CONDUIT CAPITAL

REVIEWED CONDENSED CONSOLIDATED PROVISIONAL RESULTS

FOR THE YEAR ENDED 30 JUNE 2021

CONDUIT CAPITAL LIMITED
Incorporated in the Republic of South Africa
(Registration number: 1998/017351/06)
Share code: CND ISIN: ZAE000073128
("Conduit" or "Conduit Capital" or "the Group" or "the Company")

REVIEWED CONDENSED CONSOLIDATED PROVISIONAL RESULTS FOR THE YEAR ENDED 30 JUNE 2021

LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL

Dear fellow Shareholder

Conduit Capital is a business owner of companies that have the ability to compound their value over the long-term. Our focus is primarily in the insurance sector. Our company is divided into two segments: Insurance and Investments. The Insurance segment wholly owns Constantia Insurance Group, a diversified pan-African insurance business. The Investment segment comprises public and private investments designed to support the capital base of the insurance group.

We seek shareholders aligned to the building of great businesses for the long-term. Building businesses is not easy; there are highs and lows. We believe our persistence and long-term horizon provides a strong competitive advantage for our ability to ultimately create value for our shareholders, of which I represent the largest group.

The adverse economy, general political uncertainty and an apathetic share market presented a tough environment for the development of our business. Nevertheless, our businesses achieved important milestones on their respective journeys.

Insurance

The Constantia Group of insurance companies ("Constantia") comprises three separate companies, licensed to write life and non-life business across multiple African jurisdictions. The business is organised into four main segments, with a focus on specialist business lines.

Financial Highlights

- All segments achieved underwriting profitability;
- 139% increase in underlying underwriting profit to R248million[1];
- 98.2% combined ratio from underlying business[1];
- Underlying operating profit of R35 million against prior year operating loss of R64 million.
- R89 million cash generated from underlying operations;
- Operating expenses reduced by 18% against prior year.

[1] Excluding legacy non-recuring losses. The pro forma information utilised to calculate this combined ratio and the underlying operating result, as reflected in Table 1 on page 4 of this letter demonstrates the effect on the Group's reported results if the net impact of all discontinued and legacy business were excluded from the results. The normalised underlying operating result is the responsibility of the Group's Board of Directors and is presented for illustrative purposes only. Due to the nature of this information, it may not fairly present the Group's financial position, changes in equity and results of operations or cash flows. The pro forma information has been compiled in terms of the JSE Listings Requirements and the Revised Guide on Pro Forma Information by SAICA and the accounting policies of the Group as at 30 June 2021. The illustrative normalised information has been derived from the Group's reviewed financial information and has been reported on in an independent Reporting Accountant's assurance report, which can be found on the Group's website at www.conduitcapital.co.za. .

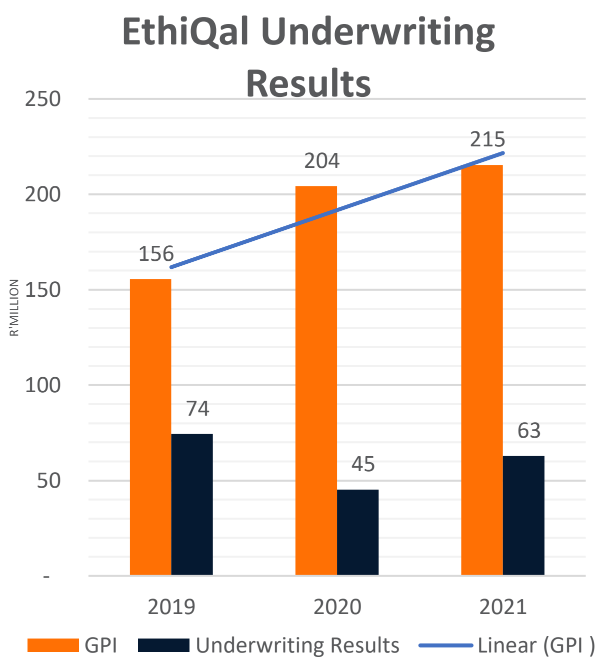
Health

Constantia is the leading provider of medical gap cover with more than 250 000 principal members (600 000 individuals) and 480 group schemes covered. The primary health solution has an extensive medical network with approximately 8 000 medical professionals and 3 800 pharmacies providing 20 000 principal members (40 000 individuals) with private medical benefits. OracleMed provides medical insurance to 17 000 members across 19 African countries. OracleMed is contracted to 3 200 hospitals globally.

Despite the tough economic environment, the business has achieved above inflationary growth over the past two years at consistently good margins. The outlook for growth remains positive as the business expands into new distribution channels to meet the growing demand for health insurance products.

