated collective investment schemes amounting to R112.4 million (2019: R160.1 million).

The price risk of these instruments is carried by the policyholders of the linked investment contracts and the third-party mutual fund investors, respectively.

#### Unit-linked investments

The group is exposed to price risk due to changes in the market values of the unit-linked investments held by the group and classified on the consolidated statement of financial position at fair value through profit or loss.

Although the group follows a policy of diversification, some concentration of price risk towards certain asset types exists and is analysed below:

		Investments linked to investment contracts investment schemes				estments – alances
Composition of quoted unit-linked investments	2020 R000	2019 R000	2020 R000	2019 R000	2020 R000	2019 R000
Equity Multi-asset Real estate Interest bearing	6 144 287 15 262 836 174 054 2 325 452 23 906 629	5 189 067 15 691 613 226 055 1 820 858 22 927 593	9 976 977 13 898 632 - 1 665 892 25 541 501	8 108 720 13 347 588 - 899 636 22 355 944	9 489 530 360 - 111 153 651 002	6 801 633 320 - 109 563 749 684

Included in the group's quoted unit-linked investments are those unit-linked investments relating to:

- investments linked to investment contracts amounting to R23.9 billion (2019: R22.9 billion); and
- unit-linked investments relating to the consolidated collective investment schemes amounting to R25.5 billion (2019: R22.4 billion).

The price risk of these instruments is carried by the policyholders of the linked investment contracts and the third-party mutual fund investors, respectively.

# Financial risk management (continued)

# Market risk (continued)

Price risk (continued)

Sensitivity

The table below summarises the sensitivity of the group's post-tax profit for the year as a result of market price fluctuations. The analysis is based on the assumption that marked-to-market prices increase/decrease by 20% (2019: 20%) taking into account the opposite move of the corresponding linked liability in the case of the linked investment contracts, with all other variables held constant.

	2020 increase R000	2019 increase R000	2020 decrease R000	2019 decrease R000
Impact on post-tax profit and equity: Equity securities Unit-linked investments	3 981 26 139	3 465 28 201	(3 981) (26 139)	(3 465) (28 201
	30 120	31 666	(30 120)	(31 666)

# Foreign exchange risk

The group has limited investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Transactions incurred by the group did not lead to a significant foreign exchange risk.

The South African rand is the functional currency of most of the group's subsidiaries. The group's financial assets and liabilities denominated in foreign currency other than the functional currency are analysed according to geographical area in the following table:

At 29 February 2020	British pound sterling R000	United States dollar R000	Euro R000	Other currencies R000	Total R000
Financial assets					
Equity securities <sup>1</sup>	35 014	646 973	97 650	68 059	847 696
Unit-linked investments <sup>1</sup>	_	12 447 616	_	_	12 447 616
Loans and advances	1 665	2 226	_	31	3 922
Reinsurance assets	_	_	_	15 904	15 904
Receivables including insurance receivables	4 077	55 630	2 751	10 134	72 592
Cash and cash equivalents	7 697	75 942	31 273	39 689	154 601
Financial liabilities					
Trade and other payables	(145)	(13 352)	(1 447)	(4 178)	(19 122)
Investment contracts	(25 672)	(4 261 973)	(97 503)	(52 878)	(4 438 026)
Third-party liabilities arising on consolidation					
of mutual funds	(9 928)	(8 885 135)	(6)	(15 161)	(8 910 230)
Insurance contracts	_	_	_	(29 018)	(29 018)
Lease liabilities	_	_	(294)	_	(294)
Borrowings	(1 665)	(2 226)	_	_	(3 891)
	11 043	65 701	32 424	32 582	141 750

Largely linked to policyholder and consolidated collective investment scheme investments and as such do not directly expose the group to foreign currency risk.

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

Market risk (continued)

Foreign exchange risk (continued)

At 28 February 2019	British pound sterling R000	United States dollar R000	Euro R000	Other currencies R000	Total R000
Financial assets					
Equity securities <sup>1</sup>	30 135	583 133	84 424	69 413	767 105
Unit-linked investments <sup>1</sup>	_	9 104 858	-	_	9 104 858
Loans and advances	959	_	_	179	1 138
Reinsurance assets	_	_	_	7 388	7 388
Receivables including insurance receivables	2 123	21 797	702	6 642	31 264
Cash and cash equivalents	9 426	76 452	605	41 026	127 509
Financial liabilities					
Trade and other payables	(130)	(3 537)	(440)	(5 898)	(10 005)
Investment contracts	(23 612)	(3 596 867)	(84 028)	(46 738)	(3 751 245)
Third-party liabilities arising on consolidation of mutual funds	(10 611)	(6 098 094)	(6)	(23 990)	(6 132 701)
Insurance contracts	_	_	-	(12 707)	(12 707)
Borrowings	(959)		_	_	(959)
_	7 331	87 742	1 257	35 315	131 645

<sup>1</sup> Largely linked to policyholder and consolidated collective investment scheme investments and as such do not directly expose the group to foreign currency risk.

# Risk management

Management monitors this exposure and cover is used where appropriate. The group did not take cover on foreign currency transactions and balances during the financial years under review.

#### Sensitivity

The table below shows the sensitivity of post-tax profits of the group to a 20% (2019: 20%) move in the rand exchange rates. The analysis is based on the assumption that movements in the assets would be offset by a move in the corresponding linked liability in the case of the linked investment contracts, with all other variables held constant.

	2020	2019	2020	2019
	20%	20%	20%	20%
	appreciation	appreciation	depreciation	depreciation
	R000	R000	R000	R000
Impact on post-tax profit and equity	(21 346)	(19 838)	21 346	19 838

# Cash flow and fair value interest rate risk

The group's interest rate risk arises from interest-bearing investments, loans and advances, receivables including insurance receivables, cash and cash equivalents, borrowings and trade and other payables. Borrowings and investments issued at variable rates expose the group to cash flow interest rate risk. Borrowings and investments issued at fixed rates expose the group to fair value interest rate risk. However, where the investments are held to back linked investment contract liabilities, the risk is transferred to the policyholders through the contract terms of the policy.

Short-term insurance liabilities are not directly sensitive to the level of market interest rates as they are undiscounted, contractually non-interest bearing, and short term in nature.

Financial risk management (continued)

Market risk (continued)

Cash flow and fair value interest rate risk (continued)

	2020			2019		
	Floating rate R000	Fixed interest and non- interest bearing R000	Carrying value R000	Floating rate R000	Fixed interest and non- interest bearing R000	Carrying value R000
Debt securities <sup>1</sup>	2 518 180	3 694 220	6 212 400	1 758 139	4 503 932	6 262 071
Unit-linked investments <sup>2</sup>	106 386	50 292 464	50 398 850	93 312	46 394 768	46 488 080
Loans and advances	103 602	34 410	138 012	100 158	28 837	128 995
Receivables including insurance receivables <sup>3</sup>	211 340	1 836 637	2 047 977	139 104	1 523 663	1 662 767
Cash and cash equivalents	873 086	200 567	1 073 653	825 761	119 681	945 442
Borrowings	_	_	_	(110 589)	(1 725)	(112 314)
Lease liabilities	_	(304 964)	(304 964)	_	_	_
Investment contracts	(30 570)	(24 551 113)	(24 581 683)	(8 085)	(23 731 188)	(23 739 273)
Third-party liabilities arising on						
consolidation of mutual funds	(1 098 770)	(29 082 799)	(30 181 569)	(472 390)	(26 718 262)	(27 190 652)
Trade and other payables	(28 341)	(2 051 550)	(2 079 891)	(21 400)	(1 843 193)	(1 864 593)
Total	2 654 913	67 872	2 722 785	2 304 010	276 513	2 580 523

Debt securities of R370.9 million (2019: R368.5 million) are linked to policyholder investments, and R5.8 billion (2019: R5.8 billion) of the debt securities relate to the consolidated collective investment schemes and as such do not directly expose the group to interest rate risk.

# Risk management

The group manages its cash flow interest rate risk by monitoring interest rates on a regular basis.

# Sensitivity

Based on simulations performed, the impact on post-tax profit of a 1% (2019: 1%) shift in interest rates is analysed in the following table. The analysis is based on the assumption that movements in the assets would be offset by a move in the corresponding linked liability in the case of the linked investment contracts, with all other variables held constant.

	2020	2019	2020	2019
	1%	1%	1%	1%
	increase	increase	decrease	decrease
	R000	R000	R000	R000
Impact on post-tax profit and equity	19 115	16 589	(19 115)	(16 589)

Unit-linked investments of R24.2 billion (2019: R23.4 billion) are linked to policyholder investments, and R25.5 billion (2019: R22.4 billion) of the unit-linked investments relate to the consolidated collective investment schemes and as such do not directly expose the group to interest rate risk.

<sup>3</sup> Receivables including insurance receivables of R71.2 million (2019: R22.9 million) relate to the consolidated collective investment schemes and as such do not directly expose the group to interest rate risk.

for the year ended 29 February 2020

# 36. RISK MANAGEMENT (continued)

#### Financial risk management (continued)

#### Credit risk

Credit risk arises from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations. Credit risk comprises default, settlement and migration risk (if credit ratings change).

The table below shows the group's maximum exposure to credit risk by class of asset at the end of each reporting period:

	2020		201	19
	Balance R000	Collateral fair value R000	Balance R000	Collateral fair value R000
Debt securities	6 212 400	_	6 262 071	_
Government debt securities – quoted Other debt securities – quoted Other debt securities – unquoted	957 980 5 254 420 –	- - -	1 159 788 5 035 735 66 548	_ _ _
Investment in investment contracts Loans and advances	15 587 138 012	- 2 772	16 048 128 995	2 790
Secured Unsecured	97 215 40 797	2 772 -	87 167 41 828	2 790 —
Unit-linked investments	50 398 850	_	46 488 080	_
Collective investment schemes Other unit-linked investments	50 099 132 299 718	_	46 033 221 454 859	_
Derivative financial instruments Reinsurance assets Receivables including insurance receivables	23 131 127 303 2 047 977	- - 161 796	10 592 103 758 1 662 767	9 427 113 748
Trade receivables Receivables due from contract holders and reinsurers Brokers and clearing houses and client accounts Contracts for difference Receivables due from related parties	181 242 112 487 1 625 666 43 485 79 614	- - 161 796 - -	169 918 111 037 1 277 978 20 031 75 653	_ _ 113 748 _ _
Rental and other deposits and sundry debtors	5 483	_	8 150	_
Cash and cash equivalents	1 073 653	_	945 442	
	60 036 913	164 568	55 617 753	125 965
The credit exposure is attributable to:			2020 R000	2019 R000
Own balances Client-related balances			3 622 343 56 414 570	3 245 027 52 372 726

The value of policy benefits on linked business is directly linked to the fair value of the supporting assets and, as such, the group does not assume any credit risk on the linked policyholder assets, although it has a responsibility to manage these assets properly within set mandates.

60 036 913

55 617 753

Debt securities of R370.9 million (2019: R368.5 million), investment in investment contracts of R15.6 million (2019: R16.0 million), unit-linked investments of R24.2 billion (2019: R23.4 billion) and cash and cash equivalents of R30.6 million (2019: R8.1 million) are linked to investment contracts and thus credit risk is carried by the policyholders of the linked investment contracts.

At year-end, R5.8 billion (2019: R5.8 billion) of the debt securities, R25.5 billion (2019: R22.4 billion) of the unit-linked investments and R71.2 million (2019: R22.9 million) of the receivables including insurance receivables relate to the collective investment schemes consolidated in terms of IFRS 10 — Consolidated Financial Statements. The group is exposed to the credit risk of the underlying assets in which the collective investment schemes are invested. The group's exposure to collective investment schemes is classified at fund level and not at the underlying asset level, and although collective investment schemes are not rated, the fund managers of these collective investment schemes are required to invest in assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated assets and generally restrict funds to the acquisition of investment grade assets.

#### Financial risk management (continued)

#### Credit risk (continued)

# Risk management

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. In the case of loans and advances, management would take or insist on collateral or other forms of securitisation as it deems fit. Credit limits for each counterparty, are set based on default probabilities that are, in turn, based on the ratings of the counterparty concerned.

The shareholders' capital in PSG Life Limited and Western Group is primarily invested in cash or other highly liquid unit trust investments. All items that expose PSG Life Limited and Western Group to credit risk are monitored by the credit committee. The credit committee reviews on a monthly basis the exposure of the group to external parties. As part of this meeting, a credit specialist reports to the committee whether any new information has become available in the market which indicates that the group should reconsider its exposure to that counterparty. As at February for each of the respective financial years, this committee did not note any significant concerns as to the exposure that this group has to any counterparties.

Refer to page 91 for the mitigating controls put in place as part of the risk management framework to address credit risk.

#### Security/collateral

For some assets, the group may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

#### Loans and advances

The collateral held for the loans to short-term insurance clients by Hi-Five Corporate Finance Proprietary Limited, a subsidiary of Western Group Holdings Limited, is held in the form of warranties and guarantees. Refer to note 7 for more detail.

# Brokers and clearing houses and client accounts

PSG Scriptfin provides facilities to qualifying retail clients (following a rigorous credit check process) based on the value of their share portfolios at PSG Securities. The balance outstanding as at 29 February 2020 is R161.8 million (28 February 2019: R113.7 million). The balance is secured by the underlying JSE Top 100 equity securities held, which are in excess of four times the value of the loan facilities.

#### Credit quality

The credit quality of financial assets is assessed by reference to Moody's external credit ratings (if available) or to historical information about counterparty default rates. Financial assets which fall outside Moody's published rates or are rated by other external rating agencies are classified as 'other rated assets'. The definitions regarding the various ratings are available on the relevant websites of the credit rating agencies (i.e. Moody's, Fitch, S&P and GCR).

	2020 R000	2019 R000
Government stock	957 980	1 159 788
Aaa	21 538	22 249
Aa1	1 558	19 148
Aa3	_	2 318
P1	6 008 896	5 632 731
P3	3 816	_
Other rated assets	340 985	456 606
Non-rated assets	2 303 290	1 836 833
Unit-linked investments (including collective investment schemes)	50 398 850	46 488 080
	60 036 913	55 617 753

The credit risk associated with 45.9% (2019: 48.4%) of non-rated assets and unit-linked investments (including collective investment schemes) is assessed by reference to the investment mandates of linked policyholder investments which specify what type of underlying investments can be purchased.

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

Credit risk (continued)

Credit quality (continued)

The table below analyses the group's external credit rating by class of asset:

2020	Government stock <sup>1</sup> R000	Aaa R000	Aa1 R000	Aa3 R000	
Debt securities	957 980	21 538	1 558	_	
Government <sup>1</sup> Bank Other	957 980 - -	- - 21 538	- - 1 558	- - -	
Investment in investment contracts Loans and advances	-	-		-	
Secured Unsecured		-	- -	- -	
Derivative financial instruments Reinsurance assets Receivables including insurance receivables	- - -	- - -	- - -	- - -	
Trade receivables Receivables due from contract holders and reinsurers Brokers and clearing houses and client accounts Contracts for difference Receivables due from related parties Rental and other deposits and sundry debtors	- - - - -	- - - - -	-	- - - - -	
Unit-linked investments	_	-	-	_	
Collective investment schemes Other unit-linked investments	-	-		_	
Cash and cash equivalents	957 980	- 21 538	- 1 558	-	

<sup>1</sup> The government debt securities relate to instruments issued by the South African government, which has a Moody's short-term rating of P3.

<sup>&</sup>lt;sup>2</sup> Refer to pages 192 and 193 for further detail on the 'other rated' and 'non-rated' assets.

External credit rating	ı				
P1 R000	P3 R000	Unit-linked (including CIS) R000	Other rated assets <sup>2</sup> R000	Non-rated assets <sup>2</sup> R000	Total R000
4 978 872	_	_	176 652	75 800	6 212 400
- 4 867 800	_		- 111 130		957 980 4 978 930
111 072	-	_	65 522	75 800	275 490
	-	_		15 587 138 012	15 587 138 012
	-			97 215 40 797	97 215 40 797
-	-	-	-	23 131	23 131
	_		123 386 40 947	3 917 2 007 030	127 303 2 047 977
-	-	-	14 056	167 186	181 242
-	-	-	26 891	85 596 1 625 666	112 487 1 625 666
_	_	_	_	43 485	43 485
_	_	_	_	79 614	79 614
_	-	-	_	5 483	5 483
-	-	50 398 850	_	-	50 398 850
-	_	50 099 132 299 718	-	-	50 099 132 299 718
1 030 024	3 816		_	39 813	1 073 653
6 008 896	3 816	50 398 850	340 985	2 303 290	60 036 913

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

Credit risk (continued)

Credit quality (continued)

The table below analyses the group's external credit rating by class of asset:

2019	Government stock¹ R000	Aaa R000	Aa1 R000	Aa3 R000	
Debt securities	1 159 788	21 492	19 148	_	
Government <sup>1</sup>	1 159 788	-	-	_	
Bank	_	1	_	_	
Other	_	21 491	19 148		
Investment in investment contracts Loans and advances	- -	_ _	_ _	_ _	
Secured Unsecured	_	_	_	_	
Derivative financial instruments					
Reinsurance assets	_	_	_	_	
Receivables including insurance receivables		757	-	2 318	
Trade receivables	_	757	-	2 318	
Receivables due from contract holders and reinsurers	-	-	-	_	
Brokers and clearing houses and client accounts	_	_	_	_	
Contracts for difference	_	_	-	_	
Receivables due from related parties	_	_	_	-	
Rental and other deposits and sundry debtors	_				
Unit-linked investments			_		
Collective investment schemes Other unit-linked investments		_ _	- -	- -	
Cash and cash equivalents	_	_	-	-	
	1 159 788	22 249	19 148	2 318	

<sup>1</sup> The government debt securities relate to instruments issued by the South African government, which has a Moody's short-term rating of P3.

