Indequity Group Limited
Incorporated in the Republic of South Africa
Registration number: 1998/015883/06
Share code: IDQ ISIN: ZAE000016606
("Indequity" or "the Group" or "the Company")

PROVISIONAL REVIEWED CONDENSED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

GROUP STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020

	Notes	**30-Sep-20 Reviewed R'000**	30-Sep-19 Audited R'000
ASSETS			
Property and equipment		**2 280**	2 586
Right-of-use asset		**1 676**	-
Intangible assets		**270**	383
Investments		**-**	17 576
Deferred tax asset		**1 068**	668
Subrogation and salvage recoveries	*4*	**1 455**	2 116
Reinsurance portion of insurance contract provisions		**34**	30
Normal tax receivable		**69**	-
Loans and receivables		**183**	62
Cash and cash equivalents	*2*	**52 793**	40 497
Total assets		**59 828**	63 918
EQUITY			
Capital and reserves attributed to the Company's equity holders			
Share capital	*3*	**22**	24
Share premium	*3*	**-**	10 478
Retained income		**41 973**	40 058
Foreign currency translation reserve		**4 156**	1 140
Total equity		**46 151**	51 700
LIABILITIES			
Lease liability		**1 989**	-
Insurance contract provisions	*5*	**4 234**	4 921
Deferred tax liability		**-**	250
Normal tax payable		**539**	343
Dividends payable		**373**	351
Trade and other payables and provisions		**6 542**	6 353
Total liabilities		**13 677**	12 218
Total shareholders' equity and liabilities		**59 828**	63 918

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2020

	30-Sep-20 Reviewed R'000	30-Sep-19 Audited R'000
Gross written premium	**66 756**	63 565
Less: reinsurance premium	**(1 581)**	(1 385)
Net written premium	**65 175**	62 180
Change in provision for gross unearned premiums	**(8)**	47
Net insurance premium earned	**65 167**	62 227
Other income	**298**	172
Investment income	**3 285**	4 190
Total income	**68 750**	66 589
Gross claims incurred	**(22 464)**	(26 214)
Reinsurance recoveries	**19**	(1)
Administration expenses	**(23 674)**	(20 810)
Acquisition costs	**(4 597)**	(4 377)
Profit before taxation	**18 034**	15 187
Taxation	**(5 367)**	(4 254)
Profit for the year	**12 667**	10 933
Other comprehensive income, net of tax		
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**3 016**	2 176
Total comprehensive income for the year	**15 683**	13 109
Profit attributable to:		
Equity holders of the parent	**15 683**	13 109
Earnings attributable to the equity holders		
Basic earnings per share (cents)	**122.69**	96.47
Diluted earnings per share (cents)	**122.69**	96.47
Basic headline earnings per share (cents)	**122.65**	97.01
Diluted headline earnings per share (cents)	**122.65**	97.01

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2020

Group	**Share Capital and premium R'000**	**Retained income R'000**	**Foreign currency translation reserve R'000**	**Total R'000**
Balance at 1 October 2018	16 989	29 125	(1 036)	45 078
Changes in Equity for the year ended 30 September 2019				
Profit for the year		10 933		10 933
Exchange differences on foreign operations			2 176	2 176
Transactions with owners of the company				
Capital distribution paid to shareholders	(4 158)			(4 158)
Group shares repurchased and cancelled	(2 329)			(2 329)
Balance at 30 September 2019	10 502	40 058	1 140	51 700
Adjustment on initial application of IFRS 16, net of tax	**-**	(76)	-	(76)
Balance at 1 October 2019	**10 502**	**39 982**	**1 140**	**51 624**
Changes in Equity for the year ended 30 September 2020				
Profit for the year		**12 667**		**12 667**
Exchange differences on foreign operations			**3 016**	**3 016**
Transactions with owners of the company				
Capital distribution paid to shareholders	**(1 878)**			**(1 878)**
Group shares repurchased and cancelled	**(8 602)**	**(10 676)**		**(19 278)**
Balance at 30 September 2020	**22**	**41 973**	**4 156**	**46 151**