Medical Malpractice

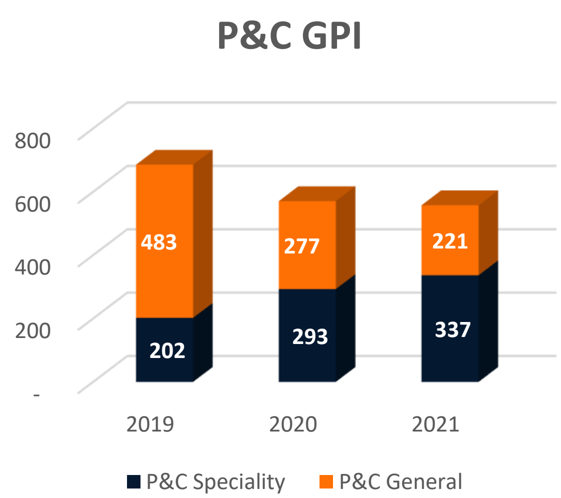
Constantia launched EthiQal in November 2016 as the only locally based insurer offering occurrence-based medical malpractice cover. EthiQal has a unique value proposition through its focus on supporting and enhancing healthcare in South Africa by protecting our doctors and their patients through the development and support of optimised and innovative risk management solutions. This focus on enhancing healthcare in South Africa compliments our Health businesses where we fund access to the best medical care through our various health insurance products.



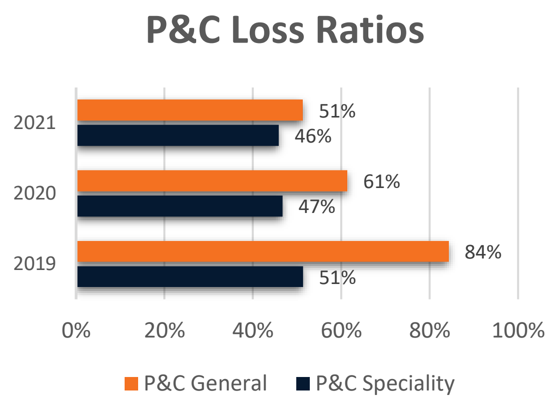
In 2021, EthiQal's gross written premium grew to over R215 million with underwriting profit improving by 40%. Besides maintaining strong underwriting discipline and prudent claims management, the business implemented a new system and restructured to deliver improved efficiencies achieving a combined ratio of 91%.

Property & Casualty ("P&C")

More than 70 partners give Constantia's P&C business access to a diverse distribution network of over 1 000 brokers. The Speciality business segment has grown 57% since 2019 (28% in 2021) and now makes up 64% of total P&C business. The Specialities include Motor Warranty, Construction, Aviation, Heavy Commercial Vehicles, Taxis and Buses, Marine and Guarantees.



The specialty business continues to generate good margins, while the active interventions in remediating the general P&C business has seen the underlying P&C loss ratio improve by 39% since 2019 from 84% in 2019 to 51% in 2021. Focus now is to grow scale in our general P&C business and further expand our specialist lines.



Life

Constantia's life business is focused on the opportunities from within the group, through the bundling of products and leveraging existing distribution channels. Constantia employed a measured approach to the Life business, having exited the funeral parlour market in December 2020. Whilst growth has been deliberately conservative in the current environment, we do see significant opportunity to grow in chosen niches and building on the stable base that has been created.

Result in context

Over the past fifteen months, Constantia has remediated underperforming portfolios, restructured the business, removed wasteful expenditure, and refocused on its partner business, where they have a successful history of value creation through working with and enabling partners. This has resulted in Constantia restoring underwriting profitability across all segments, with solid growth being achieved in its high-margin specialist segments. Excluding discontinued and non-recurring legacy losses, Constantia generated an operating profit of R35 million.

Table 1

R million	June 2021	June 2020	% Change
Gross Premium Income	1 949	2 110	(7.6)
Underwriting Result	**222**	**137**	**62.0**
Health	119	82	45.0
Medical Malpractice	63	45	40.0
P&C Specialty	17	25	(32.0)
P&C General	22	(30)	173.3
Life	1	15	(93.3)
Operating Expenses and Costs of Solvency Reinsurance	(231)	(310)	25.5
Reported Operating Result	**(9)**	**(173)**	**94.8**
Add back: Impact of discontinued & legacy business	44	109	59.6
Underlying Operating Result (Continuing Business)	**35**	**(64)**	**154.7**

The outlook for growth in the Constantia business is good. Its focus on the intermediated business segment, which has proved to be resilient, offers significant opportunities. In each of the segments Constantia has a clear strategy leveraging its multiple licences, diverse product set and flat operating structure. Its first-to-market data solution has enhanced the broker value proposition by integrating data from multiple platforms via a single, real-time switch. This gives brokers more autonomy and enables them to deliver better client service which in turn will give Constantia a significant competitive advantage. Despite a tough economic environment and the focus on remediation, Constantia was able to grow its continuing business by 42% in 2021.