<sup>&</sup>lt;sup>2</sup> Refer to pages 192 and 193 for further detail on the 'other rated' and 'non-rated' assets.

# **External credit rating**

P1 R000	P3 R000	Unit-linked (including CIS) R000	Other rated assets <sup>2</sup> R000	Non-rated assets <sup>2</sup> R000	Total R000
4 756 499	_	_	279 121	26 023	6 262 071
_	_	=	_	_	1 159 788
4 730 898	_	_	224 036	_	4 954 935
25 601	-	_	55 085	26 023	147 348
_		=	_	16 048	16 048
_		-	_	128 995	128 995
_		_	_	87 167	87 167
_		-	_	41 828	41 828
_		_	_	10 592	10 592
_	-	-	101 432	2 326	103 758
_	_	_	35 372	1 624 320	1 662 767
_	_	_	3 650	163 193	169 918
_	_	_	31 722	79 315	111 037
_	_	_	_	1 277 978	1 277 978
_	_	_	_	20 031	20 031
_	_	_	_	75 653	75 653
	_			8 150	8 150
	_	46 488 080	-	_	46 488 080
_	_	46 033 221	_	_	46 033 221
		454 859		<u> </u>	454 859
876 232	_	_	40 681	28 529	945 442
5 632 731	_	46 488 080	456 606	1 836 833	55 617 753

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

Credit risk (continued)

Credit quality (continued)

The other rated assets can be broken down as follows:

Class of financial assets	Rating agency	External credit rating	2020 R000	2019 R000
Receivables including insurance receivables	Fitch	F1+(zaf)	632	979
Receivables including insurance receivables	S&P	AA-(za) to BB+(za)	34 540	31 825
Debt securities	Fitch	AA+(zaf) to B(zaf)	23 000	1 017
Debt securities	S&P	A1(za) to A2(za)	113 669	224 028
Cash and cash equivalents (including money				
market funds)	GCR	A+(za) to A(za)	_	40 681
Reinsurance assets	S&P	AA-(za) to A-(za)	123 386	101 432
			295 227	399 962
Debt securities	Moody's1	Baa2(za) to Ba3(za)	39 983	54 076
Receivables including insurance receivables	Moody's <sup>1</sup>	Baa1(za) to Baa3(za)	5 775	2 568
			340 985	456 606

<sup>1</sup> Moody's ratings of financial assets which fell out of the range disclosed in the Moody's credit rating table disclosed on the previous pages.

#### Deht securities

Of the non-rated debt securities of R75.8 million (2019: R26.0 million), R39.3 million (2019: Rnil) relates to client-related balances, and as such does not expose the business to the credit risk of these securities.

#### Investment in investment contracts

The investment in investment contracts is an amount invested with a foreign insurer and is linked to the investment contract liability. Therefore the credit risk is carried by the policyholder.

# Loans and advances

Loans and advances consist mainly of amounts due from short-term insurance clients and financial advisers which have been deemed to be high quality assets due to the following:

- Balances due from short-term insurance clients are monitored against the collateral provided in the form of the underlying investments held, with Hi-Five Corporate Finance Proprietary Limited allowed to execute its security in case of default on the repayment terms.
- Balances due from financial advisers are monitored against the income generated by these advisers to ensure that sufficient collateral
  for the amounts owed is available.

### Derivative financial instruments

These represent CFDs facilitated by PSG Securities between the client and RMB, and as such the client bears the credit risk.

# Receivables including insurance receivables

Non-rated receivables, including insurance receivables, consist mainly of the following:

- Balances due from brokers and clearing houses, which relate to client-related balances, are settled within three days after the
  transaction occurred in terms of the clearing house rules of the JSE.
- Contracts for difference consisting of collateral assets and margin accounts held by the underlying banking institutions on behalf
  of clients.
- Non-rated receivables due from contract holders and reinsurers amounted to R85.6 million (2019: R79.3 million). Debtors falling into
  the 'non-rated' category are managed on a daily basis to ensure recoverability of amounts.

#### Financial risk management (continued)

# Credit risk (continued)

# Credit quality (continued)

Receivables including insurance receivables (continued)

- Receivables due from related parties relate mainly to the February management fees due from the PSG collective investment schemes, which are settled within a week of the financial year-end.
- Other receivables consist mainly of commission and other fee income due from third-party asset management and insurance
  companies, fees due from the JSE, as well as policyholder receivables due from investment houses (in the case where the policy
  matured or was redeemed by the policyholder). These receivables are assessed individually for any indications that the counterparties
  might not be able to honour their commitments. The risk of default is low as it relates to reputable financial services institutions.
- Of the non-rated trade receivables of R167.2 million (2019: R163.2 million), R71.2 million (2019: R22.9 million) relates to client-related balances and, as such, does not expose the business to the credit risk of these assets.
- The receivables which expose the group to credit risk have been assessed to be high quality assets.

#### Cash and cash equivalents

The non-rated cash and cash equivalents relate mainly to offshore bank accounts held by foreign subsidiaries and the PSG Securities trading account. The credit committee assesses the default risk of the foreign banks, taking into consideration the alternative counterparties available in the respective countries, and sets limits on the group's exposure. The cash held in the trading account is highly liquid, earns competitive interest yield and has a weighted average maturity of less than 90 days.

#### Impairment history

Receivables are tested for impairment using a variety of techniques including assessing credit risk and monthly monitoring of individual debtors. At the reporting date, R23.7 million (2019: R18.7 million) of receivables due from contract holders and reinsurers and R1.0 million (2019: Rnil) of trade receivables were found to be impaired. As at 29 February 2020, R3.4 million (2019: R3.2 million) of unsecured loans to advisers were impaired.

Refer to notes 7, 10, and 11 for the expected credit loss considerations.

#### Concentration

Although the group follows a policy of diversification, some concentration of credit risk towards certain counterparties exists:

- A large portion of the quoted debt securities is invested in the large four South African banks, and relates to investments linked to
  investment contracts and the consolidated collective investment schemes.
- Reinsurance assets and amounts due from reinsurers are largely due from Santam re and African re (refer to the 'reinsurance credit
  exposures' section below for further detail).
- The derivative financial instruments and contracts for difference represent client assets relating to the stockbroking business and are held mainly with RMB.
- The cash and cash equivalents predominantly include balances at the larger South African banks.

The investment committee closely monitors the performance and concentration of the shareholder assets to ensure that the group is not overly exposed to a particular counterparty.

The collective investment schemes consolidated in terms of IFRS 10 — Consolidated Financial Statements are managed in terms of the respective fund mandates.

#### Reinsurance credit exposures

Reinsurance is used to manage insurance risk. However, this does not discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the group remains liable for the payment to the policyholder. The group has some exposure to concentration risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The group's largest reinsurance counterparties are African re and Santam re (2019: African re and Santam re). This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the group will arise. The reinsurance receivable balances, disclosed as 'non-rated' on a group level, relate to reinsurance intermediaries.

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

Credit risk (continued)

Credit quality (continued)

Reinsurance credit exposures (continued)

The following table presents the concentration risk with the individual reinsurers at year-end:

	2020		2019		
	R000	%	R000	%	
African re	61 693	48	50 716	48	
Santam re	59 418	47	50 716	48	
Namib re	3 918	3	2 326	4	
R&V Versicherung	2 274	2	-	_	
Reinsurance assets	127 303	100	103 758	100	
African re	10 524	37	15 861	46	
Santam re	10 524	37	15 861	46	
Swiss re	5 844	21	_		
Namib re	1 482	5	890	3	
Other	-	_	1 551	5	
Amounts due from reinsurers	28 374	100	34 163	100	
	155 677	-	137 921		

# Financial liabilities at fair value through profit or loss

Certain financial liabilities in the group's statement of financial position have been designated at fair value through profit or loss. These include investment contracts and third-party liabilities arising on consolidation of mutual funds. The determination of fair value requires an assessment of PSG Konsult's own credit risk.

The current year and cumulative fair value movements in these instruments were mainly due to market movements relating to the underlying instruments which back the related investment contracts and third-party liabilities, with no significant fair value movement attributable to credit risk.

The investment contract liabilities relate to the group's linked life business, therefore the fair value of the investment contract liabilities are directly linked to the underlying policyholder assets. PSG Konsult has considered the impact of the entity's own credit risk and has determined the impact is not significant based on the liquidity and the underlying asset position which support such liabilities. PSG Konsult remains well capitalised and, accordingly, no adjustment to the valuation for credit risk has been made for the financial years under review.

PSG Konsult's own credit risk is not applicable in the measurement of third-party financial liabilities arising on consolidation of mutual funds as these liabilities are specifically referenced to assets and liabilities contained in a separate legal structure (collective investments schemes) that could not be attached in the event of a group entity holding the controlling units defaulting.

PSG Konsult's own credit risk is also not applicable in the measurement of purchase consideration payable as the amount payable is directly linked to the underlying book of business acquired and its profitability over a contracted period and not that of the group.

# Financial risk management (continued)

# Liquidity risk

Liquidity risk is the risk that the group will not be able to raise sufficient funds to meet the commitments associated with its liabilities. This risk arises when investments are not marketable and therefore cannot be realised in the short term.

The table below analyses the group's liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

At 29 February 2020	Carrying value R000	Less than 1 year R000	Between 1 and 5 years R000	Over 5 years R000
Lease liabilities	304 964	76 380	249 868	91 749
Derivative financial instruments	30 406	30 406	_	_
Investment contracts	26 694 209	2 945 720	23 748 489	_
Insurance contracts	554 469	534 625	19 844	_
Deferred reinsurance acquisition revenue	7 079	7 079	_	-
Third-party liabilities arising on consolidation of				
mutual funds	30 293 931	30 293 931	_	-
Trade and other payables				
Trade payables, settlement control account and				
other payables	1 925 090	1 925 090	-	-
Amounts due to intermediaries	21 568	21 568	_	-
Amounts due to reinsurers	45 707	45 707	_	-
Contracts for difference	28 341	28 341	_	_
Purchase consideration payable	59 185	39 857	19 328	-
	59 964 949	35 948 704	24 037 529	91 749

At 28 February 2019	Carrying value R000	Less than 1 year R000	Between 1 and 5 years R000	Over 5 years R000
Borrowings				
Secured	110 589	18 692	104 652	_
Unsecured	1 725	1 725	_	_
Derivative financial instruments	13 973	13 973	_	_
Investment contracts	25 932 120	2 946 079	22 986 041	_
Insurance contracts	542 086	521 286	20 800	_
Deferred reinsurance acquisition revenue	4 904	4 904	_	_
Third-party liabilities arising on consolidation of				
mutual funds	27 350 796	27 350 796	_	_
Trade and other payables				
Trade payables, settlement control				
account and other payables	1 658 651	1 658 651		_
Amounts due to intermediaries	22 034	22 034		_
Amounts due to reinsurers	70 853	70 853	_	_
Contracts for difference	21 400	21 400	_	_
Purchase consideration payable	91 655	55 546	36 109	_
	55 820 786	32 685 939	23 147 602	=

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# 36. RISK MANAGEMENT (continued)

#### Financial risk management (continued)

# Liquidity risk (continued)

#### Investment contract liabilities

The value of the investment contract liabilities is linked to the value of the underlying matching assets portfolio. Equity securities of R2.1 billion (2019: R2.2 billion), debt securities of R370.9 million (2019: R368.5 million), unit-linked investments of R24.2 billion (2019: 23.4 billion), investment in investment contracts of R15.6 million (2019: R16.0 million) and cash and cash equivalents of R30.6 million (2019: R8.1 million) are linked to investment contract liabilities.

With regard to the linked investment policy business, it is the group's policy to pay a policyholder once the amount disinvested has been collected. Accordingly, the underlying assets' maturity profile should approximate that of the investment contracts. The investment contracts do not expose the group to significant liquidity risk. The investment policy and mandates take the expected liquidity cash flow into account. By limiting the cash flow mismatch, the risk of premature realisation of assets or reinvestment of excess cash is mitigated. In addition, investment guidelines and limits are used to limit exposure to illiquid assets. With regard to the investments linked to guaranteed investment contracts, these products have very specific guaranteed repayment profiles. The expected liability outflow is matched by assets that provide the required cash flows as and when they become payable.

#### Third-party liabilities arising on consolidation of mutual funds

Third-party liabilities arising on consolidation of mutual funds represent demand liabilities of collective investment scheme interests not held by the group arising as a result of consolidation. Maturity analysis is not possible as it is dependent on external unitholders' behaviour outside of the group's control.

#### Insurance contracts

The group is exposed to daily calls on its available cash resources, mainly from claims arising from short-term insurance contracts through its subsidiary, Western Group. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Management actively manages the maturity profile of investments made in order to meet obligations. Investments are only made at reputable institutions and in short-duration instruments.

# Trade and other payables

Included in trade and other payables is the settlement control account of R1.5 billion (2019: R1.2 billion), which represents the settlement of trades done by clients in the last few days before year-end, with the settlement to the clients taking place within three days after the transaction date. The settlement control account is matched with current assets in the form of the broker and clearing accounts and cash and cash equivalents (if portion was received from the JSE before year-end), which reduces the liquidity risk.

#### Suretyship

The group has provided suretyship in favour of the noteholders of the notes issued in terms of the DMTN programme. The balance owing as at 29 February 2020 is Rnil (28 February 2019: R101.2 million). Management monitors this exposure on a monthly basis against the performance of the Scriptfin loan book.

# Financing facilities

The group has access to the following undrawn borrowing facilities at the end of the financial year:

- A recourse facility from Investec Bank Limited of R150.0 million (2019: R150.0 million)
- An approved DMTN programme of R3.0 billion (2019: R3.0 billion) of which Rnil (2019: R100.0 million) has been utilised
- An undrawn overdraft facility of R50.0 million (2019: R50.0 million) with Absa Bank Limited

#### Risk management

Refer to page 91 for the mitigating controls put in place as part of the risk management framework to address liquidity risk.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, each entity aims to maintain flexibility in funding by keeping committed credit lines available.

#### Fair value estimation

Financial instruments that are measured in the statement of financial position at fair value are disclosed by level based on the following fair value measurement hierarchy, as required by IFRS 7 — Financial Instruments: Disclosures and IFRS 13 — Fair Value Measurement:

#### Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the group is the current bid price. Instruments included in level 1 comprise primarily JSE equity investments classified as at fair value through profit or loss.

#### Financial risk management (continued)

#### Fair value estimation (continued)

- Level 2 Input other than quoted prices included within level 1 that are observable for the asset or liability, either
  directly (that is, as prices) or indirectly (that is, derived from prices)
  - Financial instruments that trade in markets that are not considered to be active but are valued (using valuation techniques) based on quoted market prices, dealer quotations or alternative pricing sources supported by observable input are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. If all significant input required to fair value an instrument is observable, the instrument is included in level 2.
- Level 3 Input for the asset or liability that is not based on observable market data (that is, unobservable input)
  If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Investments
  classified within level 3 have significant unobservable input, as they trade infrequently.

# Valuation techniques and assumptions used in determining the fair value of level 2 instruments

Valuation techniques and main assumptions used in determining the fair value of financial assets and liabilities classified within level 2 can be summarised as follows:

Instrument	Valuation basis/techniques	Main assumptions
Derivative financial instruments	Exit price on recognised OTC platforms	Not applicable
Debt securities	Valuation model that uses the market inputs (yield of benchmark bonds)	Bond interest rate curves Issuer credit ratings Liquidity spreads
Unit-linked investments	Quoted put (exit) price provided by the fund manager based on the net asset value of the fund	Not applicable — daily prices are publicly available
Investment in investment contracts	Unit prices are obtained from the insurer of the particular investment contract	Not applicable – prices provided by registered long-term insurers
Investment contracts liabilities — unit-linked	Current unit price of underlying unitised financial asset that is linked to the liability, multiplied by the number of units held	Not applicable
Third-party financial liabilities arising on consolidation of mutual funds	Quoted put (exit) price provided by the fund manager based on the net asset value of the fund	Not applicable — daily prices are publicly available

Unit-linked investments, investments in investment contracts and debt securities are mostly held to match investment contract liabilities and, as such, any change in measurement would result in a similar adjustment to investment contract liabilities. The group's overall profit or loss is therefore not materially sensitive to the input of the models applied to derive fair value.

#### Valuation techniques and assumptions used in determining the fair value of level 3 instruments

Equity instruments relate to stock exchange rights and other rights owned. As these rights are unquoted, the valuation technique is based on the fact that the variability in the range of reasonable fair value estimates is not significant for this instrument and that the fair value of these rights is estimated to be equal to the guaranteed amount receivable for these rights, thus equalling the cost.

Unit-linked investments and debt securities relate to units and debentures held in hedge funds and are priced monthly. The group has determined that the reported net asset value represents fair value at the end of the reporting period. The prices are obtained from the asset managers of the particular hedge funds. These are held to match investment contract liabilities, and as such any change in measurement would result in a similar adjustment to investment contract liabilities. The group's overall profit or loss is therefore not materially sensitive to the input of the models applied to derive fair value.

Purchase consideration payable classified within level 3 has significant unobservable input, as the valuation technique used to determine the fair values takes into account the probability (at year-end) that the contracted party will achieve the profit guarantee as stipulated in the business agreement.