	2020	2019
Capital distribution paid per ordinary share (cents)	**13.78**	29.72
Capital distribution paid per A-class share (cents)	**2.29**	5.09

GROUP STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2020

	30-Sep-20 Reviewed R'000	30-Sep-19 Audited R'000
Operating activities		
Cash generated by operations	**17 297**	14 704
Interest received	**1 679**	2 190
Interest paid	**(275)**	-
Dividend received	**152**	207
Taxation paid	**(5 800)**	(4 534)
Net cash movement in operating activities	**13 053**	12 567
Investing activities		
Proceeds from the disposal of property and equipment	**5**	257
Acquisition of property and equipment	**(250)**	(2 032)
Acquisition of intangible assets	**(117)**	-
Acquisition of shares	**(6 325)**	(10 915)
Proceeds from the disposal of shares	**27 482**	7 025
Net cash movement in investing activities	**20 795**	(5 665)
Financing activities		
Shares repurchased and cancelled	**(19 279)**	(2 329)
Payment of lease liabilities	**(1 242)**	-
Dividends paid to shareholders	**(1 855)**	(4 065)
Net cash movement in financing activities	**(22 376)**	(6 394)
Movement in cash and cash equivalents	**11 472**	508
Cash and cash equivalents		
At the beginning of the year	**40 497**	38 997
Movement per above	**11 472**	508
Effect of exchange rate changes	**824**	992
At the end of the year	**52 793**	40 497

SEGMENT ANALYSIS – BUSINESS SEGMENTS

No segment analysis has been prepared as the Group is only involved in insurance activities, which are managed as a whole. There is no segmented information reported to management.

NOTES TO THE GROUP PROVISIONAL REVIEWED CONDENSED ANNUAL CONSOLIDATED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These provisional reviewed condensed annual consolidated financial statements for the year ended 30 September 2020 ("provisional results") have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Listings Requirements for provisional reports and the Companies Act, 2008 (Act 71 of 2008), as amended. This report contains the information required by IAS 34: Interim Financial Reporting.

These provisional results have been prepared on the historical cost basis.

The accounting policies are in terms of IFRS and have been applied consistently to all periods presented in these provisional results and agree with those principal policies used in the preparation of the 30 September 2019 financial statements, other than the implementation of IFRS 16 *Leases* in the 2020 financial year. These accounting policies are consistent with those that will be applied in the preparation of the 30 September 2020 financial statements. The accounting policies have been applied consistently by all Group entities.

These provisional results have been prepared by W du Preez CA(SA) (Financial Manager), under the supervision of TE Vorster CA(SA) (Financial Director).

Significant judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties at 30 September 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year include:

Insurance liabilities

The most significant area in which the directors have applied judgement during the current financial year relates to the determination of the provision, claims provisions, claims recoveries and salvages (refer to notes 4 and 5).

Changes in significant accounting policies

The Group applied IFRS 16 Leases from 1 October 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings on 1 October 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the change in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in the accounting policy for leases below.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 October 2019.

Lease of offices

The Group leases offices as a lessee. The Group previously recognised these leases as operating leases. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

On transition, for the abovementioned leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 October 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of the initial application.

The Group tested its right-of-use assets for impairment on the date of the transition and has concluded that there is no indication that the right-of-use assets are impaired.

Impact on financial statements

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities, recognising the difference in retained income. The impact on transition is summarised below.

	Group
	1 October 2019
	R'000
Right-of-use assets	**2 981**
Deferred tax asset	**30**
Lease liabilities	**3 231**
Lease accrual under IAS 17	**(146)**
Retained income	**(76)**

When measuring lease liabilities that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 October 2019. The rate applied is 10.25%.

	Group
	1 October 2019
	R'000
Operating lease commitments at 30 September 2019 as disclosed under IAS 17 in the Group's consolidated financial statements	**3 657**
Discounted using the incremental borrowing rate at 1 October 2019 and recognised on 1 October 2019	**3 231**

Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 October 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

At commencement or on modification of a contract that contains a lease component, the Group allocated the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is recognised initially at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which is located, less any lease incentive received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Policy applicable before 1 October 2019

In the comparative period, under IAS 17, leases where the lessor retains the risks and rewards of ownership of the underlying asset were classified as operating leases. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the period of the lease.