Constantia's focus on partnering with Insuretech businesses by providing market access through integrating and enabling these technologies (and not through the development of technology), substantially reduces cost and de-risks the balance sheet. Further, by building out its first-to-market data solution Constantia is able to scale its business off its current cost base.

Progress on Strategy

In 2015 we set out on a journey to re-engineer Conduit into a long-term compounder invested primarily in the insurance industry. This journey required substantial upfront investment into the insurance business. We invested in the people of Constantia to ensure we built on our competitive advantages in our niche markets. Since 2015, Constantia has grown gross premium from R788 million to just under R2 billion. Constantia developed the business further and deeper with existing and new partners and attracted top talent to the business. While it has taken more capital and a longer time than anticipated, this year they achieved an underlying combined ratio of 98.1%. The stabilisation of underwriting profitability has finally been achieved and the business is cash generative. Constantia is positioned to grow into new and existing markets at a 95% combined ratio on R5 billion of premium over the next five years.

The strategy remains to improve the quality of the insurance business as they build on the investment of prior years and scale the business.

Capital Position

The solvency position of Constantia Life and Health Limited ("CLAH") has been successfully restored back to in excess of minimum regulatory levels. Due to the longer than expected time it took for Constantia Insurance Company Limited ("CICL") to move through the underwriting J-curve back to underwriting profitability, compounded by the negative effects of Covid-19 on the investment portfolio, and certain other capital issues not within their control, CICL's regulatory capital is below the minimum regulatory level. Similar issues and a lack of scale have also resulted in Constantia Life Limited ("CLL") ending the year with capital below the minimum level. Constantia is working with the Prudential Authority and investors to restore the capital position back to the minimum regulatory level. It is expected that CICL and CLL will have access to adequate cash and capital reserves to meet all liabilities as they arise. Please refer to the cautionary announcement released on SENS on 15 April 2021.

The Future

Over the past eighteen months Constantia has been focused on remediating poor performing business, implementing processes and new systems and restructuring the team. As the business enters a growth phase, they do so off a low base in a market where there are significant opportunities for their diverse product mix and broker value proposition. Their smaller competitors have become acquisition targets for large insurers who are grappling with legacy systems and implementing more cost control measures, making Constantia's value proposition stronger. Besides the opportunities for growth, the lack of legacy systems and a first-to-market digital solution will enable Constantia to grow the business at scale, with appropriate controls through the digital platform.

Investments

Century 21 South Africa

Conduit is the 51% owner of the Century 21 real estate brokerage brand in South Africa. Through this vehicle we own one of the fastest growing fully franchised real estate brands in the country. It was a record year for Century 21, with sales up 61% to R3.8 billion (from R2.3 billion). There are now 48 franchises across the country with the opportunity to triple the network with high quality franchisees over the medium term.

Africa Special Opportunities Capital ("ASOC") Fund I

ASOC is an investor in distressed businesses. During the year we sold our interest in the management company back to the founders. We expect to receive proceeds from the sale of assets in Fund I during the first quarter of the 2022 fiscal year.

Conduit Ventures

Conduit is invested in a variety of insurance adjacent technology solutions and ventures, all of which are housed under the Conduit Ventures subsidiary. These businesses are engaged in the provision of fintech services to the insurance industry broadly. Progress has generally been good at these companies, notwithstanding the tough environment.

Public equity investments

Our public equity investments are designed to support and enhance the capital base of the insurance businesses. Unfortunately, due to Covid-19, political and social unrest and a general apathy in the market, the value of our portfolio declined in the year. However, the underlying performance of most of the businesses in which we are invested stabilised or improved, such that companies we own are trading at 20% of net asset value in one case, or at 3 times next year's earnings after tax in another. We are confident, based on the facts and a rational analysis, that value will be broadly restored to this portfolio in due course.

Annual General Meeting

Our 2021 Annual General Meeting will be held by way of virtual meeting on 30 November 2021. Further details will be provided.

Prospects

In the face of adverse conditions, we have knuckled down and worked hard to rebuild our insurance business and support the creation of value at each of our public and private investments. Constantia's operating performance has turned around and the business is now well placed to grow at combined ratios below 100%. There will need to be an increase in capital in the business to support our growth aspirations; we are at an advanced stage in this process as recently communicated to the market. The general South African economic environment is strained but we are optimistic about the reforms underway, which we believe will make South Africa investable to a broader market once again.