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)
Fair value estimation (continued)

Fair value hierarchy

The following financial instruments are measured at fair value:

At 29 February 2020	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
Financial assets				
Derivative financial instruments Equity securities	2 219 347	23 131 -	- 10 127	23 131 2 229 474
Listed and quoted Unquoted	2 219 347 -		- 10 127	2 219 347 10 127
Debt securities	866 827	5 345 573	_	6 212 400
Government debt securities — quoted Other debt securities — quoted	354 641 512 186	603 339 4 742 234		957 980 5 254 420
Unit-linked investments	_	50 099 132	299 718	50 398 850
Collective investment schemes Other unit-linked investments	_	50 099 132 -	299 718	50 099 132 299 718
Investment in investment contracts	_	15 587	_	15 587
	3 086 174	55 483 423	309 845	58 879 442
Own balances Client-related balances	18 853 3 067 321	2 250 019 53 233 404	27 465 282 380	2 296 337 56 583 105
Financial liabilities				
Derivative financial instruments	_	30 406	_	30 406
Investment contracts Purchase consideration payable Third-party liabilities arising on consolidation of	Ξ	26 411 829 –	282 380 59 185	26 694 209 59 185
mutual funds	_	30 293 931	_	30 293 931
	_	56 736 166	341 565	57 077 731
Own balances	_	_	59 185	59 185
Client-related balances	_	56 736 166	282 380	57 018 546

# Financial risk management (continued)

Fair value estimation (continued)

Fair value hierarchy (continued)

The following financial instruments are measured at fair value:

At 28 February 2019	Level 1 R000	Level 2 R000	Level 3 R000	Total R000
Financial assets				
Derivative financial instruments Equity securities	2 353 147	10 592	240	10 592 2 353 387
Listed and quoted Unquoted	2 353 147		_ _ 240	2 353 147 240
Debt securities	876 023	5 319 500	_	6 195 523
Government debt securities — quoted Other debt securities — quoted	332 408 543 615	827 378 4 492 122		1 159 786 5 035 737
Unit-linked investments		46 033 221	454 859	46 488 080
Collective investment schemes Other unit-linked investments		46 033 221 —	- 454 859	46 033 221 454 859
Investment in investment contracts	_	16 048	_	16 048
	3 229 170	51 379 361	455 099	55 063 630
Own balances Client-related balances	16 204 3 212 966	1 996 524 49 382 837	28 111 426 988	2 040 839 53 022 791
Financial liabilities				
Derivative financial instruments Investment contracts Purchase consideration payable	- - -	13 973 25 438 584 —	435 129 91 655	13 973 25 873 713 91 655
Third-party liabilities arising on consolidation of mutual funds		27 350 796		27 350 796
		52 803 353	526 784	53 330 137
Own balances Client-related balances		_ 52 803 353	91 655 435 129	91 655 53 238 482

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# 36. RISK MANAGEMENT (continued)

Financial risk management (continued)

Fair value estimation (continued)

Level 3 financial instruments

The following tables present the changes in level 3 financial instruments during the reporting periods under review:

	Unit-linked investments <sup>1</sup> R000	Equity securities R000	Total R000
Assets			
Carrying value at 1 March 2018	717 137	240	717 377
Additions	229 809	_	229 809
Disposals	(523 353)	-	(523 353)
Gains recognised in profit or loss <sup>2</sup>	31 266	_	31 266
Carrying value at 28 February 2019	454 859	240	455 099
Additions	121 445	_	121 445
Disposals	(306 030)	(204)	(306 234)
Gains recognised in profit or loss <sup>2</sup>	29 444	10 091	39 535
Carrying value at 29 February 2020	299 718	10 127	309 845

<sup>1</sup> Gains on these items were recognised in profit or loss under the line item 'net fair value gains and losses on financial instruments'.

<sup>&</sup>lt;sup>2</sup> Gains recognised in profit or loss include unrealised gains of R36.4 million and realised gains of R3.1 million for the 2020 financial year (2019: unrealised gains of R28.7 million and realised gains of R26.6 million).

	Purchase consideration payable in credit R000	Investment contracts <sup>3</sup> R000	Total R000
Liabilities			
Carrying value at 1 March 2018	45 344	698 146	743 490
Additions	82 732	229 208	311 940
Settlements	(88 207)	(523 357)	(611 564)
Exchange differences	69	-	69
Subsidiaries acquired	51 931	_	51 931
(Gains)/losses recognised in profit or loss <sup>4</sup>	(214)	31 132	30 918
Carrying value at 28 February 2019	91 655	435 129	526 784
Additions Settlements (Gains)/losses recognised in profit or loss <sup>4</sup>	38 661 (71 127) (4)	115 273 (306 019) 37 997	153 934 (377 146) 37 993
Carrying value at 29 February 2020	59 185	282 380	341 565

<sup>&</sup>lt;sup>3</sup> Losses on these items were recognised in profit or loss under the line item 'fair value adjustment to investment contract liabilities'.

<sup>4</sup> Gains/losses recognised in profit or loss include unrealised losses of R34.8 million and realised losses of R3.2 million for the 2020 financial year (2019: unrealised losses of R28.4 million and realised losses of R28.4 million and realised losses of R26.6 million).

# Financial risk management (continued)

# Fair value estimation (continued)

# Level 3 financial instruments (continued)

The table below summarises the carrying values and fair values of financial instruments not presented on the statement of financial position at fair value, for which their carrying values do not approximate their fair values:

	2020		2019	
	Carrying value R000	Fair value R000	Carrying value R000	Fair value R000
Assets Debt securities — amortised cost	-	_	66 548	65 540
<b>Liabilities</b> Investment contracts	_	_	58 407	57 523

The debt securities shown in the table above, which were linked to investment contracts, matured during the current financial year. The fair value of the financial assets and liabilities disclosed in the prior financial year were categorised as level 3.

# Offsetting

The group does not have any financial assets or financial liabilities that are currently subject to offsetting in accordance with IAS 32 – Financial Instruments: Presentation.

However, the derivative assets of R23.1 million (2019: R10.6 million) and derivative liabilities of R30.4 million (2019: R14.0 million) are subject to a master netting arrangement, with a net exposure of R7.3 million (2019: R3.4 million).

#### **Insurance risk**

Insurance activities expose the group to insurance risk (including pricing risk, reserving risk, underwriting risk and reinsurance risk).

Insurance risk is the risk that future claims and expenses will exceed the allowance for expected claims and expenses in the measurement of policyholder liabilities and in product pricing.

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# 36. RISK MANAGEMENT (continued)

# Insurance risk (continued)

#### Long-term insurance contracts

The insurance risk that PSG Life Limited is exposed to arises from an annuitant book with 55 (2019: 57) policies which are in the process of being run off, with a total liability value of R17.0 million (2019: R19.2 million). The insurance risk associated with this line of business is longevity risk, as there is a risk of loss that could arise should annuitants live longer than expected.

The loss arises as a result of the company having undertaken to make regular payments to the policyholders for their remaining lives. The most significant risk on these liabilities is continued medical advances and improvement in social conditions that lead to longevity improvements being better than expected.

The group manages the longevity risk by making use of standard mortality tables in calculating the life expectancy of its annuitants. However, the risk is not seen as material due to the size of this annuitant book.

The profile of annuity amounts payable per life in respect of annuities is as follows:

	2020		2019	)
Annuity amount per annum (R)	Number of annuities	Annual annuity exposure R000	Number of annuities	Annual annuity exposure R000
0 – 50 000 50 001 – 100 000 100 001 – 150 000 150 001 – 200 000	35 14 1 4	852 992 125 697	39 12 1 4	982 864 121 677
200 001 – 999 999 999	1	299	1	291

The table above shows that the concentration risk is likely to be small given the number of lives and the annuity profile being heavily weighted to lower annuity amounts per annum.

In the measurement of annuitant liabilities, a margin as described in the accounting policies is subtracted from the best estimate mortality. The best estimate mortality includes an allowance for future mortality improvements.

Significant assumptions used in determining the policyholder liability on this annuitant book were as follows:

- Mortality table: 95.00% of a (55), less a three-year age adjustment
- Annuity bonus: based on 65% and 75% (2019: 65% and 75%) of the long-term Prudential Authority inflation curve for mCubed and Glenrand respectively, with 13th cheques allowed for mCubed policies; average future bonus rate of 5.9% (2019: 4.5%) per annum on Glenrand policies and 5.1% (2019: 5.2%) on mCubed policies
- Investment returns: based on the long-term Prudential Authority nominal yield curve effective 29 February 2020 and 28 February 2019

The investment strategy followed for assets held to cover these liabilities is to match the liability cash flows as closely as possible, given the availability of appropriate inflation-linked bonds. The targeted return of these portfolios is to earn returns which at least match inflation. This is reviewed by the investment committee as well as the statutory actuary of PSG Life Limited on at least an annual basis.

The group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the group manages them.

#### Short-term insurance contracts

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur when the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Changing risk parameters and unforeseen factors, such as patterns of crime, economic and geographical circumstances, may result in unexpectedly large claims.

#### Insurance risk (continued)

# Short-term insurance contracts (continued)

# Pricing and reserving

The group bases its pricing policy on the theory of probability. Underwriting limits are set for underwriting managers and brokers to ensure that this policy is consistently applied. The group also has the right to reprice and change the conditions for accepting risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims.

The group is exposed to accumulation risk in the form of geographical (large metropolitan areas), as well as class of business concentrations of risk. The risk appetite policy dictates how much capital the group is willing to put at risk in the pursuit of value. It is within this risk appetite framework that the reinsurance programme has been selected to mitigate accumulation risk within its portfolio.

The reinsurance arrangements include excess, stop-loss and catastrophe coverage.

Claim provisions for all classes of business are regularly reviewed to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as underwriting and accounting experts.

Capital adequacy management aims to manage the risk that the net technical reserves held on the statement of financial position to fund reported and future claims as well as their associated expenses may prove insufficient.

The group holds its technical reserves at the minimum levels of sufficiency in accordance with prudential guidelines and legal requirements. The group aims to be conservative in the holding of technical reserves to protect its capital.

#### Underwriting risk

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The concentration of insurance risk in relation to the type of insurance risk accepted, as well as the relative geographical concentration of the risk is summarised in the table below:

	2020		2019	
	Type of insurance risk		Type of insu	rance risk
Geographical location	Motor %	Non-motor %	Motor %	Non-motor %
South Africa	42	58	44	56
Namibia	37	63	33	67
Botswana	54	46	59	41
	42	58	43	57

Of the group's gross written premium of R1.5 billion for the year ending 29 February 2020 (28 February 2019: R1.3 billion), 91% (2019: 91%) was generated within South Africa, 6% (2019: 8%) within Namibia and 3% (2019: 1%) within Botswana.

Refer to page 91 for mitigating controls put in place as part of the risk management framework to address underwriting risk.

#### Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

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# 36. RISK MANAGEMENT (continued)

#### Insurance risk (continued)

#### Short-term insurance contracts (continued)

# Sources of uncertainty in the estimation of future claim payments

Claims are payable on a claims-occurrence basis. The group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by the individual contract holders and the risk management procedures they adopted.

In calculating the estimated cost of unpaid claims (both reported and not), the group's estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based on actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

# Development of claims

Due to the nature of the insurance contracts, the uncertainty about the amount and timing of claims payments is typically resolved within one year.

### **Capital risk management**

The group's objectives when managing capital (which comprises shareholder's equity) are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The group considers the optimal capital structure to be a structure in which the optimal level of capital is maintained in the most effective way by balancing the needs of shareholders, policyholders and regulators, with the main focus being one of maximising shareholder value. This requires the group to manage the levels of capital within each regulated entity in the group to keep these in line with the capital requirements for that entity, as well as to ensure that this reflects and is consistent with the group's risk profile and risk appetite. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders. issue new shares or sell assets to reduce debt.

When funding is required, management will consider the various forms of paper available for issue, taking into account current market conditions, anticipated trends in market indicators and the financial position of the group at the time. Management will consider issuing ordinary shares, or short, long or medium-term borrowings with variable or fixed rates accordingly.

PSG Konsult Limited facilitates the efficient deployment of capital to the various subsidiaries in the group. The company will therefore retain sufficient capital to satisfy the groups risk appetite as well as to facilitate growth. The Exco and Manco provide oversight for the capital management of the group.

Certain subsidiaries have regulatory capital adequacy requirements as a result of the respective industries in which they operate. PSG Life Limited is required to hold a minimum amount of capital in order to reduce the policyholders' exposure to the company's liquidity risk. The Prudential Authority regularly reviews compliance with these minimum capital requirements as the regulatory authority. The company must maintain shareholders' funds that will be sufficient to meet obligations in the event of substantial deviations from the main assumptions affecting the company's business. PSG Life Limited met the solvency requirements, in accordance with the regulations and the guidelines issued by the Prudential Authority, as at 29 February 2020.

A subsidiary of the group, Western Group Holdings Limited (Western Group), operates in the short-term insurance industry. The objectives when managing capital are to safeguard its ability to continue as a going concern and to ensure optimal capital adequacy management in order to manage the risk that the net technical reserves held on the statement of financial position are sufficient to fund reported and future claims as well as their associated expenses. Capital management is done through reinsurance and reserving. The group is exposed to accumulation risk in the form of geographical (large metropolitan areas) as well as class of business concentrations of risk. The risk appetite policy dictates how much capital the group is willing to put at risk in the pursuit of value. It is within this risk appetite framework that the reinsurance programme has been selected to mitigate accumulation risk within its portfolio. The reinsurance arrangements include excess, stop-loss and catastrophe coverage. The group manages its capital requirements in accordance with the guidelines and statutory regulations of each regulator in the various jurisdictions. The group holds its technical reserves at the minimum levels of sufficiency in accordance with prudential guidelines and legal requirements. The group aims to be conservative in the holding of technical reserves to protect its capital. The entities within the Western Group met their capital requirements as at 29 February 2020.

The capital levels of the non-insurance companies and subsidiaries are based on operational requirements (subject to any regulatory capital requirements), taking into account new business targets.

# **Group restrictions on assets and liabilities**

The group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than those required by supervisory regulatory frameworks.

#### **Group credit risk**

Rating agency GCR has reviewed the ratings of PSG Konsult under the recently released Appendix Criteria for Rating Asset Managers, November 2019. PSG Konsult's long-term South African national scale rating has been upgraded to A(ZA) from A-(ZA), while PSG Konsult's short-term South African national scale rating has been revised to A1(ZA), from A1-(ZA), due to a change in the long to short-term mapping tables. The outlook is stable.

#### Financial risk inherent in consolidated mutual funds

The group consolidates a number of collective investment schemes as a result of exercising control over these funds, and the risk management framework is therefore applicable to the risk management of the fund. Refer to Annexure B for information on the mutual funds consolidated.

Because of the specific nature of the business of the schemes, the risk management principles may be applied differently to managing the risks relevant to the schemes from the way the overall financial risks are managed. This section describes how the financial risk management of the schemes differs from the overall financial risk management.

The management company of the scheme has a dedicated independent risk unit that continuously monitors the overall risk of the portfolios against stated mandate limits and the portfolio risk appetites over time. To avoid conflicts of interest, the unit is separate from the investment team and reports directly to the COO of the management company.

When considering any new investment for a scheme, the risks and expected returns are critical elements in the investment decision. Before an instrument is included in a portfolio, risks are carefully considered at instrument and portfolio levels. The scheme mandate is also assessed.

A portfolio market risk appetite is measured as a function of current market conditions and a benchmark, which translates into a targeted tracking error that is monitored by the independent risk unit. Credit and liquidity risks are mitigated through diversification of issuers in line with the policy.

### 37. ADOPTION OF NEW ACCOUNTING STANDARDS

IFRS 16 — Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The group has adopted IFRS 16 retrospectively from 1 March 2019, using the modified retrospective approach. Comparatives are not restated under this approach. The cumulative effect of adopting this standard is recognised as an adjustment to retained earnings at the beginning of the current year.

The group leases various corporate and adviser offices, the terms and conditions of which are negotiated on an individual basis. Extension and termination options are included in a number of leases across the group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lessee is reasonably certain to extend the lease. Each lease generally imposes a restriction that the property can only be used by the group unless permission is given by the lessor to sublet, and that the buildings must be returned to their original condition at the end of the lease.

On transition to IFRS 16, the group recognised lease liabilities in relation to leases that were previously accounted for as operating leases in terms of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 March 2019. The weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 10.2%

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# 37. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

The following is a reconciliation of the operating lease commitments as at 28 February 2019 to the lease liabilities recognised on 1 March 2019:

	R000
Operating lease commitments disclosed as at 28 February 2019 Recognition exemption in respect of short-term leases Extension and termination options reasonably certain to be exercised Leases committed to with a commencement date after 1 March 2019 Other adjustments relating to commitment disclosures	236 727 (4 897) 116 198 (105 844) 7 852
Operating lease liabilities before discounting Discounting effect using the incremental borrowing rate Lease liabilities recognised under IFRS 16 at 1 March 2019	250 036 (70 731) 179 305

With the exception of the head office corporate lease, the group has elected to recognise the right-of-use assets equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease as at 28 February 2019. For the head office corporate lease, the right-of-use asset was calculated as if IFRS 16 had always been applied but discounted using the incremental borrowing rate at 1 March 2019. The standard allows this election to be made on a lease-by-lease basis. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

On transition to IFRS 16 on 1 March 2019, the impact on the statement of financial position was as follows:

	As previously stated R000	Impact of adoption of IFRS 16 R000	Balances after adoption of IFRS 16 R000
Right-of-use assets Deferred income tax assets Retained earnings Lease liabilities Trade and other payables	-	150 393	150 393
	101 091	4 882	105 973
	(1 451 251)	12 555	(1 438 696)
	-	(179 305)	(179 305)
	(2 153 524)	11 475	(2 142 049)

In applying IFRS 16 for the first time, the group has used the following practical expedients:

- for corporate office leases with a term of less than 12 months on 1 March 2019, the group applied the short-term exemption and accounted for the leases on a straight-line basis over the remaining lease term;
- the group elected not to include initial direct costs in the measurement of the right-of-use asset for the leases in existence at the date of initial application;
- · hindsight has been used when considering whether to include renewal and termination options in the lease term; and
- instead of performing an impairment review on the right-of-use assets at the date of initial application, the group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For the year ended 29 February 2020, the recurring headline earnings was negatively impacted by R4.4 million as a result of the adoption of IFRS 16.