2. CASH AND CASH EQUIVALENTS

A bank guarantee, amounting to R27 253 000, has been issued by ABSA Bank Limited in favour of the Takeover Regulation Panel in respect of the proposed Schemes of Arrangement and General Offer (as referred to in the 'Capital Reduction or Dividend' paragraph below).

3. SHARE CAPITAL AND SHARE PREMIUM

In the current year, the Company repurchased and cancelled 2 699 610 ordinary shares at an average price of R7.84 per share (2019: 713 214 shares at an average price of R4.08 per share).

4. SUBROGATION AND SALVAGE RECOVERIES

	2020 **R'000**	2019 R'000
Balance at the beginning of the year	**2 116**	2 080
Change in prior year estimate	**1 464**	2 224
Recoveries received	**(4 021)**	(4 191)
Current year recoveries raised	**1 896**	2 003
Closing balance	**1 455**	2 116

75% of the total amount of recoveries, that have a likelihood of 70% or more of recovery, are included in subrogation and salvage recoveries.

5. INSURANCE CONTRACT PROVISIONS

	2020 **R'000**	2019 R'000
Unearned premiums	**254**	246
Gross outstanding claims	**2 599**	3 369
Incurred but not reported ("IBNR") provision	**1 347**	1 276
Gross IBNR	**1 381**	1 306
Reinsurance portion	**(34)**	(30)
	4 200	4 891
Comprising:		
Gross insurance contract provisions	**4 234**	4 921
Reinsurance portion of insurance contract provisions	**(34)**	(30)

The insurance contract provisions are expected to mature within the next year.

Analysis of movements in notified outstanding claims:

	2020	2019
	R'000	R'000
Balance at the beginning of the year	**3 369**	3 723
Change in prior year estimate	**1 031**	1 223
Claims paid	**(26 522)**	(30 827)
Current year claims reported	**24 721**	29 250
Closing balance	**2 599**	3 369

Analysis of movement in net IBNR:

Balance at the beginning of the year	**1 276**	1 307
IBNR utilised	**(410)**	(1 081)
Prior year IBNR released	**(866)**	(226)
IBNR raised in the current year	**1 347**	1 276
Closing balance	**1 347**	1 276

Analysis of movement in Unearned Premiums:

Balance at the beginning of the year	**246**	293
Charged to profit or loss	**8**	(47)
Closing balance	**254**	246

6. HEADLINE EARNINGS PER SHARE AND DILUTED HEADLINE EARNINGS PER SHARE

	30-Sep-20 Reviewed	30-Sep-19 Audited
Basic earnings per share (cents)	**122.69**	96.47
Profit attributable to shareholders of the parent (R'000)	**12 667**	10 933
Weighted average number of ordinary shares in issue	**10 324 268**	11 332 228
Diluted earnings per share (cents)	**122.69**	96.47
Profit attributable to shareholders of the parent (R'000)	**12 667**	10 933
Weighted average number of ordinary shares in issue	**10 324 268**	11 332 228
Headline earnings per share (cents)	**122.65**	97.01
Headline earnings (R'000)	**12 663**	10 993
Weighted average number of ordinary shares in issue	**10 324 268**	11 332 228
Diluted headline earnings per ordinary share (cents)	**122.65**	97.01
Headline earnings (R'000)	**12 663**	10 993
Weighted average number of ordinary shares in issue	**10 324 268**	11 332 228

Reconciliation of net profit attributable to shareholders of the parent to headline earnings:

Net profit attributable to shareholders of the parent (R'000)	**12 667**	10 933
(Profit) / loss on sale of property and equipment (R'000)	**(4)**	60
- Before tax	**(5)**	83
- Tax	**1**	(23)
Headline earnings (R'000)	**12 663**	10 993

7. GOING CONCERN

The provisional reviewed condensed annual consolidated results have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors have no reason to believe that the operations of the Group will not continue as a going concern in the year ahead.