I express my sincere thanks to the people of this group who have worked hard to capture the opportunity that lies before us. Let us stay the course.

Sean Riskowitz
Chief Executive Officer

Johannesburg
30 September 2021

Results Call

Shareholders are advised that management will be hosting a results webinar at 17:00 CAT on 1 October 2021 to provide commentary in terms of the results for the year ended 30 June 2021.

The webinar will focus on the Year-end Results Announcement, Group Performance and Prospects. A presentation relating to the results announcement is available at: https://www.conduitcapital.co.za/presentations.php.

Please send an email, before 12:00 Friday, 1 October 2021, to results@conduitcapital.co.za to receive the webinar pre-register information.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Reviewed year ended 30 Jun 2021 R'000	Audited year ended 30 Jun 2020 R'000
Gross written premium		1 949 246	2 109 967
Reinsurance premium		(1 685 437)	(1 799 529)
Net written premium		263 809	310 438
Net change in provision for unearned premium		5 236	3 899
Net premium income		269 045	314 337
Reinsurance commission received		832 077	719 201
Other income		19 944	34 158
Rental income		1 510	1 979
Income from insurance operations		1 122 576	1 069 675
Total insurance expenses		(1 131 376)	(1 242 784)
Net claims and movement in claims reserves		(153 907)	(171 359)
Insurance contract acquisition costs		(287 345)	(301 378)
Administration and marketing expenses		(680 863)	(747 619)
Other operating expenses		(9 261)	(22 428)
Net underwriting loss		(8 800)	(173 109)
Net non-insurance loss		(27 215)	(41 807)
Other income		69 340	43 426
Cost of sales		(19 049)	(7 242)
Administration and marketing expenses		(72 266)	(75 886)
Other expenses		(5 240)	(2 105)
Operating loss		(36 015)	(214 916)
Investment loss[2]		(138 031)	(393 091)
Finance charges		(8 117)	(8 329)
Equity accounted (loss) income		(4 029)	3 244
Other non-operating expenses and losses		(95 674)	(28 930)
Loss before taxation		(281 866)	(642 022)
Taxation	6	136 104	71 393
Loss for the year		(145 762)	(570 629)
Other comprehensive income		-	-
Total comprehensive loss		(145 762)	(570 629)
Attributable to:			
Equity holders of the parent		(145 774)	(568 696)
Non-controlling interest		12	(1 933)
Total comprehensive loss		(145 762)	(570 629)
Headline loss	8	(142 130)	(547 332)
Loss per share (cents)			
- Basic and Diluted		(21.1)	(80.7)
- Headline and Diluted headline		(20.6)	(77.6)

[2] Reclassified from being part of operating losses to now being part of non-operating losses

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Reviewed 30 Jun 2021 R'000	Audited 30 Jun 2020 R'000
ASSETS		
Non-current assets	640 964	816 864
- Property, plant and equipment	58 901	72 850
- Intangible assets	89 376	106 083
- Reinsurers' share of policyholder liabilities	-	12
- Loans receivable	1 044	-
- Deferred taxation	116 940	12 252
- Insurance, trade and other receivables	100 921	166 547
- Investment in associates	37 080	39 972
- Investments held at fair value	236 702	419 148
Current assets	765 775	861 160
- Insurance assets	448 381	439 212
- Loans receivable	-	632
- Inventory	-	2 033
- Insurance, trade and other receivables	158 274	269 408
- Taxation	350	664
- Cash and cash equivalents	158 770	149 211
Assets held for sale	2 715	11 779
Total assets	1 409 454	1 689 803
EQUITY AND LIABILITIES		
Capital and reserves	17 253	175 460
Stated capital	1 158 569	1 168 594
Accumulated losses	(1 140 525)	(994 751)
Equity attributable to owners of the parent	18 044	173 843
Non-controlling interest	(791)	1 617
Non-current liabilities	86 847	132 511
- Policyholder liabilities under insurance contracts	26 872	34 990
- Lease liabilities	49 073	52 767
- Deferred taxation	10 902	44 754
Current liabilities	1 305 354	1 381 832
- Insurance liabilities	636 714	629 958
- Lease liabilities	8 801	5 317
- Loans payable	11 089	11 014
- Insurance, trade and other payables	647 080	732 583
- Taxation	1 670	2 881
- Bank overdraft	-	79
Total equity and liabilities	1 409 454	1 689 803
Net asset value per share (cents)	2.6	24.6
Tangible net asset value per share (cents)	(10.4)	9.6