The classification of the lease payments on the statement of cash flows, which were previously included within cash utilised from operations, has changed. The cash outflow has been split between the principal portion paid (presented within financing activities) and the finance costs paid (shown as an operating activity).

# 38. SHARE ANALYSIS

	Shareholders		Shares held	
	Number	%	Number	%
Range of shareholding				
1 – 50 000	2 871	82.5	21 568 031	1.6
50 001 - 100 000	203	5.8	13 911 031	1.0
100 001 - 500 000	258	7.4	54 679 807	4.1
500 001 - 1 000 000	49	1.4	34 123 586	2.6
Over 1 000 000	100	2.9	1 214 070 666	90.7
	3 481	100.0	1 338 353 121	100.0
Treasury shares	6		18 569 479	
	3 487		1 356 922 600	
Public and non-public shareholding				
Non-public				
Holding company	1	0.0	810 058 551	60.5
Directors and management	17	0.5	112 419 231	8.4
Public	3 463	99.5	415 875 339	31.1
	3 481	100.0	1 338 353 121	100.0
Individual shareholders holding 5% or more of shares in issue (net of treasury shares) at 29 February 2020				
PSG Financial Services Limited			810 058 551	60.5
Coronation Asset Management			125 098 117	9.3
			935 156 668	69.8





# **COMPANY STATEMENT OF FINANCIAL POSITION**

as at 29 February 2020

	Notes	2020 R000	2019 R000
ASSETS			
Investment in subsidiaries	1	1 678 138	1 678 138
Deferred income tax asset	2	10	16
Loans and advances	3	440 456	503 024
Receivables	4	1 728	1 659
Cash and cash equivalents (including money market funds)	5	312 889	320 463
Total assets		2 433 221	2 503 300
EQUITY Equity attributable to owners of the company Stated capital Retained earnings Total equity	6	2 067 326 321 191 2 388 517	2 129 572 325 946 2 455 518
LIABILITIES			
Borrowings	7	480	6 851
Trade and other payables	8	44 190	40 914
Current income tax liability		34	17
Total liabilities		44 704	47 782
Total equity and liabilities		2 433 221	2 503 300

# **COMPANY STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 29 February 2020

	Notes	2020 R000	2019 R000
Interest income on amortised cost financial instruments Interest income on fair value through profit or loss financial instruments Dividend income	9 9 9	4 055 17 689 267 500	10 604 12 624 217 500
Total income		289 244	240 728
Marketing, administration and other expenses	10	(1 432)	(1 212)
Total expenses		(1 432)	(1 212)
<b>Profit before finance costs and taxation</b> Finance costs	11	287 812 (25)	239 516 (24)
Profit before taxation Taxation	12	287 787 (6 076)	239 492 (6 492)
Profit for the year		281 711	233 000
Total comprehensive income for the year		281 711	233 000

# **COMPANY STATEMENT OF CHANGES IN EQUITY**

for the year ended 29 February 2020

	Stated capital R000	Retained earnings R000	Total R000
Balance at 1 March 2018	1 908 804	353 584	2 262 388
<b>Comprehensive income</b> Total comprehensive income for the year	-	233 000	233 000
Transactions with owners	220 768	(260 638)	(39 870)
Issue of ordinary shares Dividends paid	220 768 —	_ (260 638)	220 768 (260 638)
Balance at 28 February 2019	2 129 572	325 946	2 455 518
<b>Comprehensive income</b> Total comprehensive income for the year	_	281 711	281 711
Transactions with owners	(62 246)	(286 466)	(348 712)
Issue of ordinary shares Repurchase and cancellation of ordinary shares Dividends paid	24 145 (86 391) –	- - (286 466)	24 145 (86 391) (286 466)
Balance at 29 February 2020	2 067 326	321 191	2 388 517

# **COMPANY STATEMENT OF CASH FLOWS**

for the year ended 29 February 2020

No	otes	2020 R000	2019 R000
Cash flows from operating activities Cash utilised in operations 16 Interest received Dividends received Finance costs	5.1	(14 728) 21 744 267 500 (25)	(24 319) 23 228 217 500 (24)
· · · · · · · · · · · · · · · · · · ·	5.2	(6 053) 268 438	(6 519) 209 866
Cash flows from financing activities Dividends paid Issue of ordinary shares Repurchase of ordinary shares Net cash flow from financing activities		(286 466) 24 145 (13 691) (276 012)	(260 638) 111 920 — (148 718)
Net (decrease)/increase in cash and cash equivalents Cash and cash equivalents at the beginning of the year Cash and cash equivalents at the end of the year	5.3	(7 574) 320 463 312 889	61 148 259 315 320 463

# **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The basis of preparation and accounting policies of the company are the same as that of the group, as set out in Annexure A. These financial statements should be read in conjunction with the group financial statements.

# 1. INVESTMENT IN SUBSIDIARIES

	2020 R000	2019 R000
Unlisted shares at cost less impairment	1 678 138	1 678 138

#### Interest in subsidiaries acquired and sold

During the 2019 financial year, PSG Konsult Limited subscribed to an additional R50.0 million share issue of PSG Distribution Holdings Proprietary Limited and a R53.9 million share issue of PSG Insure Holdings Proprietary Limited. The effective interest in PSG Distribution Holdings Proprietary Limited and PSG Insure Holdings Proprietary Limited remained unchanged at 100%.

#### **Impairment**

An assessment for impairment was performed by comparing the carrying value of the individual subsidiaries with the calculated fair value less cost to sell. The fair value is determined by applying a PE ratio to the profit after tax for each subsidiary for the respective financial years. The PE ratios are determined with reference to similar listed companies as well as recent transactions concluded in the market and were determined as between 5.0 and 7.5 (2019: 5.0 and 7.5).

#### General

Refer to Annexure B for the schedule of interests in subsidiaries.

#### 2. DEFERRED INCOME TAX

	2020 R000	2019 R000
Deferred income tax asset Deferred income tax liability	10 -	16 —
Net deferred income tax asset	10	16
Deferred income tax asset To be recovered within 12 months To be recovered after 12 months	10	16
to be recovered and 12 monars	10	16

The movement in the deferred income tax asset during the year was as follows:

Deferred income tax asset	Accruals not currently deductible R000	Total
Carrying value at 1 March 2018 Credit to profit or loss	12 4	· -
Carrying value at 28 February 2019	16	16
Charge to profit or loss	(6	(6)
Carrying value at 29 February 2020	10	10

The deferred income tax asset and liability were calculated on all temporary differences under the liability method using the effective tax rate of 28% (2019: 28%).

The recoverability of the deferred income tax asset was assessed as set out in the detailed accounting policies in Annexure A.

#### 3. LOANS AND ADVANCES

	2020 R000	2019 R000
Loans to related parties (refer to note 15)	440 456	503 024
Current portion Non-current portion	440 456 _	503 024
	440 456	503 024

The loans to related parties are repayable on demand and interest-free, with the exception of R21.4 million and R37.2 million in the 2019 financial year which accrued interest at prime and prime less 2% respectively.

The fair values of the loans and advances approximate their carrying values. Loans and advances are shown net of amounts which are not expected to be recoverable.

#### **Expected credit losses**

Expected credit losses for loans to related parties are measured under the general model as prescribed by IFRS 9.

The period over which the expected credit loss is calculated is limited to the maximum contractual period of the loan. For loans that are repayable on demand, the contractual period is the period needed to transfer the cash once demanded. The expected credit losses are based on the assumption that the repayment of the loan is demanded at the reporting date. As such, the impact of incorporating forward-looking information is immaterial, due to the short period over which the expected credit loss assessment is performed.

The financial information of the borrower at the reporting date is inspected to determine if:

- the borrower has sufficient accessible highly liquid assets or facilities in order to repay the loan if demanded at the reporting date, and
- that there is no senior debt which the borrower would need to repay before the intergroup loan being assessed.

In such a scenario, assuming that the entity has no restrictions on its liquid assets and could meet a demand to repay the loan at the reporting date, no expected credit loss would be recognised unless the impact of discounting from when the repayment is demanded until it is paid is material.

The related parties were assessed to have sufficient accessible liquid assets or facilities available to repay the loans in full, taking into consideration any senior debt which the borrower would need to repay first, should repayment be demanded on the reporting date. Management therefore determined that any expected credit losses as well as the impact of discounting would be immaterial.

The maximum exposure to credit risk at the reporting date is the fair value of the loans and advances mentioned above.

#### 4. RECEIVABLES

		2020 R000	2019 R000
Trade receivables		1 728	1 659
Current portion		1 728	1 659
Non-current portion	-	1 728	1 659
		1 720	1 033

The receivables are interest-free and repayable on demand. The carrying value approximates fair value.

In terms of IFRS 9, the company has applied the simplified approach to determine the expected credit loss, which was deemed to be immaterial

# **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 5. CASH AND CASH EQUIVALENTS (INCLUDING MONEY MARKET FUNDS)

	2020 R000	2019 R000
Cash at bank Money market funds Short-term deposits	830 299 959 12 100	435 300 590 19 438
	312 889	320 463

The effective-interest rate on cash and cash equivalents (including money market funds) was 7.09% (2019: 7.19%). The money market funds and the short-term deposits have an average maturity of 30 days or less.

Impairments on cash and cash equivalents carried at amortised cost are measured on a 12-month expected credit loss basis and reflect the short-term maturities of the exposures. The company considers that its cash and cash equivalents have good credit quality based on the external credit ratings of the counterparties. No impairment is therefore considered necessary.

# 6. STATED CAPITAL

#### **Authorised**

3 billion shares with no par value (2019: 3 billion shares with no par value)

There were no changes to the authorised stated capital during the current reporting period (2019: no changes).

Issued	Number of shares (thousands)	Stated capital R'000
As at 1 March 2018 Issue of ordinary shares	1 342 242 22 643	1 908 804 220 768
As at 28 February 2019	1 364 885	2 129 572
Issue of ordinary shares Repurchase and cancellation of ordinary shares As at 29 February 2020	2 379 (10 342) 1 356 922	24 145 (86 391) 2 067 326
,		

The shares issued during the current financial year were to fulfil the company's obligation towards the share options which vested on 18 April 2019 and 1 August 2019 respectively.

During October 2019 the company repurchased and cancelled 8.8 million ordinary shares. The shares were acquired at a price of R8.25 per share. PSG Konsult repurchased and cancelled a further 1.5 million shares at a cost of R13.7 million during February 2020 at a weighted average cost price of R8.83 per share. The total cost of R86.4 million (weighted average cost price of R8.34 per share) was deducted from stated capital. The buy back and cancellation were approved by shareholders at last year's annual general meeting.

The shares issued during the previous financial year were to fulfil the company's obligation towards the share options which vested on 20 April 2018, 1 June 2018 and 1 August 2018 respectively.

All shares issued by the company were fully paid. The unissued shares in the company are placed under the control of the directors until the next AGM. The directors are authorised to buy back shares under general approval, subject to certain limitations and the JSE Listings Requirements.

# 7. BORROWINGS

	2020 R000	2019 R000
Related-party loans (refer to note 15)	480	6 851
Current portion	480	6 851
Non-current portion	_	_
	480	6 851

The related-party loans are unsecured, interest-free and repayable on demand.

The carrying value of the borrowings approximates their fair value.

# 8. TRADE AND OTHER PAYABLES

	2020 R000	2019 R000
Trade payables VAT payable	44 181 9	40 906 8
Total trade and other payables <sup>1</sup>	44 190	40 914
Current portion Non-current portion	44 190 –	40 914 —
	44 190	40 914

<sup>&</sup>lt;sup>1</sup> Includes non-financial liabilities of R0.009 million (2019: R0.008 million).

The carrying amount of trade and other payables approximates their fair value.

# **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 9. INVESTMENT INCOME

2020 R000	2040
R000	2019
	R000
1 359	7 475
2 696	3 129
4 055	10 604
17 689	12 624
17 689	12 624
21 744	23 228
21744	23 220
267 500	217 500
267 500	217 500
289 244	240 728
209 244	240 726
2020	2040
2020 R000	2019 R000
407	
137 1 176	89 1 013
1176	110
1 432	1 212
1 432	1 212
2020	2019
R000	R000
	24
-	

# 12. TAXATION

	2020 R000	2019 R000
Current taxation Current year	6 070	6 496
<b>Deferred taxation</b> Current year	6	(4)
Total income statement charge	6 076	6 492

The company has no unutilised tax losses available at 29 February 2020 (28 February 2019: Rnil) for utilisation against future taxable income.

Reconciliation of effective rate of taxation	<b>2020</b> %	<b>2019</b> %
South African normal taxation rate Adjusted for:	28.0	28.0
Non-taxable income¹ Non-deductible charges	(26.0) 0.1	(25.4) 0.1
Effective rate of taxation	2.1	2.7

<sup>&</sup>lt;sup>1</sup> The non-taxable income relates to dividend income.

# 13. DIVIDEND PER SHARE

	2020 R000	2019 R000
Normal dividend	286 466	260 638

# Interim

7.5 cents per share (2019: 7.0 cents per share)

# Final

15.0 cents per share (2019: 13.5 cents per share)

Dividends are not accounted for until they have been approved by the company's board of directors.

# 14. BORROWING POWERS

In terms of the company's MOI, borrowing powers are unlimited. Details of actual borrowings of the company are disclosed in note 7 to the company financial statements.

# **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 15. RELATED-PARTY TRANSACTIONS

PSG Konsult Limited and its subsidiaries enter into various transactions with members of the PSG Group and the PSG Konsult Group. These transactions include a range of investment, administrative and corporate services in the normal course of business.

Related-party balances	2020 R000	2019 R000
Loans and advances		
Due from companies in the PSG Konsult Limited Group		
PSG Management Services Proprietary Limited	158 036	215 889
Delerus Proprietary Limited		21 365
PSG Konsult Treasury Limited	146 071	37 170 2 431
PSG Insure Holdings Proprietary Limited PSG Wealth Holdings Proprietary Limited	22 986	92 352
PSG Konsult Group Share Incentive Trust	113 363	133 817
1 3d Ronsult Group share incentive must	440 456	503 024
Refer to note 3 for the detail of the terms of the loans to related parties.		
Borrowings		
Due to companies in the PSG Konsult Limited Group		
PSG Insure Holdings Proprietary Limited	480	_
PSG Scriptfin Proprietary Limited	-	6 851
	480	6 851
Refer to note 7 for the detail of the terms of the related-party loans.		
	2020	2019
Related-party transactions	R000	R000
Interest income		
Received from companies in the PSG Konsult Limited Group	62.6	2 205
PSG Konsult Treasury Limited Delerus Proprietary Limited	636 723	3 295 4 180
. ,	725	4 100
Received from related parties		
Local unit trusts	17 689	12 624
	19 048	20 099
Dividend income		
Received from companies in the PSG Konsult Limited Group		
Received from companies in the PSG Konsult Limited Group PSG Wealth Holdings Proprietary Limited	90 000	62 500
Received from companies in the PSG Konsult Limited Group PSG Wealth Holdings Proprietary Limited PSG Distribution Holdings Proprietary Limited	82 500	29 000
Received from companies in the PSG Konsult Limited Group PSG Wealth Holdings Proprietary Limited		

The shareholding of directors and the directors' remuneration are set out in the report of the board of directors.

# **Key management compensation**

Key management are those persons who have authority and responsibility for planning, directing and controlling the activities of the group. Key management is considered to be the board of directors and the prescribed officers. For the detail of the audited directors' and prescribed officers' remuneration, refer to the report of the board of directors on pages 111 and 112.

# 16. NOTES TO THE STATEMENT OF CASH FLOWS

	2020 R000	2019 R000
16.1 Cash utilised in operations		
Profit before finance costs and taxation	287 812	239 516
Adjustment for non-cash items and other:		
Interest income	(21 744)	(23 228)
Dividend income	(267 500)	(217 500)
	(1 432)	(1 212)
Changes in working capital		
Receivables	(69)	(893)
Loans and advances	(10 132)	(28 284)
Borrowings	(6 371)	_
Trade and other payables	3 276	6 070
	(14 728)	(24 319)
16.2 Taxation paid		
Charge to profit or loss	(6 076)	(6 492)
Movement in deferred taxation	6	(4)
Movement in net taxation liability	17	(23)
	(6 053)	(6 519)
16.3 Cash and equivalents at the end of the year		
Cash and cash equivalents (including money market funds)	312 889	320 463

# 17. EVENTS AFTER THE REPORTING DATE

In terms of IAS 10 — Events after the Reporting Period, non-adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 29 February 2020. It was concluded that the declaration of COVID-19 as a pandemic and the implementation of a nationwide lockdown is such an event.

Management has assessed the impact of COVID-19, specifically on the impairment assessments performed for accounting standards that require the use of forward-looking information, such as expected credit losses and impairment assessments on non-financial assets. COVID-19 did not have a significant impact on this assessment.

No other events material to the understanding of these results has occurred between the end of the reporting period and the date of approval of the company financial statements.