COMMENTS ON RESULTS

The 2020 financial year proved to be a challenging year for the Group due to the COVID-19 pandemic and the related economic recession experienced in South Africa. The weak state of the economy negatively impacted the Group in several ways, but particularly in relation to its premium growth. This is reflected in the decrease in the growth in gross written premium from 7.5% in 2019 to 5.0% in the current year.

As the Group focuses mainly on personal lines insurance, a reduction in claims due to the lockdown in April and May 2020 contributed positively to the year's profit before tax compared to the prior year. Furthermore, in the year the Group disposed of all its equity investments in order to improve cash availability and reduce exposure to market fluctuations. The conversion of foreign currency denominated cash resulted in foreign exchange gains. In the current year, the impact of the foreign exchange gains amounted to R1 070 000.

The above ensured that profit after tax increased by 15.9% in comparison to the previous financial year. The difference of 10.9% between gross written premium growth and profit after tax growth, was largely due to the abovementioned reduction in claims and the realised foreign currency gain.

In addition to the above, further share repurchases made by the Group in terms of its share repurchase program reduced the weighted average number of shares outstanding at year-end by 8.9%, which contributed to growth of 26.4% in headline earnings per share.

CONCLUSION

Although the Group's results showed a gratifying increase in the current year, the lower growth rate in turnover is a clear indicator of continued difficult trading conditions. The Group is cognisant that the unique circumstances that contributed to growth in earnings in the current year are not expected to be repeated in future years, and a prudent approach to strategic business decisions is therefore called for.

PROSPECTS

The insurance industry in South Africa remains exceedingly competitive and the economic climate is desperately demanding. Achieving growth targets and delivering superior results are therefore expected to remain challenging.

SUBSEQUENT EVENTS

There were no material adjusting or non-adjusting events of which the directors are aware subsequent to the reporting date.

REVIEW OF PROVISIONAL RESULTS

These provisional condensed annual consolidated financial statements have been reviewed by KPMG Inc. An unmodified review opinion has been issued.

The auditor's report does not necessarily report on all of the information contained in these provisional results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from Indequity's registered office. The full long form announcement is available on Indequity's website at http://www.indequity.com/documents.

CAPITAL REDUCTION OR DIVIDEND

Shareholders are referred to the:

- Firm Intention Announcement released on SENS on 24 August 2020 (and using the terms defined therein unless otherwise stated) regarding the Ordinary Share Scheme, the General Offer (which will be implemented only if the Ordinary Share Scheme fails), the Delisting of the Ordinary Shares from the JSE, the A Class Preference Share Scheme, and the B Class Preference Share Scheme;
- the Distribution of Circular and Notices of General and Schemes meetings released on SENS on 7 October 2020; and
- the Circular to shareholders,

and further thereto are advised hereby that the board of directors of Indequity ("Board") has considered the proposed Schemes and subsequent Delisting, and in light thereof, has decided that capital preservation is of utmost importance. Accordingly, no capital distribution or dividend has been declared for the year ended 30 September 2020. The capital distributions reflected in the current year's results relate to the payment of the capital distributions declared in the prior corresponding period.

In the prior corresponding period, the Board declared a capital distribution out of share premium of 13.78 cents per Indequity Ordinary Share and 2.29 cents per Indequity A Class Preference Share.

ON BEHALF OF THE BOARD

JF Zwarts	L J van Rensburg
Chairman	Chief Executive Officer

Johannesburg
3 November 2020

Directors: AV van Jaarsveldt* (British), LJ van Rensburg, G Williamson*, JF Zwarts*, TE Vorster (* independent non-executive)
Company secretary: W du Preez
Transfer secretary: Link Market Services South Africa Proprietary Limited
Registered address: First Floor, Cascade House, Constantia Office Park, cnr 14th Avenue and Hendrik Potgieter Road, Constantia Kloof, Johannesburg, 1709
Postal address: PO Box 5433, Weltevredenpark, 1715
Telephone: (+2711) 475-0816
Fax: (+2711) 475-0877
Website: www.indequity.com
Sponsor: Merchantec Capital