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	1 122 576	50 261	1 172 837
Expenses	(1 131 376)	(55 597)	(1 186 973)
Operating result	(8 800)	(5 336)	(14 136)
Equity accounted loss	-	(4 029)	(4 029)
Investment loss	(8 793)	(128 651)	(137 444)
Other	(100 269)	(4 042)	(104 311)
Loss before head office expenses and taxation	(117 862)	(142 058)	(259 920)
Unallocated net head office expenses			(21 946)
Taxation			136 104
Loss for the year			(145 762)
Capital utilised			
Capital employed at end of year	3 928	51 003	17 253
Reallocation	48 959	(48 959)	-
Capital utilised at end of year	52 887	2 044	17 253
Average capital utilised during the year	82 357	32 920	86 865

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	1 069 675	36 989	1 106 664
Expenses	(1 242 784)	(48,082)	(1 290 866)
Operating result	(173 109)	(11 093)	(184 202)
Equity accounted income	-	3 244	3 244
Investment loss	(9 515)	(384 012)	(393 527)
Other	(7 167)	(30 075)	(37 242)
Loss before head office expenses and taxation	(189 791)	(421 936)	(611 727)
Unallocated net head office expenses			(30 295)
Taxation			71 393
Loss for the year			(570 629)
Capital utilised			
Capital employed at end of year	140 836	495	175 460
Reallocation	(136 953)	136 953	-
Capital utilised at end of year	3 883	137 448	175 460
Average capital utilised during the year	47 433	344 896	432 254

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Reviewed year ended 30 Jun 2021 R'000	Audited year ended 30 Jun 2020 R'000
Net cash flows from operating activities		(7 578)	(112 679)
- Cash utilised by operations		(9 533)	(118 077)
- Interest received		5 318	5 490
- Finance charges		(651)	(1 443)
- Dividends received from investments		1 168	1 556
- Taxation paid		(3 880)	(205)
Net cash flows from investing activities		35 741	75 091
- Net disposal of associates		5 394	31 920
- Dividends received from associates		-	3 175
- Loans granted to associates		(3 646)	(4 125)
- Disposal and acquisition of subsidiaries (net of cash acquired and disposed of)	4.2	(6 271)	(4 314)
- Disposal of property held for sale		14 500	-
- Net acquisition of property, plant and equipment		(4 053)	(5 789)
- Net acquisition of intangible assets		(1 520)	(512)
- Net disposal of financial investments		31 337	54 736
Net cash flows from financing activities		(18 525)	(8 053)
- Shares repurchased		(10 025)	(1 944)
- Dividends paid to non-controlling shareholders		(200)	-
- Net movement in loan funding: Non-controlling shareholders		(1 485)	-
- Net movement in loan funding: Third parties		4 786	5 074
- Net movement in loan funding: Leases		(11 601)	(11 183)
Total cash movement for the year		9 638	(45 641)
Cash at the beginning of the year		149 132	194 773
Total cash at the end of the year		158 770	149 132

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stated capital R'000	(Accumulated loss) Retained earnings R'000	Non-controlling interest R'000	Total R'000
Balance at 30 June 2019	1 162 575	(426 055)	9 305	745 825
Total comprehensive loss for the year	-	(568 696)	(1 933)	(570 629)
Acquisition of non-controlling interest	-	-	(5 755)	(5 755)
Net treasury stock disposed of through subsidiaries	6 019	-	-	6 019
Balance at 30 June 2020	1 168 594	(994 751)	1 617	175 460
Total comprehensive (loss) profit for the year	-	(145 774)	12	(145 762)
Movement as a result of disposal of non-controlling interest	-	-	(735)	(735)
Movement in loan funding from non-controlling interest	-	-	(1 485)	(1 485)
Dividends paid	-	-	(200)	(200)
Treasury stock acquired through subsidiaries	(10 025)	-	-	(10 025)
Balance at 30 June 2021	1 158 569	(1 140 525)	(791)	17 253

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these reviewed condensed consolidated provisional financial statements for the year ended 30 June 2021 ("Reviewed Results") are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with those applied in the annual financial statements for the year ended 30 June 2020, except for the adoption of the amended IAS 1: Presentation of Financial Statements and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. There was no material impact to the Group on adopting the amendments.

The Reviewed Results are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be 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 the Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements. The Reviewed Results have been prepared under the supervision of Ms Bianca Yan CA (SA), the Financial Director.

2. Changes in share capital

During the year under review CICL and Midbrook Lane Proprietary Limited ("Midbrook"), both wholly-owned subsidiaries, acquired an aggregate 17 170 401 Conduit shares in the market for a total consideration of R10.0 million. The Group accounts reflect these shares as treasury shares.