# **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 18. RISK MANAGEMENT

#### Financial risk management

# Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out under policies approved by the board of directors. The management of PSG Konsult identifies, evaluates and mitigates financial risks. The board of directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of excess liquidity.

Financial instruments are grouped into the following classes in order to facilitate effective financial risk management and disclosure in terms of IFRS 7 — Financial Instruments: Disclosures and IFRS 13 — Fair Value Measurement:

Assets	2020 R000	2019 R000
Financial assets carried at amortised cost		
Loans and advances <sup>1</sup>	440 456	503 024
Receivables <sup>1</sup>	1 728	1 659
Cash and cash equivalents (including money market funds) <sup>1</sup>	12 930	19 873
Financial assets carried at fair value through profit or loss		
Cash and cash equivalents (including money market funds)	299 959	300 590
Total financial assets	755 073	825 146
	2020	2019
Liabilities	R000	R000
Financial liabilities carried at amortised cost		
Borrowings <sup>1</sup>	480	6 851
Trade and other payables <sup>1</sup>	44 181	40 906
Total financial liabilities	44 661	47 757

<sup>1</sup> Carrying value approximates fair value.

# 18. RISK MANAGEMENT (continued)

# Financial risk management (continued)

#### Market risk

#### Cash flow and fair value interest rate risk

The company's interest rate risk arises from loans and advances, receivables, cash and cash equivalents, borrowings and trade and other payables. Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

	2020			2019	
Floating rate R000	Interest- free R000	Carrying value R000	Floating rate R000	Interest- free R000	Carrying value R000
_	440 456	440 456	58 534	444 490	503 024
-	1 728	1 728	_	1 659	1 659
312 889	_	312 889	320 463	_	320 463
_	(480)	(480)	-	(6 851)	(6 851)
_	(44 181)	(44 181)	_	(40 906)	(40 906)
312 889	397 523	710 412	378 997	398 392	777 389
	rate R000 - - 312 889 - -	Floating Interest- rate free R000 R000  - 440 456 - 1 728 312 889 (480) - (44 181)	Floating Interest- Value R000 R000 R000  - 440 456 440 456 - 1 728 1 728 312 889 - 312 889 - (480) (480) - (44 181) (44 181)	Floating Interest- rate free value R000 R000 R000 R000 R000 R000  - 440 456 440 456 58 534 - 1 728 1 728 - 312 889 - 312 889 320 463 - (480) (480) (44 181) (44 181) -	Floating rate R000         Interest-free R000         Carrying R000         Floating rate R000         Interest-free R000           -         440 456         440 456         58 534         444 490           -         1 728         1 728         -         1 659           312 889         -         312 889         320 463         -           -         (480)         (480)         -         (6 851)           -         (44 181)         (44 181)         -         (40 906)

The company manages its cash flow interest rate risk by monitoring interest rates on a regular basis.

Based on simulations performed, the impact on post-tax profit of a 1% (2019: 1%) movement in interest rates is analysed below:

	2020	2019	2020	2019
	1% increase	1% increase	1% decrease	1% decrease
	R000	R000	R000	R000
Impact on post-tax profit and equity	2 253	2 729	(2 253)	(2 729)

# Credit risk

Credit risk arises from the inability or unwillingness of a counterparty to a financial instrument to discharge its contractual obligations. Credit risk comprises default, settlement and migration risk (if credit ratings change).

Credit risk arises from cash and cash equivalents, loans and advances and receivables. Counterparties and cash transactions are limited to high-credit-quality financial institutions.

The table below shows the company's maximum exposure to credit risk by class of asset:

2020		2019	
Balance R000	Collateral fair value R000	Balance R000	Collateral fair value R000
440 456	_	503 024	_
1 728	_	1 659	_
312 889	-	320 463	_
755 073	-	825 146	-
	Balance R000 440 456 1 728 312 889	Collateral Balance fair value R000 R000  440 456 - 1 728 - 312 889 -	Balance R000         Collateral fair value R000         Balance R000           440 456         -         503 024           1 728         -         1 659           312 889         -         320 463

# **NOTES TO THE COMPANY FINANCIAL STATEMENTS**

for the year ended 29 February 2020

# 18. RISK MANAGEMENT (continued)

#### Financial risk management (continued)

# Credit risk (continued)

Receivables are tested for impairment using a variety of techniques including assessing credit risk and monthly monitoring of individual debtors. At 29 February 2020 and 28 February 2019, the expected credit loss calculated in terms of IFRS 9 was deemed to be immaterial.

Financial assets are assessed based on their credit ratings as published by Moody's. Financial assets which fall outside this range are classified as not rated. Credit limits, for each counterparty, are set based on default probabilities that are, in turn, based on the ratings of the counterparty concerned.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2020 R000	2019 R000
P1 Other non-rated assets Unit-linked investments (including CIS)	12 596 442 518 299 959 755 073	19 873 504 683 300 590 825 146

The table below analyses the company's external credit rating by class of asset:

	P1 R000	Unit-linked investments (incl CIS) R000	Other non-rated assets R000	Total R000
At 29 February 2020 Loans and advances Receivables Cash and cash equivalents	12 596	- - 299 959 299 959	440 456 1 728 334 442 518	440 456 1 728 312 889 755 073
	12 596	299 959	442 518	/55 0/3
At 28 February 2019 Loans and advances Receivables Cash and cash equivalents	19 873 19 873	- - 300 590 300 590	503 024 1 659 — 504 683	503 024 1 659 320 463 825 146

The unit-linked investments relate to the company's investment in the PSG Money Market Fund of which the underlying instruments are rated in terms of the Collective Investment Schemes Control Act. The mandate of the fund is to invest in cash deposits and highly liquid, fixed-interest securities with a weighted average maturity of less than 90 days. A spread of investments in top-quality financial instruments and institutions moderates the risk through diversification.

#### Loans and advances

Loans and advances consist of loans to related parties and are repayable on demand. The loans and advances have been assessed to have good credit quality. Refer to note 3 for detail on the credit loss assessment performed.

# 18. RISK MANAGEMENT (continued)

#### Financial risk management (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the business, it aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying values as the impact of discounting is not significant.

	Carrying value R000	Less than 1 year R000	Between 1 and 5 years R000	Over 5 years R000
At 29 February 2020				
Borrowings	480	480	_	-
Trade and other payables	44 181	44 181	_	-
	44 661	44 661	_	_
At 28 February 2019				
Borrowings	6 851	6 851	_	_
Trade and other payables	40 906	40 906	_	_
Financial guarantee contract <sup>1</sup>	101 227	9 330	104 652	
	148 984	57 087	104 652	_

<sup>&</sup>lt;sup>1</sup> Significant off-balance sheet exposure. Refer to note 19 below. The fair value of the financial guarantee contract was insignificant at the end of each reporting period. Management evaluated the relevant historical data and consider the possibility of losses arising from the financial guarantee to be remote.

# Capital risk management

The company's objectives when managing capital (which comprises shareholder's equity) are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

When funding is required, management will consider the various forms of paper available for issue, taking into account current market conditions, anticipated trends in market indicators and the financial position of the company at the time. Management will accordingly consider issuing ordinary shares, or short-, long- or medium-term borrowings with variable or fixed rates.

#### **Credit rating**

Rating agency GCR has reviewed the ratings of PSG Konsult under the recently released Appendix Criteria for Rating Asset Managers, November 2019. PSG Konsult's long-term South African national scale rating has been upgraded to A(ZA) from A-(ZA), while PSG Konsult's short-term South African national scale rating has been revised to A1(ZA), from A1-(ZA), due to a change in the long- to short-term mapping tables. The outlook is stable.

# 19. CAPITAL COMMITMENTS AND CONTINGENCIES

PSG Scriptfin Proprietary Limited, a wholly owned subsidiary, obtained a recourse loan facility from Investec Bank Limited during the 2016 financial year. PSG Konsult Limited provided an irrevocable, unconditional guarantee for all the obligations and liabilities of PSG Scriptfin Proprietary Limited, under this facility, to Investec Bank Limited, with the guarantee limited to R150.0 million. The loan amount due by PSG Scriptfin Proprietary Limited to Investec Bank Limited at 29 February 2020 was Rnil (28 February 2019: Rnil).

PSG Konsult Treasury Limited, a wholly owned subsidiary, established a DMTN programme during the 2018 financial year. PSG Konsult Limited provided an irrevocable, unconditional guarantee for all the obligations and liabilities of PSG Konsult Treasury Limited to and in favour of the noteholders of the notes issued. The balance of the amount owing as at 29 February 2020 is Rnil (28 February 2019: R101.2 million).

PSG Konsult Limited has also issued letters of support in the ordinary course of business for the activities of certain of its subsidiaries.





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The principal accounting policies applied in the preparation of these group and company financial statements are set out below. The accounting policies applied are in terms of IFRS and are consistent with those applied in the previous group annual financial statements, except for the mandatory adoption of IFRS 16 — Leases, which is effective for the year commencing 1 March 2019. The group has applied the standard retrospectively without restating comparative figures. Refer to note 37 for further detail.

# 1. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE EFFECTIVE FOR THE FIRST TIME IN 2020

# 1.1 New and amended standards, interpretations and amendments adopted by the group

The following new standards, interpretations or amendments, which are relevant to the group's operations, became effective during the year:

#### IFRS 16 – Leases (effective 1 January 2019)

This standard replaces the guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The International Accounting Standard Board has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

# Annual improvements 2015 – 2017 cycle (effective 1 January 2019) IAS 12 – Income Taxes

The amendment clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

The adoption of this standard and interpretation had no material impact on measurements of assets and liabilities in the current or prior financial years, with the exception of IFRS 16. Refer to note 37 for further detail.

# 1.2 New and amended standards, interpretations and amendments not currently relevant to the group's operations

The following new standards, interpretations and amendments, which are not currently relevant to the group's operations, had no impact on the measurement of amounts or disclosures in the current or prior financial years:

# Amendments to IAS 19 – Employee Benefits – Plan amendment, curtailment or settlement (effective 1 January 2019)

These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus
  (recognised or unrecognised). This reflects the substance of the transaction, because a surplus that has been used to settle
  an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other
  comprehensive income, and it is not reclassified to profit or loss The impact of the amendments is to confirm that these
  effects are not offset.

# Amendments to IAS 28 – Investments in Associates and Joint Ventures – Long-term interests in associates and joint ventures (effective 1 January 2019)

The amendments clarified that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9.

# Amendments to IFRS 9 – Financial Instruments – Prepayment features with negative compensation and modification of financial liabilities (effective 1 January 2019)

The narrow-scope amendment covers two issues:

- The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will
  result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect
  all kinds of entities that have renegotiated borrowings.

# STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE EFFECTIVE FOR THE FIRST TIME IN 2020 (continued)

# 1.2 New and amended standards, interpretations and amendments not currently relevant to the group's operations (continued)

Annual improvements 2015 – 2017 cycle (effective 1 January 2019)
 IFRS 3 – Business Combinations

A company remeasures its previously held interest in a joint operation when it obtains control of the business.

#### IFRS 11 - Joint Arrangements

A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

#### IAS 23 - Borrowing Costs

A company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

IFRIC 23 – Uncertainty over Income Tax Treatments (effective 1 January 2019)

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The interpretation provides specific guidance in several areas where previously IAS 12 was silent. The interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

# 2. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following new standards, interpretations and amendments have been published and are mandatory for the group's accounting periods beginning on or after 1 March 2020 or later periods and have not been early adopted by the group:

- Amendment to IFRS 3 Business Combinations Definition of a business (effective 1 January 2020)\*
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosure – Interest rate benchmark reform (effective 1 January 2020)\*
- IFRS 17 Insurance Contracts (effective 1 January 2023)^
- Amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of material (effective 1 January 2020)\*
- ^ Management is in the process of assessing the impact of these standards, interpretations and amendments on the reported results of the group.
- \* Management has assessed the impact of these standards, interpretations and amendments on the reported results of the group and company and does not foresee any impact.
- \* Management has assessed the impact of this standard on the reported results of the group and company and foresees only minor disclosure changes.

# 2.1 Impact of initial application of new standards that are not yet effective

# Standard Impact of standards IFRS 17 - Insurance Contracts IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements of insurers. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis in each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur, but over the remaining life of the contract. Management is still in the process of assessing the impact that the adoption of IFRS 17 will have on the reported results of the group. The standard will not have any impact on the company as it does not issue insurance contracts.

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# 3. GROUP FINANCIAL STATEMENTS

The group annual financial statements comprise those of the company, its subsidiaries, associated companies, joint ventures and the share incentive trust (share trust). Accounting policies of the subsidiaries, associated companies and joint ventures have been changed, where necessary, to ensure consistency with policies adopted by the group.

# 3.1 Subsidiaries (including mutual funds) and business combinations

Subsidiaries are all entities (including structured entities, special-purpose entities (SPEs), collective investment schemes and hedge funds) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are deconsolidated from the date that control ceases. SPEs are also consolidated where the substance of the relationship indicates that the SPE is controlled by the group.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises a non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurements are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss, or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

Shares in the company held by the share trust have been consolidated into the financial results of the group, as the group effectively controls these shares, and are accounted for as treasury shares.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment

# 3.2 Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with owners in their capacity as owners. The difference between fair value of any consideration paid or received, and the relevant share acquired or disposed of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

# 3. GROUP FINANCIAL STATEMENTS (continued)

# 3.3 Accounting for the group's acquisition of the controlling interest in subsidiaries under common control

IFRS 3 — Business Combinations does not apply to business combinations effected between parties that are ultimately controlled by the same entity, both before and after the business combination (and where that control is not transitory), otherwise known as common control transactions. The group has elected to apply the principle of predecessor accounting (as determined by the generally accepted accounting principles in the United States of America) to such transactions.

The accounting policy for the acquiring entity would be to account for the transaction at book values in its consolidated financial statements. The book values of the acquired entity are the consolidated book values as reflected in the consolidated financial statements of the selling entity (highest level of consolidation). The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions will be allocated to the existing common control reserve in equity. As a result, no goodwill is recognised on acquisition. Where comparative periods are presented, the financial statements and financial information presented are not restated as the group elected to account for common control transactions from the date of the acquisition, therefore prospectively.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

#### 3.4 Joint arrangements

The group has applied IFRS 11 to all joint arrangements since 1 March 2014. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting.

Under the equity method, the investment in joint ventures is initially recognised at cost and subsequently measured in the consolidated statement of financial position at an amount that reflects the groups share of the net assets of the joint venture (including goodwill). The equity method of accounting involves recognising the group's share of its joint ventures' post-acquisition profits or losses in the income statement, and its share of post-acquisition movements in other comprehensive income and movements in other reserves, in the statement of comprehensive income and the statement of changes in equity respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

Equity accounting is discontinued when the group no longer has joint control over the investment.

# 3.5 Interests in subsidiaries - mutual funds

The group has assessed its interests in the various mutual fund investments in which the group has the irrevocable asset management agreement over the mutual funds and in which the group has invested significantly. For other mutual funds, other factors such as the existence of control through voting rights held by the group in the fund, or significant economic power in the fund, are considered in the assessment of control. Judgement is required in the assessment of whether the group has control or significant influence in terms of the variability of returns from the group's involvement in the funds, the ability to use power to affect those returns and the significance of the group's investment in the funds. Based on the assessment of control or significant influence over these mutual funds, certain funds have been consolidated and others not. In terms of IFRS 10, the group considers itself to have control of a fund when it both owns the asset manager of the fund and holds approximately 30% economic interest thereof.

# 3.6 Unconsolidated structured entities - mutual funds

The group invests in various mutual funds which are widely recognised as investment trusts that are regulated by government agencies, marketed and open to public investment. These funds provide investors with access to returns on underlying assets in terms of predefined mandates. Pricing information is publicly available.

Management does not consider these vehicles to be unconsolidated structured entities as defined under IFRS 12, as these funds are vanilla in nature and do not have a complicated funding structure.

for the year ended 29 February 2020

# 4. SEGMENT REPORTING

The CEO, supported by the group Manco, is the group's CODM as it is responsible for the overall strategic decision-making. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance of the operating segments. The composition of the reportable segments represents the internal reporting structure and the monthly reporting to the CODM.

# 5. FOREIGN CURRENCY TRANSLATION

# 5.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which those entities operate (the functional currency).

The group and company financial statements are presented in South African rand, being PSG Konsult's functional and presentation currency.

#### 5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as part of net fair value gains and losses on financial instruments.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities carried at fair value through profit or loss are recognised in profit or loss as part of foreign exchange gains or losses and translation differences on non-monetary assets carried at fair value through other comprehensive income are recognised in other comprehensive income.

# 5.3 Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the
  cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates
  of the transactions).
- Assets and liabilities for each statement of financial position presented are translated at closing exchange rate at the date of that statement of financial position.
- · All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate. Exchange differences are recognised in the statement of comprehensive income.

Group entities with functional currencies other than the presentation currency, mainly have the following functional currencies:

	2020		2019	
	Average	Closing	Average	Closing
British pound United States dollar	18.65 14.59	20.08 15.67	17.84 13.54	18.60 14.00

Exchanges rates used are based on interbank bid rates.

#### 6. PROPERTY AND EQUIPMENT

All property and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method at rates considered appropriate to reduce book values to estimated residual values over the useful lives of the assets, as follows:

Leasehold improvements over the remaining lease period

Motor vehicles 4 to 5 years
Office equipment 5 to 10 years
Computer equipment 3 to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. If the estimates of the remaining useful lives or residual values change, the remaining carrying values are depreciated prospectively, taking into account the revised estimates.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

#### 7. INTANGIBLE ASSETS

#### 7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary or joint venture undertaking at the date of acquisition. Goodwill is reported in the statement of financial position as an intangible asset. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The groups of CGUs are identified at the lowest level at which goodwill is monitored for internal management purposes.