Details of the shares in issue as at the reporting dates are as follows:

	30 Jun 2021 '000	30 Jun 2020 '000
Number of shares	688 276	705 447
- Shares in issue	764 444	764 444
- Shares held as treasury shares	(76 168)	(58 997)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	690 021	705 081
- Shares in issue	764 444	764 444
- Shares held as treasury shares	(74 423)	(59 363)

3. Disposal and impairment assessment of associates

On 10 November 2020 the Group disposed of its investment in ASOC, a non-core associate, for a total consideration of R5.4 million. The disposal resulted in a profit of R1.7 million.

During the year no associate companies required impairment.

4. Disposal of subsidiaries

4.1. During the year, the Group disposed of its interest in two non-core subsidiaries, Inventory and Risk Surveys Proprietary Limited ("IRS") and Riskonet Africa Proprietary Limited ("Riskonet") for a total consideration of R161.00, resulting in a profit of R0.7 million.

4.2. The reconciliation of assets sold in subsidiaries to cash outflow is as follows:

Group	IRS (61%) R'000	Riskonet (100%) R'000	Total R'000
Effective date of change of control	*1 December 2020*	*1 December 2020*	
Book value of assets sold:			
- Property, plant and equipment	(16)	(187)	(203)
- Deferred taxation	(55)	(456)	(511)
- Trade and other receivables	(603)	(2 801)	(3 404)
- Taxation	(36)	-	(36)
- Cash and cash equivalents [1)]	(2 315)	(3 956)	(6 271)
- Loans	-	5 198	5 198
- Trade and other payables	1 148	4 056	5 204
- Non-controlling interest	735	-	735
- Net (assets) liabilities disposed of	(1 142)	1 854	712
- Sale consideration	-	-	-
- Profit (loss) on disposal	(1 142)	1 854	712

[1)] Reflected in the condensed consolidated statement of cash flows as a cash outflow due to the disposal of subsidiaries.

5. Financial instruments

Fair value estimation

The financial assets valued at fair value through profit and loss in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2021				
Listed investments	179 635	-	-	179 635
Unlisted investments	-	-	57 067	57 067
	179 635	-	57 067	236 702
2020				
Listed investments	350 806	-	-	350 806
Unlisted investments	-	-	68 342	68 342
	350 806	-	68 342	419 148

There have been no transfers between Levels 1, 2 and 3 during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period:

- financial assets classified in Level 1 have been valued with reference to quoted prices and market rates (unadjusted) in active markets for identical assets or liabilities;

- financial assets classified in Level 2 have been valued using inputs other than quoted market prices (included within Level 1) that are observable for the asset and liability, either directly or indirectly; and
- the fair value of the financial assets classified in Level 3 has been determined by inputs that are not based on observable market data in that the future expected cash flows from the underlying unlisted entities have been discounted at market related rates.

In carrying out the valuation of financial assets classified in Level 3 on 30 June 2021, the directors:

- relied on the valuation performed by an independent third party that used the net asset value of the underlying assets in the investment, adjusted for the impact of expected future earnings, as a basis to determine an unlisted fund's value at R56.1 million; and
- relied on the valuation performed by an independent third party that used the expected free cash flows of the underlying assets in an unlisted investment to determine its value at R1.0 million.

6. Taxation

With the continued turnaround of Constantia during the 2021 financial year, a substantial and sustained improvement in the underwriting result and a reduction in operating expenses resulted in Constantia delivering improved operating results. In the 2021 financial results a deferred tax asset of R100.0 million is recognised in respect of historical tax losses (2020: Rnil). This asset relates to tax losses incurred in the years 2016 to 2021 in CICL and it is expected that these losses will be recouped within four years i.e. by the 2025 financial year. The value of the deferred tax asset on unused tax losses in CICL not raised to date is approximately R105.0 million. The directors believe that, despite recent losses experienced by the insurance subsidiaries, adequate interventions have been implemented to enable the production of future taxable profits and growth and, ultimately, the recovery of the deferred tax asset within a reasonable period. On that basis, the directors believe that the deferred tax asset as reflected in the results gives a fair reflection of Conduit's financial position as at the year-end.

The Group's effective tax rate for the year under review is therefore 48.3% (2020: 11.1%). If the additional deferred tax asset in respect of historical losses were not raised, the effective tax rate would have been 20.8% (2020: 22.0%). The difference between this rate and the standard company income tax rate of 28.0% can mostly be attributed to the fact that:

- tax is provided on the Group's investment losses from equities at the capital gains tax rate, which is an effective 22.4%; and
- no tax credit is provided for on head office expenses of R22.9 million and equity accounted losses of R4.0 million.

This position will be reviewed on an ongoing basis.

7. Related party transactions

Other than what has already been disclosed elsewhere in the Review Results, the Group concluded the following related party transactions during the year under review:

	R'000
Transactions with associates	
ASOC Management Company Proprietary Limited	
- Loan repayment	225
Mobility Insurance Underwriting Managers (Pty) Limited	
- Interest received	195

	R'000
- Management fees paid	(10 720)
- Balance owed by	338
Rikatec Proprietary Limited	
- Loans granted	(2 120)
- Interest received	1 555

There has been no significant changes in the nature of the related party transactions with subsidiaries as presented in the most recent integrated annual report.

8. Reconciliation of headline loss

	Reviewed year ended 30 Jun 2021 R'000	Audited year ended 30 Jun 2020 R'000
Loss attributable to ordinary equity holders of Conduit	(145 774)	(568 696)
Loss (profit) on disposal of property, plant and equipment	5 019	(124)
Impairment of computer software	-	6 404
Impairment of goodwill	5 505	4 514
Profit on disposal of associates	(1 729)	21 468
Profit on disposal of investment property	(5 436)	-
(Profit) loss on disposal of subsidiaries	(712)	72
Tax on the items above	997	(11,038)
Non-controlling interest on the items above	-	68
Headline loss	(142 130)	(547 332)

9. Statutory capital below regulatory requirements

The Prudential Authority ("PA") that governs the South African assurance companies came into effect on 1 July 2018, following the promulgation of the Insurance Act No 18 of 2017. This also brought about the Financial Soundness Standards that govern all insurers. These financial soundness standards necessitated a change to CICL's solvency capital requirement ("SCR") calculation.

The Financial Soundness Standards defines two levels of capital that an insurer is required to comply with at all times:

- the prescribed minimum capital requirement ("MCR") that refers to the absolute minimum level of eligible own funds that an insurer must hold to protect all its policyholders. The minimum MCR is 1.00; and
- the prescribed SCR, which refers to the level of eligible own funds that an insurer must hold to ensure that the value of its assets will exceed the technical provisions and other liabilities at a 99.50% confidence level over a one year time horizon. The minimum SCR is 1.00.

The SCR model generally requires an additional surplus of assets (buffer) above liabilities to take account of potential adverse outcomes of both the inherent risk of underwritten portfolios and the future cost of claims of these portfolios and should the insurer not have a sufficient buffer in place (i.e. the SCR is below 1.00), the PA has various rights of response and intervention, commencing with closer supervision of the insurer.

As at 30 June 2021, CICL reported a provisional SCR ratio of 0.19 in its quarterly return to the PA ("QRT"), primarily as a result of unrealised losses in the listed equity portfolio. CICL's provisional reported MCR on the same date was 0.55.

As at 30 June 2021, CLL reported a provisional SCR ratio of 2.48 in its QRT, while the reported MCR on the same date was 0.81. A section 50 transfer is currently in progress for the policies to be transferred to CLAH, with the target date being December 2022.

CICL and CLL's ongoing correspondence with the PA includes various action plans to restore the SCR above 1.00 and to add an additional safety margin. These plans include, but are not limited to:

- continued intervention to improve the cash generative ability of each company, including the sale of equities in the short term, underwriting and operational interventions and improved risk management processes;
- increased and improved efforts in cost reduction and maintenance;
- the continued sustained turnaround of CICL's property and casualty business through focused remediation initiatives already in progress;
- continued optimisation of the use of reinsurance structures to transfer some insurance risk to reinsurers; and
- per a SENS announcement released on 15 April 2021, Constantia is in discussions with a third party to acquire an interest in the Constantia Group. Through this transaction, pending the outcome of the due diligence process and a number of approval processes, the net equity value of Constantia, and in turn the solvency capital of Constantia's subsidiaries, will increase, thereby enabling the Constantia entities to consolidate their existing businesses, grow premium volume and pursue new organic and inorganic growth opportunities.

  Further announcements relevant to these transactions will be released on SENS, as and when appropriate.

It should however be noted that, notwithstanding the substantive remediation efforts already underway, should the planned initiatives not be successful, the companies' SCR may not be restored to a minimum level of 1.00 in the short term.

10. Impairments

The following significant impairments were recorded during the year:

- R80.85 million relating to the impairment of the premium receivable from Insure Group Managers Limited ("IGM"), a premium collection agency utilised by Constantia, after IGM was placed in liquidation and it was established that the receivable should be considered irrecoverable; and
- R5.50 million relating to the impairment of goodwill attributable to 24 Fix Proprietary Limited and Kulundleko Solutions Proprietary Limited trading as Repair Solutions. The impairments were due to lower recoverable amounts determined for each entity as at the reporting date, largely as a result of the negative impact that Covid-19 is expected to have on the medium-term prospects of those businesses.