#### 7.2 Trademarks and licences

Separately acquired trademarks and licences are shown at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over their estimated useful lives, which varies from 5 to 20 years and is reassessed annually.

#### 7.3 Customer relationships

Customer relationships consist of acquired adviser books of business, as well as acquired income stream rights on existing adviser books of business. These customer relationships are shown at cost less accumulated amortisation and impairment. Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Amortisation is calculated using the straight-line method over their estimated useful lives ranging between 5 and 20 years, which reflects the expected life of the customer relationships acquired.

# 7.4 Deferred acquisition costs (DAC)

Commissions, fees and other incremental costs that vary with and are related to securing new investment contracts and renewing existing investment contracts are capitalised as a DAC intangible asset, since these costs relate to future economic benefits being generated beyond one year. Subsequent changes to the DAC payable are reversed/capitalised against the relevant intangible asset. The DAC intangible asset is subsequently amortised over the expected life of the investment contracts. All other costs are recognised as expenses when incurred.

An impairment test is conducted annually at reporting date on the DAC intangible asset balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

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# 7. INTANGIBLE ASSETS (continued)

#### 7.5 Other intangible assets

Other intangible assets consist mainly of intellectual property rights and computer software.

Intellectual property rights are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of these rights over their estimated useful lives of 20 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available: and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives ranging between 2 and 12 years. The carrying amount is reviewed for impairment when an impairment indicator is identified.

#### 8. IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and intangible assets that have indefinite useful lives and are not subject to amortisation, or that are not yet available for use, are tested annually for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. The recoverable amount, being the higher of fair value less costs to sell and value in use, is determined for any asset for which an indication of impairment is identified. If the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

For the purpose of assessing impairment, assets are grouped together into CGUs which represent the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses are recognised as an expense in profit or loss in the period in which they are identified. An impairment loss in respect of goodwill is not reversed. In respect of other assets, reversal of impairment losses is recognised in profit or loss in the period in which the reversal is identified, to the extent that the asset is not increased to a carrying value higher than it would have been had no impairment loss been recognised for the asset in prior years.

#### 9. FINANCIAL INSTRUMENTS

Financial instruments recognised on the statement of financial position include financial assets, consisting of equity securities, debt securities, unit-linked investments, investment in investment contracts, loans and advances, derivative financial assets, receivables including insurance receivables, cash and cash equivalents, as well as financial liabilities, consisting of borrowings, derivative financial liabilities, investment contracts, third-party liabilities arising on consolidation of mutual funds and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

# 10. FINANCIAL ASSETS

#### 10.1 Classification

Financial assets are classified based on the business model and nature of cash flows associated with the instrument.

#### Financial assets at amortised cost

A debt instrument is classified in this category if it meets both of the following criteria and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise to cash flows, on specified dates, that are solely payments of principal and interest on the principal amount outstanding.

#### 10. FINANCIAL ASSETS (continued)

#### 10.1 Classification (continued)

# Financial assets at fair value through other comprehensive income

The group and company have not currently elected to measure any equity instruments at fair value through other comprehensive income.

A debt instrument is classified in this category if it meets both of the following criteria and is not designated as at fair value through profit or loss:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise to cash flows, on specified dates, that are solely payments of principal and interest on the principal amount outstanding.

#### Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or fair value through other comprehensive income as described above are mandatorily measured at fair value through profit or loss. The group also designates certain financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

# 10.2 Recognition and measurement of financial assets

Purchases and sales of financial assets are recognised on trade date — the date on which the group commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses recognised in the income statement are calculated as the difference between the fair value and carrying value of a financial instrument (after taking into account other income statement movements, such as interest and dividend income) which is still held at year-end. Realised gains and losses are recognised in the income statement when a financial instrument is sold and represents the value of the proceeds received or consideration paid for the financial instrument less the carrying value of the financial instrument (excluding previously recognised unrealised gains and losses). The group utilises the information provided from various product and investment houses to assist with the classification of the gains and losses.

Interest and dividend income arising on financial assets at fair value through profit or loss is recognised and disclosed separately in the income statement.

When applicable, the group measures the fair value of an instrument using the quoted price in an active market for that instrument. The fair values of quoted investments are based on current stock exchange prices at the close of business on the statement of financial position date. If the market for a financial asset is not active, or if it is unquoted, the group establishes fair value by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis refined to reflect the issuer's specific circumstances, premium/discount to net asset value and PE techniques. The group's main valuation techniques incorporate all factors that market participants would consider and make maximum use of observable market data.

The existence of published price quotations in an active market is the best evidence of fair value. The phrase 'quoted in an active market' means that quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

Readily available means that the pricing information is currently accessible and regularly available means that transactions occur with sufficient frequency to provide pricing information on an ongoing basis.

It is not necessary for quoted prices to be obtained from regulated markets. Prices can be obtained from other sources, although the available information may vary. For example, some industry groups or pricing services publish price information about certain instruments, while little or no information may be available about prices of other instruments.

An entity is not generally required to perform an exhaustive search for price information, but should consider any information that is publicly available, or that can be obtained reasonably from brokers, industry groups, publications of regulatory agencies or similar sources, such as journals and websites. It should be noted that these prices may be indicative prices only. It should not be assumed that these prices reflect the price in an active market.

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# 10. FINANCIAL ASSETS (continued)

#### 10.2 Recognition and measurement of financial assets (continued)

Sources from which prices can be obtained (to qualify as 'quoted') include:

- Regulated exchange (e.g. JSE, BESA, SAFEX)
- Company secretary, transfer secretary or website
- Brokers
- Daily newspapers and related sources (e.g. Business Day, Bloomberg)

Financial assets classified as at amortised cost are measured at amortised cost using the effective interest method, less any impairment, with income recognised on an effective yield base.

The group does not apply hedge accounting.

# 10.3 Impairment of financial assets

The group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost.

Expected credit losses are a probability-weighted estimate of credit losses and are measured as the present value of all cash short falls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive).

The impairment methodology applied depends on whether there has been a significant increase in credit risk. The group determines whether the credit risk on a financial instrument has increased significantly by comparing this risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument as at the date of initial recognition together with reasonable and supporting information that indicates a significant increase in credit risk since initial recognition.

If there is no indication that there has been a significant increase in a financial instrument's credit risk since initial recognition, the loss allowance is measured at an amount equal to the 12-month expected credit loss. However, if the credit risk on a financial instrument has increased significantly since initial recognition, the loss allowances are measured at an amount equal to lifetime expected credit losses. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, whereas 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The expected credit loss is calculated as the unbiased, probability weighted amount which is determined by evaluating the range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable information including that which is forward-looking.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

An impairment gain or loss is recognised in profit or loss for the amount of expected credit losses (or reversals) that is required to adjust the loss allowance at the reporting date.

The gross carrying amount of a financial asset is written off and reduced when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

# 10.4 Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or has been transferred, and the group has transferred substantially all risks and rewards of ownership. The group also derecognises a financial asset when the group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and thereby transfers substantially all the risks and benefits associated with the asset.

#### 10.5 Investment in investment contracts

These are valued at fair value or amortised cost, if issued by an independent credible party, or at the value of the underlying investments supporting the investment contract policy adjusted for applicable liquidity or credit risk. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

# 11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value on the date on which a derivative contract is entered into. Subsequent to initial recognition, derivative financial instruments are measured at fair value through profit or loss. Fair values of OTC derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only observable market data.

#### 12. RECEIVABLES

Receivables are amounts due for services performed in the ordinary course of business. Receivables are initially measured at fair value and subsequently recognised at amortised cost using the effective interest rate method, less provision for impairment. Under IFRS 9, the group applies the simplified approach to calculate the provision for impairment, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The movement in the amount of the provision is recognised in profit or loss. If collection is expected within one year or less, they are classified as current assets.

#### 12.1 Insurance receivables

Insurance receivables are amounts due from clients for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Insurance receivables are recognised when due. Refer to accounting policy note 16(ix) for the group's insurance receivables impairment policy.

#### 13. CONTRACTS FOR DIFFERENCE (CFD)

The group enters into contracts for difference with clients whereby the group provides leveraged exposure to equities specified by the client. CFD exposure is limited to the JSE Top 100 shares and Satrix exchange-traded funds (ETFs). The client pays an initial margin of between 15% (for JSE Top 100 shares) and 17.5% (for all other shares, including Satrix ETFs) of the value of the equities. Margin calls are made for the full value of any decrease in value of the equities on a daily basis.

CFD positions with clients are funded with equal and opposite CFD positions with other financial institutions. External funding is only used on an intraday basis to purchase the underlying equity positions which are then delivered to the financial institution, at the end of each business day, for settlement of the intraday funding provided. The CFD positions are classified as financial assets or liabilities at fair value through profit or loss.

The group is contractually bound to pay out or recover any fair value adjustments from the parties entering into the CFD, based on the fair value movement of the specified listed equities invested in for the client.

# 14. CASH AND CASH EQUIVALENTS (INCLUDING MONEY MARKET FUNDS)

Cash and cash equivalents consist of cash held at call with banks and other short-term highly liquid investments with maturities of three months or less. Investments in money market funds are classified as cash equivalents, since these funds are held to meet short-term cash requirements, are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are included within borrowings in the statement of financial position.

# 15. INSURANCE AND INVESTMENT CONTRACTS – CLASSIFICATION

The group issues contracts that transfer insurance risk, financial risk or both.

A distinction is made between investment contracts (which fall within the scope of the financial instruments standards and insurance contracts (where the FSV method continues to apply, subject to certain requirements specified in IFRS 4 – Insurance Contracts). A contract is classified as insurance where the group accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that, for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will exceed the amount payable on early termination before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable provided, in the case of a non-financial variable, that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. These contracts are measured at the fair value of the corresponding financial assets.

A subsidiary of the group, PSG Life Limited, is a linked insurance company and issues linked policies to policyholders (where the value of policy benefits is directly linked to the fair value of the supporting assets).

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# 16. INSURANCE CONTRACTS

Policyholder contracts that transfer significant insurance risk are classified as insurance contracts.

Insurance contracts are classified into two categories, depending on the duration of or type of insurance risks, namely short-term and long-term insurance contracts.

#### Short-term insurance

Short-term insurance provides benefits under short-term policies, which include property, business interruption, transportation, motor, personal all risk, accident and health, professional indemnity, public liability, marine, employers' liability, group personal accident, natural disasters and miscellaneous. Short-term insurance contracts are further classified into the following categories:

- personal insurance, consisting of insurance provided to individuals and their personal property; and
- commercial insurance, providing cover on the assets and liabilities of business enterprises.

# Recognition and measurement

i) Gross written premium

Gross premiums exclude VAT and other foreign indirect taxes. Premiums are accounted for as income when the risk related to the insurance policy incepts and are spread over the risk period of the contract by using an unearned premium provision. This also includes premiums received in terms of reinsurance agreements. All premiums are shown before deduction of commission payable to intermediaries.

ii) Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year and are charged to the income statement as incurred.

iii) Provision for unearned premium

Premiums are earned from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten. Unearned premiums, which represent the proportion of premiums written in the current year, which relate to risks that have not expired by the end of the financial year, are calculated on a time proportionate basis for even risk contracts and other bases that best represent the unearned risk profile for uneven risk contracts. The group has predominantly even risks contracts.

iv) Provision for unexpired risk

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims handling fees and related administrative costs. This liability adequacy test is performed annually to ensure the adequacy of short-term insurance liabilities.

v) Provision for claims

Provision is made on a prudent basis for the estimated final cost of all claims that have not been settled by the reporting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation owed to the beneficiaries (contract holders or third parties damaged by the contract holders) of the insurance contracts. They include direct and indirect claims settlement costs and assessment charges and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the group. The group does not discount its claim provision for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions). The group's own assessors or external assessors individually assess claims.

vi) Provision for claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the close of the reporting period, but which had not been reported to the group by that date. The provision is based on a best estimate liability plus an adjustment for risk (where sufficient historical data is available). Refer to the other accounting estimates and judgements in applying accounting policies section of the detailed accounting policies for further detail.

vii) Deferred acquisition costs (DAC)

Commissions that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

# 16. INSURANCE CONTRACTS (continued)

#### Short-term insurance (continued)

# Recognition and measurement (continued)

#### viii) Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Income received from insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) is included in premium income.

The benefits to which the group is entitled under its reinsurance contracts held are classified as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within receivables including insurance receivables) on settled claims, as well as estimates (classified as reinsurance assets) that are calculated based on the gross outstanding claims and IBNR provisions. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

The reinsurer's share of unearned premiums represents the portion of the current year's outward reinsurance premiums that relate to the risk periods covered by the related reinsurance contracts extending into the following year. The reinsurer's share of unearned premium is calculated using the 365th method.

Income from reinsurance contracts ceded, that varies with and is related to obtaining new reinsurance contracts and renewing existing reinsurance contracts, is deferred over the period of the related reinsurance contract and is recognised as a current liability.

The group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

#### ix) Receivables and payables related to insurance contracts

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

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

#### x) Salvage reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The group may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in determining the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

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# 16. INSURANCE CONTRACTS (continued)

#### **Long-term insurance**

These contracts are valued in terms of the FSV basis contained in SAP 104 issued by the Actuarial Society of South Africa and are reflected as insurance contracts' liabilities.

Liabilities are valued as the present value of future cash flows due to benefit payments and administration expenses that are directly related to the contract discounted at the rate of return at year-end on the assets backing the policyholder funds. Future cash flows are projected on a best estimate basis with an allowance for compulsory margins for adverse deviations as prescribed by SAP 104. Best estimate assumptions are required for future investment returns, expenses, persistency, mortality and other factors that may impact the financial position of the group. As per SAP 104, contractual premium increases are allowed for, but future voluntary premium increases are ignored.

In addition, certain discretionary margins are created to allow profits to emerge over the lifetime of the policy to reflect the small number of policies and associated volatility. Where the number of policies is small, the prescribed margins alone do not result in an acceptable probability of the total reserve being sufficient to meet all liabilities.

The financial soundness methodology includes allowance for liability adequacy testing to ensure that the carrying amount of technical provisions is sufficient in view of estimated future cash flows. Where a shortfall is identified, an additional provision is made.

The group reflects premium income relating to insurance business on a gross basis together with the gross amount of any reinsurance premiums. All premiums are accounted for when they become due and payable.

The group shows the gross amount of policyholder benefit payments in respect of insurance contracts together with the gross reinsurance recoveries and accounts for such transactions when claims are intimated.

Claims on long-term insurance contracts, which include death, disability, maturity, surrender and annuity payments, are charged to income when notified of a claim based on the estimated liability for compensation owed to policyholders. Outstanding claims are recognised in insurance and other payables. Reinsurance recoveries are accounted for in the same period as the related claim.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# 17. FINANCIAL LIABILITIES

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Financial liabilities include borrowings, derivative financial liabilities, investment contracts, third-party liabilities arising on consolidation of mutual funds and trade and other payables. The group issues investments contracts without fixed terms (unit-linked) and with fixed and quaranteed terms (fixed-interest rate).

Financial liabilities are initially recognised at fair value less transaction costs that are directly attributable to the raising of the funds, for all financial liabilities carried at amortised cost. All financial liabilities measured at fair value through profit or loss are initially recognised at fair value. The best evidence of the fair value at initial recognition is the transaction price (i.e. the fair value of the consideration received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with any resultant gains and losses recognised in the income statement. The net gain or loss recognised in the income statement incorporates any measurement gains or losses and interest expense on the financial liability. These financial liabilities are classified as current liabilities if they are either held for trading or expected to be settled within 12 months of the reporting date.

Third-party financial liabilities on consolidation of mutual funds are effectively demand deposits of external investors' interests in consolidated mutual funds and are consequently measured at fair value, which is the quoted unit values as derived by the fund administrator with reference to the rules of each particular fund. Fair value gains or losses are recognised in profit or loss.

Financial liabilities, or a portion thereof, are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and settlement amounts paid are included in the income statement.

Financial liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

# 17. FINANCIAL LIABILITIES (continued)

The group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the group's credit spreads widen, the group recognises a gain on these liabilities because the value of the liabilities has decreased. When the group's credit spreads narrow, the group recognises a loss on these liabilities because the value of the liabilities has increased.

#### 17.1 Investment contracts

The fair value of a unit-linked financial liability is determined using the current unit price reflecting the fair values of the financial assets contained within the group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at a reporting date. No initial profit is recognised immediately as any profit on initial recognition is amortised in line with cash flow projections over the life of the contract.

For investment contracts with fixed and guaranteed terms, the amortised cost basis is used. In this case, the liability is initially measured at its fair value less transaction costs that are incremental and directly attributable to the acquisition or issue of the contract.

Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument.

All other investment contract liabilities are designated on initial recognition at fair value through profit or loss. This designation significantly reduces a measurement inconsistency that would otherwise arise if these financial liabilities were not measured at fair value, since the assets held to back the investment contract liabilities are also measured at fair value.

The liability under investment contracts is derecognised when the contract expires, is discharged or is cancelled by the policyholder. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

#### 17.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

#### 17.3 Trade and other payables

Trade and other payables are recognised when the group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the group. Trade and other payables are recognised initially at fair value, net of transaction costs incurred. Trade and other payables are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period using the effective interest method. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Insurance payables are obligations to pay for services that have been acquired in the ordinary course of business and include amounts due from agents, intermediaries and insurance contract holders. Insurance payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Insurance payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

# 17.4 Financial guarantee contracts

Financial guarantee contracts issued by the group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when it becomes due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially at fair value.