11. Contingent liabilities

a. A portfolio acquisition agreement, effective 1 September 2015, exists between CICL and Dealers Indemnity Proprietary Limited ("Dealers"). Dealers receives a monthly annuity of R45 000 for the remainder of the vendor's natural life, subject to a minimum payment of R1.5 million ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2021 amounted to R2.63 million ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of R1.5 million, which was the minimum amount payable. This amount has now been paid in full. The Group therefore confirms that it has a contingent liability of R2.63 million as at the reporting date.

b. The Group is not aware of any current or pending legal cases that would have a material adverse effect on its results.

12. Going concern

The Board assesses the going concern status of each legal entity in the Group on an annual basis, with the assessment involving making a judgement, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

The directors believe that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis.

13. Directors

13.1 On 2 January 2021 Ms Rosetta Xaba resigned as an Independent Non-executive Director of the Company.

13.2 On 5 February 2021 Mr Lourens Louw resigned as Financial Director of the Company in order to become the financial director of the Constantia Group.

13.3 On the same day, Ms Bianca Yan was appointed as Financial Director of the Company.

13.4 On 16 March 2021 Mr Melvyn Lubega was appointed as an Independent Non-executive Director of the Company.

13.5 On 17 March 2021 Mr William N Thorndike Jr resigned as Independent Non-executive Director of the Company.

14. Dividends

In line with the Group's strategy, the Board has not recommended any dividend payment to ordinary shareholders (2020: Nil).

15. Events after reporting period

On 27 June 2021 Constantia entered into a subscription agreement, subject to certain conditions, with OracleMed Health Group Holdings Proprietary Limited and Oraclemed Health Investments Proprietary Limited ("OracleMed Investments") to acquire 75% of the shares in OracleMed Investments. OracleMed Investments will acquire the business of OracleMed Health Proprietary Limited ("OracleMed Health"). OracleMed Health is a global Medical Insurance Underwriting Manager and Administrator providing a unique range of International Medical Insurance products in Africa, underwritten by Constantia. OracleMed Health has a worldwide network of 3,200 hospitals and established partnership with 7,000 health providers across Africa. This transaction has an effective date of 31 August 2021.

As per the SENS announcement released on 20 August 2021, Constantia concluded an agreement of sale and purchase of shares with Trustco Group Holdings Limited ("Trustco") and Trustco Capital Proprietary Limited, a wholly-owned subsidiary of Trustco ("Trustco Capital") for the sale of 51 769 633 Trustco shares. These shares represent the total shareholding of Constantia in Trustco. Furthermore, a settlement of claims agreement was entered into between Trustco Property Holdings Proprietary Limited, Legal Shield Holdings Limited and Constantia ("the Parties") regarding the repayment of the R61.6 million receivable ("Outstanding Receivable") by Constantia in respect of the lapsed transactions that the Parties were involved in (the termination of negotiations between Trustco and the Company was announced on SENS on 18 March 2021). Payment of the Outstanding Receivable is anticipated to take place in October 2023 and the Outstanding Receivable will not accrue interest until the date on which payment becomes due, resulting in the Outstanding Receivable having been amortised to a net present value of R54.5 million in these Reviewed Results.

16. Review conclusion

These reviewed condensed consolidated provisional financial statements for the year ended 30 June 2021 have been reviewed by Nexia SAB&T, who expressed an unmodified review conclusion. The auditor's report contained the following Emphasis of Matter paragraph:

"We draw attention to Note 9 to the condensed consolidated financial statements, which refers to Constantia Insurance Company Limited not meeting their minimum Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) of 1.00 and Constantia Life Limited not meeting their MCR as prescribed in terms of the Insurance Act No. 18 of 2017. As explained in Note 9, should the planned initiatives not be successful, the SCR and MCR of these companies may not be restored to a minimum level of 1.00 in the short term. Our opinion is not modified in respect of this matter."

A copy of the auditor's review report is available for inspection at the Company's registered office, together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. 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 the Company's registered office.

The illustrative Underlying Operating Result as contained in the CEO's letter have been derived from the reviewed financial information and has been reported on in an independent Reporting Accountant's assurance report, which can be found on the Group's website at www.conduitcapital.co.za. This information has been prepared for illustrative purposes only and is the responsibility of the Group's Board of Directors.

17. Directors' responsibility

The directors take full responsibility for the preparation of the provisional report.

Directors:

Executive directors:	Sean Riskowitz (Chief Executive Officer), Bianca Yan (Financial Director)
Non-executive directors:	Ronald Napier (Chairman)*, Leo Chou, Adrian Maizey, Nonzukiso Siyotula*, Melvyn Lubega*

* Independent

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