Subsequently, the contract is measured at the higher of the amount determined in accordance with the expected credit loss model under IFRS 9, and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Financial guarantees are derecognised when the obligation is extinguished, expires or is transferred.

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# 18. DEFERRED REVENUE LIABILITY (DRL)

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. A DRL is recognised in respect of upfront fees, which are directly attributable to a contract that is charged for securing the investment management service contract. The DRL is then amortised to revenue when the services are provided, over the expected duration of the contract on a straight-line basis. The amount of the DRL that is amortised in the next financial year will be classified as current assets and the rest of the DRL will be classified as non-current assets. Refer to accounting policy note 27 for the group's revenue recognition policy.

#### 19. STATED CAPITAL AND TREASURY SHARES

Stated capital represented the par value of ordinary shares issued, being classified as equity. During the 2014 financial year, the ordinary shares were converted to no par value shares, resulting in share capital and share premium being transferred to stated share capital.

Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

# **Treasury shares**

The cost of treasury shares acquired are debited to the treasury share reserve, and upon disposal of such shares, the reserve is credited with the weighted average calculated cost attributable to the shares disposed of.

Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects. Any net income in relation to treasury shares (both fair value movements and dividends) is eliminated from group profits for the year. The number of shares in the earnings per share calculation is reduced for treasury shares held during the period on a weighted average basis.

#### **Share trust**

Certain of the group's remuneration schemes are operated through the PSG Konsult Group Share Incentive Trust. The share trust is considered to be a SPE controlled by the group and is therefore consolidated.

The shares purchased by the share trust are considered to be treasury shares and are treated in accordance with the group's policy for treasury shares.

#### 20. CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the group's subsidiaries, associated companies and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 20. CURRENT AND DEFERRED INCOME TAX (continued)

#### 20.1 Dividend withholding tax (DWT)

DWT is levied on the shareholders (or beneficial owners) receiving the dividend. Shareholders are subject to DWT on dividends received, unless they are exempt in terms of the amended tax law. DWT is levied at 20% of the dividend received. The DWT is categorised as a withholding tax, as the tax is withheld and paid to tax authorities by the company paying the dividend or by a regulated intermediary and not the beneficial owner of the dividend. Where a non-exempt group company is a beneficial owner of the dividend, the DWT is recorded as an expense in the income statement when the dividend income is earned.

# 21. TRUST AND FIDUCIARY ACTIVITIES

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of and the risk of clients. As these are not the assets of the group, they are not reflected on the statement of financial position.

#### 22. EMPLOYEE BENEFITS

# 22.1 Pension obligations

The group only has defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

# 22.2 Other post-retirement benefits

The group offers no other post-retirement benefits.

#### 22.3 Share-based compensation

The group grants share options to certain employees under various equity-settled share-based compensation schemes.

The share-based compensation scheme is treated on a PSG Konsult subsidiary level as a cash-settled share-based compensation scheme. The accounting treatment of the cash-settled share-based compensation scheme by the subsidiaries is reversed on consolidation and replaced with the equity-settled share-based compensation scheme.

The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement, with the corresponding increase in a share-based payment reserve in the statement of changes in equity and represents the fair value at grant date of the share options that will be delivered on vesting. The total amount to be expensed over the vesting period, which is five years, is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share options that are expected to become exercisable. At each reporting date, the entity revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

On a group level, the deferred income tax and income tax charge relating to the expense are limited to the actual equity-settled share-based scheme expense, and the excess deferred income tax and income tax charge relating to the subsidiaries are recognised in equity. When the share options have vested, the relevant amount recognised in equity for the employee services, up to the vesting date, and the related deferred income tax and income tax are transferred from the share-based payment reserve to retained earnings through an equity transfer. On exercise of the equity-settled share-based payment, any proceeds received are credited to stated capital. The difference between the market value of the shares transferred to the option holder on exercise date and strike price paid by the option holder is recognised in equity as part of the shares based payment reserve. If the market value of the shares transferred to the option holder is greater than the strike price paid, it would result in a decrease in the share-based payment reserve; if the market value of the shares transferred to the option holder is less than the strike price paid, it would result in an increase in the share-based payment reserve.

The fair value is determined by using the Black-Scholes valuation model and the assumptions used to determine the fair value are detailed in note 12 to the group financial statements.

If the group cancels or settles a grant of equity instruments during the vesting period, the group accounts for the cancellation or settlement of the grant and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

# 22.4 Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated annual leave as a result of services rendered by employees up to the reporting date.

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# 22. EMPLOYEE BENEFITS (continued)

#### 22.5 Profit sharing and bonus plans

The group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged, or where there is a past practice that has created a constructive obligation.

#### 22.6 Termination benefits

Termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The group recognises these termination benefits when the group is demonstrably committed either to terminating the employment of an employee or group of employees before the normal retirement date, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The group is demonstrably committed to a termination when the group has a detailed formal plan (with specified minimum contents) for the termination and it is without realistic possibility of withdrawal. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. Where termination benefits fall due more than 12 months after the reporting period, they are discounted. In the case of an offer made to encourage voluntary redundancy, 12 months after the reporting period, they are discounted. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. In the case of an offer made to encourage voluntary redundancy, benefits are immediately recognised as an expense.

# 23. PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

#### 23.1 Provisions

Provisions are recognised when:

- the group has a present legal or constructive obligation, which has uncertain timing or amount, as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

#### 23.2 Contingent liabilities and assets

A contingent liability is either a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group or a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. These contingent liabilities are not recognised in the statement of financial position, but disclosed in the notes to the financial statements.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. These contingent assets are not recognised in the statement of financial position, but are disclosed in the notes to the financial statements if the inflow of financial benefits is probable.

# 24. LEASES

On 1 March 2019, the group adopted IFRS 16 retrospectively, using the modified retrospective approach. Comparatives are not restated under this approach. The cumulative effect of adopting this standard is recognised as an adjustment to retained earnings at the beginning of the current year. The group's comparative information is presented in accordance with the requirements of IAS 17, whereas the current year has been aliqued to the requirements of IFRS 16.

# 24.1 Leases under IFRS 16

Under IFRS 16 leases are recognised as a lease liability and corresponding right-of-use asset at the date which the leased asset is available for use by the company.

The group leases various corporate and adviser offices, the terms and conditions of which are negotiated on an individual basis. Each lease generally imposes a restriction that the property can only be used by the group unless permission is given by the lessor to sublet, and that the buildings must be returned to their original condition at the end of the lease.

# 24. LEASES (continued)

#### 24.1 Leases under IFRS 16 (continued)

Extension and termination options are included in a number of leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. or not exercise a termination option.

#### Lease liability

The lease liability is initially measured at the present value of the following lease payments:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- amounts expected to be payable by the company under residual value guarantees:
- the exercise price of purchase options, if the company is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease agreements may contain both lease and non-lease components. The group elected not to separate lease and non-lease components, for leases of buildings for which the group is a lessee, and instead accounts for these as a single lease component.

The lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, which is the case for leases in the group, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group:

- uses recent third-party financing received by the companies within the group as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received; and
- makes adjustments specific to the lease, e.g. term, credit standing, economic environment and security.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

#### Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the company incurs an obligation to do so; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The depreciation charge for each year is recognised in profit or loss.

#### Deferred income tax

The deferred income tax on leases has been accounted for by considering the lease liability and right-of-use assets separately. This gives rise to temporary differences on initial recognition on which deferred income tax has been recognised.

for the year ended 29 February 2020

# 24. LEASES (continued)

#### 24.2 Operating leases under IAS 17

Under IAS 17, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

#### 25. DIVIDEND DISTRIBUTIONS

Dividend distributions to the company's shareholders are recognised as a liability in the period in which the dividends are approved by the company's board of directors.

#### 26. REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for services rendered in the ordinary course of the group's activities, as well as interest and dividend income. The group's activities include financial advice, stockbroking, fund management, financing and the issue of short-term and long-term insurance contracts.

Revenue is shown net of value-added tax, returns, rebates, discounts and after eliminating sales within the group.

#### 26.1 Revenue from contracts with customers under IFRS 15

Revenue type	Description	Recognition and measurement	
administration and other fees administration and other fees administration and other fees and other fees administration and other fees and other fees administration and other fees and other fees and other fees administration and other fees and other fees and other fees are administration and other fees and other fees are administration and other fees and other fees are administration and other fees are administ	Revenue arising from advisory and portfolio management activities (including commission, management fees, performance fees and	Commission  Commission is recognised as services are rendered. In terms of IFRS 15, these commissions are recognised either at a point in time or over time, depending on when the performance obligations are satisfied. This is predominantly earned by the group through its network of financial advisers.	
	administration fees)	Management fees Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.	
		Performance fees Performance fees are earned, over and above management fees, on superior fund performance which exceeds specific agreed targets (typically market-related benchmarks) and are recognised when the performance obligation has been satisfied. Performance fees include variable consideration and therefore revenue is recognised only to the extent that it is highly probable that no significant revenue reversal will occur.	
		Administration fees Administration fees are recognised when the services are rendered, in accordance with the substance of the relevant agreements.	
Dealing and structuring	Revenue arising from stockbroking activities (including brokerage, custodian fees, settlement fees, income from dealing in listed securities)	Revenue relating to stockbroking activities is recognised as services are rendered, by reference to the completion of the specific transaction. In terms of IFRS 15, this revenue is recognised either at a point in time or over time, depending on when the performance obligations are satisfied.	

# 26. REVENUE RECOGNITION (continued)

#### 26.1 Revenue from contracts with customers under IFRS 15 (continued)

Revenue is recognised either when the performance obligation has been satisfied ('point in time') or when control of the goods or service is transferred to the customer ('over time'). This requires an assessment of the group and company's performance obligations and of when control is transferred to the customer. Where revenue is recognised over time, this is in general due to the group and company performing and the customer simultaneously receiving and consuming the benefits over the life of the contract as services are rendered. For each performance obligation over time, the group and company apply a revenue recognition method that faithfully depicts the group and company's performance in transferring control of the service to the customer. Due to the nature of the group's business, the majority of its revenue from contracts with customers is considered to be recognised over time. If performance obligations in a contract do not meet the over time criteria, the group recognises revenue at a point in time.

Revenue is measured based on the consideration specified in contracts with customers, excluding amounts collected on behalf of third parties and including an assessment of any variable consideration dependent on the achievement of agreed KPIs. Such amounts are only included based on the expected value or most likely outcome method, and only to the extent that it is highly probable that no significant revenue reversal will occur. In assessing whether a significant reversal will occur, the group considers both the likelihood and the magnitude of the potential revenue reversal.

#### 26.2 Investment income

#### Interest income

For financial instruments measured at amortised cost, interest income is recognised using the effective interest method and disclosed as interest income on amortised cost financial instruments in the income statement.

Interest income on financial instruments measured at fair value through profit or loss is recognised within interest income on fair value through profit or loss financial instruments.

# Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income is separately disclosed in the income statement.

# 27. MANAGED FUNDS ACTIVITIES

Certain companies within the group operate unit trusts and hold and invest funds on behalf of clients. Assets and liabilities representing such activities are not reflected on the statement of financial position, as these relate directly to clients. The values of these items are disclosed in the notes. Income from these activities is brought to account over the period to which the service relates.

#### 28. OTHER ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# 28.1 Fair value of derivatives and other unlisted financial instruments

The fair value of financial instruments that are trading on recognised OTC platforms is based on the closing bid price and classified as quoted instruments. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as disclosed in the policy relating to financial assets. Please refer to accounting policy regarding derivative financial instruments for further detail regarding fair value valuation techniques. The assumptions used in these valuation techniques are described as part of the fair value hierarchy analysis included in note 36.

#### 28.2 Investment contracts

The group issues a significant number of investment contracts that are designated as at fair value through profit or loss. These financial instruments are not quoted in active markets, and their fair values are determined by using valuation techniques. Such techniques (for example, valuation models) are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices. The investment contract liabilities held at fair value are fully matched with the underlying assets. As such, the fair value of the investment contract liabilities is determined with reference to the fair value of the underlying asset. The carrying amount of the investment contract liabilities is R26.7 billion (2019: R25.9 billion).

for the year ended 29 February 2020

# 28. OTHER ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

#### 28.3 Short-term insurance liabilities

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of the insurance company, principally in respect of the insurance liabilities of the company.

# Process to determine significant assumptions

Insurance risks are unpredictable and the group recognises that it is not always possible to forecast, with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have an above-average likelihood of being adequate to settle all its insurance obligations.

#### i) Unearned premiums

Unearned premiums represent the amount of income set aside by the group to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the reporting date.

The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is released as the risk covered by the contract expires. The group's insurance contracts have an even risk profile. Therefore, the unearned premium provision is released evenly over the period of insurance using a time proportion basis.

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

#### ii) Unexpired risk provision

If the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to those policies, after deduction of any deferred commission expenses, management assesses the need for an unexpired risk provision (estimated future underwriting losses relating to unexpired risks).

The need for an unexpired risk provision is assessed on the basis of information available at the reporting date. Claims events occurring after the statement of financial position date in relation to the unexpired period of policies in force at that time are not taken into account in assessing the need for an unexpired risk provision.

Management will base the assessment on the expected outcome of those contracts, including the available evidence of claims experience on similar contracts in the past year, as adjusted for known differences, events not expected to recur, and the normal level of seasonal claims.

# iii) Outstanding claims

Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred and were reported by the reporting date, but that have not yet been finally settled.

Claims provisions are determined based on previous claims experience, knowledge of events, the terms and conditions of the relevant policies and the interpretation of circumstances. Each notified claim is assessed on a separate case-by-case basis with due regard for the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions. The group employs people experienced in claims handling and rigorously applies standardised policies and procedures to claims assessment.

The ultimate cost of reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Therefore, case estimates are reviewed regularly and updated when new information becomes available.

The provision for outstanding claims is initially estimated at a gross level. A separate calculation is carried out to estimate reinsurance recoveries. The calculation of reinsurance recoveries considers the type of risk underwritten, the year in which the loss claim occurred and under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or formed part of a catastrophe reinsurance claim.

#### 28. OTHER ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

#### 28.3 Short-term insurance liabilities (continued)

## Process to determine significant assumptions (continued)

iv) Claims incurred but not reported

Provisions need to held for the eventual outcome of open claims that have occurred but have not been reported to the insurer by the reporting date.

The company utilises its own actuarial models to determine the appropriate amount of provision to hold, taking into account the nature, scale and complexity of the business. Each class of business is placed into homogeneous groups and modelled separately to determine the best estimate liability (probability-weighted mean) to be held, based on historic data and expert judgement. Where necessary, business of similar nature with insufficient claims detail is accounted for by extrapolating to the entire population in proportion to gross premium. The basic technique involves analysing the historical delay between loss events and the ultimate finalisation of these events to determine estimated development factors based on this historical pattern. The selected development factors are applied to cumulative internal claims data for each accident quarter that is not yet fully developed to produce an estimated ultimate claims cost per accident quarter.

The provision is modelled on a gross basis with a related reinsurance asset recognised based on a proportion of reinsurance purchased for each portfolio and business line. Prudence is maintained on the net provision by including a separate risk adjustment. To obtain this adjustment, a stochastic chain-ladder model is utilised to perform numerous simulations and, in doing so, obtain a distribution of the ultimate claims cost. The risk adjustment is determined as being the additional funds required so that the IBNR provision will be sufficient at the 75th to 80th percentile of the ultimate cost distribution.

Where data is deemed not to be sufficient and the business is different in nature to the modelled groups, the company makes use of the minimum prescribed requirements provided by the applicable regulatory body.

#### 28.4 Money market funds

Cash and cash equivalents disclosed on the statement of financial position include investments in money market funds, being short-term, highly liquid investments with maturities of three months or less. Money market funds are classified as cash equivalents, since these funds are held to meet short-term cash requirements, are highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The underlying instruments in the money market funds are mainly (> 80%) issued credit papers of South Africa's top six banks, all of which had a Moody's short-term national rating of P1(ZA) on 29 February 2020 (28 February 2019: P1(ZA)). The classification of money market funds as cash equivalents is only judgemental for purposes of disclosure and judgement applied could not have any impact on disclosed carrying value of assets or liabilities.

# **ANNEXURE B - INTERESTS IN SUBSIDIARIES**

for the year ended 29 February 2020

# **INVESTMENT IN SUBSIDIARIES**

	Country of	
Subsidiary	incorporation	Nature of business
PSG Wealth Holdings Proprietary Limited	South Africa	Investment holding company
PSG Wealth Group Services Proprietary Limited <sup>2</sup>	South Africa	Provision for corporate financial administrative and advisory services
PSG Securities Limited	South Africa	Stockbroking
PSG Scriptfin Proprietary Limited	South Africa	Securitised lending business
PSG Fixed Income and Commodities Proprietary Limited <sup>2</sup>	South Africa	Trading of fixed income instruments
PSG Multi Management Proprietary Limited	South Africa	Multi-manager
PSG Life Limited	South Africa	Linked insurance company
PSG Invest Proprietary Limited	South Africa	LISP functionality
PSG Distribution Holdings Proprietary Limited	South Africa	Investment holding company
PSG Wealth Financial Planning Proprietary Limited	South Africa	Financial, investment planning, advice and stockbroking
PSG Optimum Proprietary Limited <sup>3</sup>	South Africa	Investment management, insurance and investment brokers, financial planning and advice
PSG Nylstroom Proprietary Limited <sup>3</sup>	South Africa	Investment management, insurance and investment brokers, financial planning and advice
PSG Warmbad Proprietary Limited <sup>3, 4</sup>	South Africa	Investment management, insurance and investment brokers, financial planning and advice
PSG Potgietersrus Proprietary Limited <sup>3, 4</sup>	South Africa	Investment management, insurance and investment brokers, financial planning and advice
PSG Ellisras Proprietary Limited <sup>3, 4</sup>	South Africa	Investment management, insurance and investment brokers, financial planning and advice
PSG Trust Proprietary Limited	South Africa	Trust and fiduciary services
PSG Employee Benefits Limited	South Africa	Healthcare, brokerage and administration
PSG Corporate Financial Planning Proprietary Limited	South Africa	Healthcare, brokerage and employee benefits
Nhluvuko Risk Administration Proprietary Limited	South Africa	Administration
PSG Namibia Proprietary Limited	Namibia	Investment management, insurance and investment brokers, financial planning and advice
PSG Insure Holdings Proprietary Limited	South Africa	Investment holding company
Western Group Holdings Limited	Namibia	Investment holding company with investment in two short-term insurance companies
Western National Insurance Company Limited (Namibia)	Namibia	Short-term insurance company focusing on commercial and agricultural markets
Western National Insurance Company Limited (South Africa)	South Africa	Short-term insurance company focusing on commercial and agricultural markets
Hi-Five Corporate Finance Proprietary Limited	Namibia	Debtor financing
Born Free Investments 487 Proprietary Limited	South Africa	Property investment company
Western Administration Services Proprietary Limited	South Africa	Group administration services
Western Insurance Botswana Proprietary Limited	Botswana	Short-term insurance company
Western Life Insurance Botswana Proprietary Limited	Botswana	Long-term insurance company
Western National Engineering Insurance Proprietary Limited	South Africa	Short-term underwriting business

<sup>&</sup>lt;sup>1</sup> Ownership interest equal voting rights.

<sup>&</sup>lt;sup>2</sup> The company was liquidated during the 2020 financial year.

<sup>&</sup>lt;sup>3</sup> Disposed of investment in subsidiary during the 2020 financial year.

<sup>4</sup> Although effective interest held is below 50%, the group controls these entities as the group is involved in the day-to-day running of these businesses, its strategies and has the ability to effect the returns generated by these entities.

Effective interest held directly or indirectly <sup>1</sup>		lssı stated/sha	ued are capital		Cost of investment	
<b>2020</b> %	<b>2019</b> %	2020 R	2019 R	2020 R000	2019 R000	
100	100	508 999 120	508 999 120	495 225	495 225	
_	100	_	100	_	_	
100	100	4 738	4 738	_	_	
100	100	200	200	_	_	
-	100	-	95 827	-	_	
100	100	121	121	_	_	
100	100	305 500	305 500	_	_	
100	100	20 500 100	20 500 100	_	_	
100	100	816 486 372	816 486 372	599 775	549 775	
100	100	113	113	-	_	
-	51	-	200	-	_	
-	51	-	200	-	_	
-	26	-	200	-	-	
-	36	-	116 500	-	-	
-	26	-	500	-	_	
100	100	111	111	_	_	
74	74	1 962	1 962	_	_	
74	74	100	100	_	_	
74	74	100	100	-	_	
58	58	300 000	300 000	_	_	
100	100	103	103	230 604	230 604	
100	100	80 540 386	80 540 386	-	250 004	
100	100	146 600	146 600	-	_	
60	60	810	810	-	_	
100	100	100	100	_	_	
100	100	101	101	_	_	
100	100	200	200	_	_	
100	100	2	2	_	_	
100	100	2	2	_	_	
100	65	100	100	_	_	

#### **ANNEXURE B – INTERESTS IN SUBSIDIARIES**

for the year ended 29 February 2020

#### **INVESTMENT IN SUBSIDIARIES (continued)**

Subsidiary	Country of incorporation	Nature of business
PSG Asset Management Holdings Proprietary Limited	South Africa	Investment holding company
PSG Asset Management Proprietary Limited	South Africa	Local management company
PSG Asset Management Group Services Proprietary Limited	South Africa	Provision of corporate, financial administrative and advisory services
PSG Collective Investments (RF) Limited	South Africa	Local unit trusts
PSG Fund Management (CI) Limited	Guernsey	Offshore unit trusts
PSG Malta Holdings Proprietary Limited	Malta	Investment holding company
PSG Fund Management (Malta) Limited	Malta	Offshore unit trusts
Other		
PSG Management Services Proprietary Limited	South Africa	Provision of corporate financial administrative and advisory services
PSG Brokers (UK) Limited <sup>2</sup>	United Kingdom	Investment management, insurance and investment brokers, financial planning and advice
PSG Konsult MS (UK) Limited	United Kingdom	Provision of corporate financial administrative and advisory services
PSG Konsult Treasury Limited	South Africa	Centralised treasury activities for group
Delerus Proprietary Limited	South Africa	Debtor financing
PSG Konsult Group Share Incentive Trust	South Africa	Share trust <sup>5</sup>
PSG Konsult (Mauritius) Limited	Mauritius	Investment holding company
PSG Fund Management (CI) Limited PSG Malta Holdings Proprietary Limited PSG Fund Management (Malta) Limited  Other PSG Management Services Proprietary Limited  PSG Brokers (UK) Limited <sup>2</sup> PSG Konsult MS (UK) Limited  PSG Konsult Treasury Limited Delerus Proprietary Limited PSG Konsult Group Share Incentive Trust	Guernsey Malta Malta South Africa United Kingdom United Kingdom South Africa South Africa South Africa	Local unit trusts Offshore unit trusts Investment holding company Offshore unit trusts  Provision of corporate financial administrative and advisory services Investment management, insurance and investment brokers, financial planning and advice Provision of corporate financial administrative and advisory services Centralised treasury activities for group Debtor financing Share trust <sup>5</sup>

<sup>&</sup>lt;sup>1</sup> Ownership interest equal voting rights.

All the subsidiaries of the group are included in the consolidation. The proportion of the voting rights in the subsidiaries held directly do not differ from the proportion of ordinary shares held.

The following dormant or immaterial subsidiaries form part of the group: PSG Nominees Proprietary Limited, PSG Invest Nominees Proprietary Limited, Erf 1070 Ballot Street Proprietary Limited (Namibia), Topexec Management Bureau Proprietary Limited, PSG Konsult Insurance Solutions Proprietary Limited, Allfinanz Board of Executors & Trust Company Proprietary Limited, PSG Wealth Management Namibia Proprietary Limited, PSG Financial Planning Namibia Proprietary Limited, PSG Konsult Securities Proprietary Limited, PSG Konsult Verre-Noord Proprietary Limited, NFA Proprietary Limited, Utrade Nominees Proprietary Limited, Marled Nominees Proprietary Limited and PSG Short-Term Insurance Brokers Proprietary Limited.

<sup>&</sup>lt;sup>2</sup> The company was liquidated during the 2020 financial year.

<sup>&</sup>lt;sup>5</sup> PSG Konsult Group Share Incentive Trust consolidated in terms of requirement of IFRS 10 – Consolidated Financial Statements.

ı	Effective interest held directly or indirectly <sup>1</sup>			Issued stated/share capital		Cost of investment	
	<b>2020</b> %	<b>2019</b> %	2020 R	2019 R	2020 R000	2019 R000	
	100	100	121	121	344 616	344 616	
	100 100	100 100	2 797 121 1 351	2 797 121 1 351	-	-	
	100 100 100 100	100 100 100 100	50 099 102 824 2 088 190 2 086 864	50 099 102 824 2 088 190 2 086 864	- - - -	- - -	
	100	100	100	100	-	_	
	-	100	-	2 882	-	_	
	100	100	14	14	-	_	
	100 100	100 100	100 100	100 100	- - 1	- - 1	
	100	100	7 787 740	7 787 740	7 917	7 917	
					1 678 138	1 678 138	

# **ANNEXURE B - INTERESTS IN SUBSIDIARIES**

for the year ended 29 February 2020

## **CONSOLIDATED COLLECTIVE INVESTMENT SCHEMES**

At 29 February 2020 and 28 February 2019, the following significant collective investment schemes, managed by PSG Collective Investments (RF) Limited, were subsidiaries of the group:

				Economi	c interest	
Collective investment scheme	ASISA classification	Fund manager	<b>2020</b> %	<b>2019</b> %	2020 R000	2019 R000
PSG Diversified Income Fund	South African — Multi Asset — Income	PSG Asset Management Proprietary Limited	29	33	445 463	562 707
PSG Income Fund	South African — Interest Bearing — Short-term	PSG Asset Management Proprietary Limited	37	38	111 673	82 197
PSG Money Market Fund	South African – Interest Bearing – Money Market	PSG Asset Management Proprietary Limited	64	49	2 146 277	1 654 950
PSG Wealth Enhanced Interest Fund	South African — Interest Bearing — Short-term	PSG Multi Management Proprietary Limited	30	33	1 449 956	1 084 732
PSG Wealth Creator Fund of Funds	South African – Equity – General	PSG Multi Management Proprietary Limited	38	38	3 027 627	2 728 034
PSG Wealth Moderate Fund of Funds	South African – Multi Asset – High equity	PSG Multi Management Proprietary Limited	32	32	6 397 249	6 485 935
PSG Wealth Global Creator Feeder Fund	Global – Equity – General	PSG Multi Management Proprietary Limited	32	32	2 459 607	1 701 081
PSG Wealth Global Preserver Feeder Fund	Global – Multi Asset – Low Equity	PSG Multi Management Proprietary Limited	32	36	388 922	266 758

Further details of investments are available at the registered offices of the relevant group companies.

## SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTEREST (NCI)

The following tables summarise the information relating to the group's subsidiaries that have material non-controlling interest, before any intergroup eliminations:

	Wester	n Group	Employee Benefits		
Non-controlling interest in subsidiaries	<b>2020</b> %	<b>2019</b> %	<b>2020</b> %	<b>2019</b> %	
Ownership and voting rights	40	40	26	26	

	Carrying value of NCI		Profit or loss attributable to NCI		Dividends paid to NCI	
	2020 R000	2019 R000	2020 R000	2019 R000	2020 R000	2019 R000
Western Group Employee Benefits Other <sup>1</sup>	259 137 13 767 5 743	205 075 12 716 7 517	54 485 4 301 1 818	33 867 3 347 3 156	– (3 250) (1 753)	(2 860) (4 308)
Total	278 647	225 308	60 604	40 370	(5 003)	(7 168)

<sup>&</sup>lt;sup>1</sup> Includes information relating to PSG Namibia Proprietary Limited, PSG Optimum Proprietary Limited, PSG Holdings Limited (Mauritius) and PSG Konsult Insurance Solutions Proprietary Limited.

	Westeri	n Group	Employee	Benefits
Summarised financial information	2020 R000	2019 R000	2020 R000	2019 R000
Statement of financial position				
Current assets	970 543	841 045	45 830	37 810
Non-current assets	440 545	459 497	30 669	27 675
Current liabilities	(712 411)	(735 796)	(15 824)	(13 041)
Non-current liabilities	(4 534)	(4 743)	(7 621)	(3 434)
Net assets	694 143	560 003	53 054	49 010
Statement of comprehensive income				
Revenue	1 294 614	1 104 412	135 831	122 621
Profit for the year	133 536	87 451	16 542	12 873
Total comprehensive income	134 571	87 451	16 542	12 873
Statement of cash flows				
Cash flows from operating activities	98 564	91 001	18 348	17 057
Cash flows from investing activities	1 970	(20 743)	(197)	(247)
Cash flows from financing activities	(4 696)	3 356	(15 267)	(11 000)
Net increase in cash and cash equivalents	95 838	73 614	2 884	5 810

There are also no significant restrictions on the subsidiaries' ability to transfer funds in the form of cash for the repayment of loans made to the subsidiaries or to pay dividends other than the 24 regulated subsidiaries. These regulated subsidiaries are licensed asset management, long-term and short-term insurance entities that are regulated and therefore subject to statutory capital requirements set by each jurisdiction's regulators. These require that the entities hold a prescribed minimum capital, and dividend distributions from these entities are only available from excess net assets over the required minimum capital.

# **ANNEXURE C – GLOSSARY**

ACI	African, Coloured and Indian
AGM	Annual general meeting
AIFA	Absa Insurance and Financial Advisers Proprietary Limited
ALSI	All Share Index
AQRate	AQRate Proprietary Limited
ASISA	Association for Savings and Investment South Africa
BBBEE	Broad-based black economic empowerment
CAGR	Compound annual growth rate
CEO	Chief executive officer
CFD	Contracts for difference
CFO	Chief financial officer
CGU	Cash-generating unit
CIO	Chief information officer
CIPC	Companies and Intellectual Property Commission
CIS	Collective investment scheme
COBIT	Control Objectives for Information and Related Technology
CODM	Chief operating decision-maker
Companies Act	Companies Act, No. 71 of 2008, as amended
coo	Chief operating officer
CRM	Customer relationship management
CSI	Corporate social investment
CSRC	Customer service review committee
DAC	Deferred acquisition costs
DMTN	Domestic Medium Term Note
DRL	Deferred revenue liability
DWT	Dividend withholding tax
EME	Exempt micro enterprise
ETF	Exchange traded fund
Exco	Executive committee
FSCA	Financial Sector Conduct Authority
FS Code	Financial Sector Code
FSC	Financial Sector Charter
FSV	Financial soundness valuation
FTSE	Financial Times Stock Exchange
GCR	Global Credit Rating Company
GFSC	Guernsey Financial Services Commission
HEPS	Headline earnings per share

HR	Human resources
IBNR	Incurred but not reported
IFA	Independent financial adviser
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IIRC	International Integrated Reporting Council
Insurance Act	Insurance Act, No. 18 of 2017
IRBA Code	Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors
ISAs	International Standards on Auditing
IT	Information technology
JSE	JSE Limited
King IV	King IV Report on Corporate Governance™ for South Africa, 2016
KPI	Key performance indicator
LISP	Linked investment service provider
LTIs	Long-term incentives
Manco	Management committee
MFSA	Malta Financial Services Authority
MOI	Memorandum of incorporation
NAMFISA	Namibia Financial Institutions Supervisory Authority
NBFIRA	Non-bank Financial Institutions Regulatory Authority
NCI	Non-controlling interest
NSX	Namibian Stock Exchange
ORSA	Own Risk and Solvency Assessment
ОТС	Over-the-counter
PE	Price-earnings
PSGCS	PSG Corporate Services Proprietary Limited
PSG Konsult Treasury	PSG Konsult Treasury Limited
PSG Life	PSG Life Limited
QSE	Qualifying small enterprise
Remco	Remuneration committee
S&P	Standard & Poor's
SA	South African
SAFEX	South African Futures Exchange
SAICA	South African Institute of Chartered Accountants
SAP	Standard of Actuarial Practice
SDC	Skills Development Corporation

# **ANNEXURE C – GLOSSARY**

SEM	Stock Exchange of Mauritius
SENS	Stock Exchange News Service
SMEs	Small and medium-sized enterprises
SPE	Special-purpose entity
STEM	Science, technology, engineering and mathematics
STI	Short-term variable incentive awards
TCF	Treating Customers Fairly
TRI	Total return index
UCITS	Undertakings for the Collective Investment of Transferable Securities
US	United States of America
VWAP	Volume-weighted average price
Western Group	Western Group Holdings Limited
Western RSA	Western National Insurance Company Proprietary Limited (RSA)

#### **CORPORATE INFORMATION**

## **Registered name**

PSG Konsult Limited

(Registration number: 1993/003941/06) (Tax reference number: 9550/644/07/5) JSE share code (Primary listing): KST

NSX share code: KFS

SEM share code: PSGK.N0000 Abbreviated name: PSG KST ISIN: ZAE000191417

LEI: 378900ECF3D86FD28194

## **Country of incorporation**

Republic of South Africa

#### **Date of incorporation**

14 July 1993

#### **PSG Konsult head office and registered office**

4th Floor, The Edge, 3 Howick Close

Tyger Waterfront Tyger Valley Bellville 7530

Tel: 021 918 7800 Fax: 021 918 7921

#### **Postal address**

PO Box 3335 Tyger Valley Bellville 7536

## **Company secretary**

PSG Management Services Proprietary Limited (Registration number 2000/009351/07)

## Website address

www.psq.co.za

### SHAREHOLDER DIARY

Financial year-end 28 February Financial half year 31 August

## **Financial reporting**

Annual general meeting Monday, 13 July 2020 Announcement of interim results Thursday, 8 October 2020

#### **Ordinary dividends**

Final dividend

Declared
 Paid
 14 April 2020
 11 May 2020

#### Rankers

Absa Bank Limited
Standard Bank of South Africa Limited
First National Bank Limited
Rand Merchant Bank Limited
BNP Paribas
Investec Bank Limited
Nedbank Limited

#### **Auditor**

PricewaterhouseCoopers Inc. Cape Town

#### **Attorneys**

Cliffe Dekker Hofmeyr Blake Bester AO Hall (Guernsey)

## Transaction adviser and Sponsor - JSE

PSG Capital Proprietary Limited

#### Transaction adviser and Sponsor - NSX

PSG Wealth Management (Namibia) Proprietary Limited, member of the Namibian Stock Exchange

#### Transaction adviser and Sponsor - SEM

Perigeum Capital Ltd

#### **Transfer secretary**

Computershare Investor Services Proprietary Limited (Registration number 2004/003647/07) Rosebank Towers 15 Biermann Avenue Rosebank 2196 (Private Bag X9000, Saxonwold, 2132)

Tel: 011 373 0000 Fax: 011 688 5200