Passion

Being an OUTie gives me a huge sense of belonging to something special. We all have green and purple blood running through our veins.

– Nereesa Govender

I love the culture. What I would say is a beautiful rainbow nation. If only our country had the same spirit and soul...

– Vann Meiring

Being an OUTie is not a vision or a statement. It's a privilege! My blood is green. #OUTies4life

– Corne Liebenberg

OUT SURANCE

It's being part of an awesome lifestyle where you get to enjoy every moment you spend being an OUTie.

– Neo Matshingo

Awesome service is non-negotiable that's why it's awesome working here. We work till our bank balances look like a mobile number.

– Happy Makhubedu

After so many years I am still excited to come to work every day #OUTies4life.

– Candy Leyds

Being an OUTie means being part of a supportive family that pushes you to reach your full potential. #OUTies4life

– Shan Cox

ANNUAL REPORT 2017

Success

Being an OUTie is a privilege. You're part of a team that is focused on building a world-class business in a fun and challenging environment.

– Peter Cronje

Life changing moment #OUTies4life inspiring greatness.

– Jabu Mokwana

#Fun #happiness #success #believe #awesome #vibe #dreamscometrueatOUT! I love my work I feel like I'm at university again.

– Stephan Beukes

Being an OUTie isn't just a saying. It is a culture we have. It means to make a difference in people's lives #OUTies4life.

– Michael Goosen

Some people dream of success. OUT makes you part of the success.

– Yolandi Potgieter

The best company to work for. After all, I have been here for more than 10 years.

– Disele Moeng

We are family, we support each other and the 'Gees' is amazing. Such an awesome company to work for. #OUTies4life

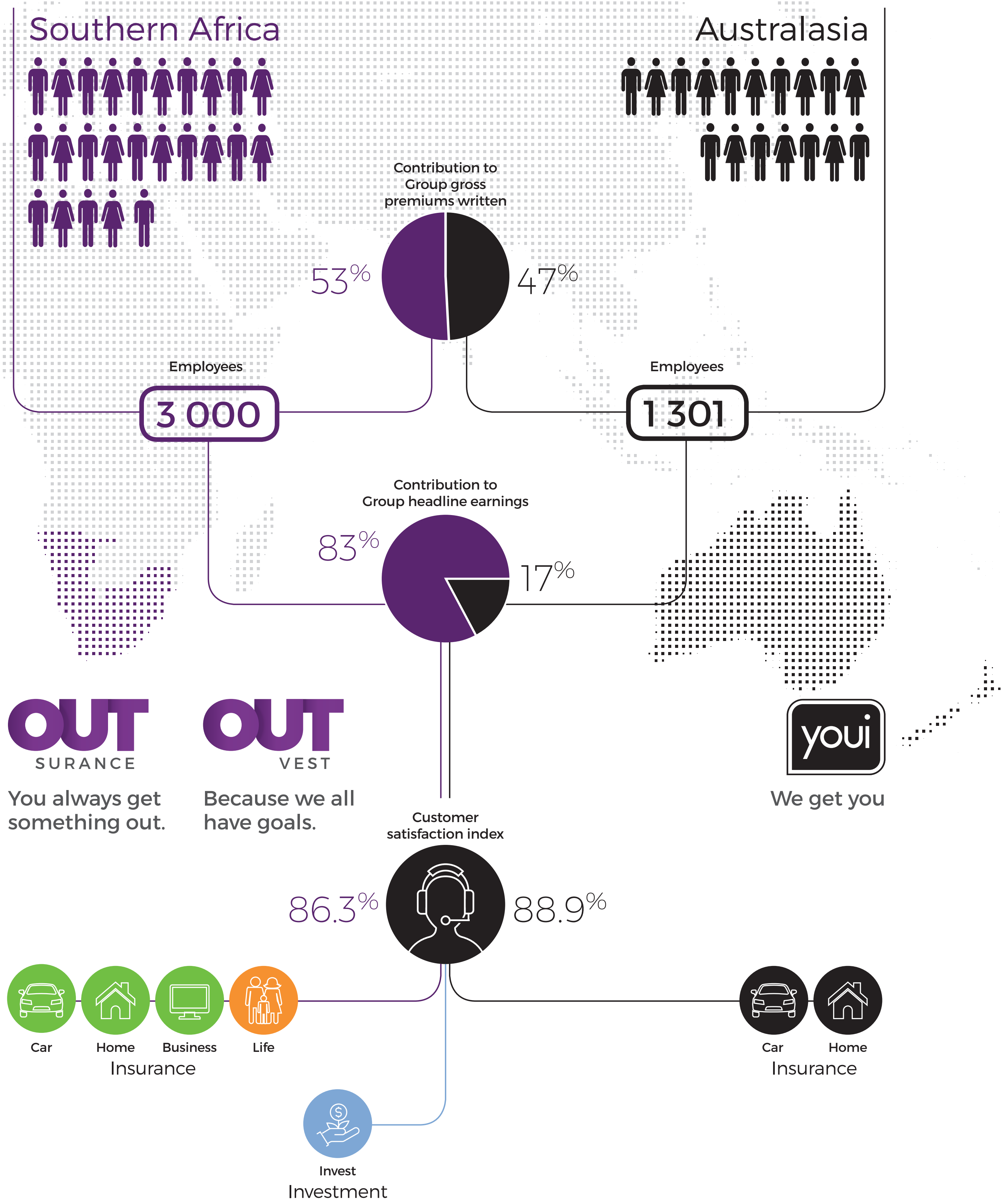
– Chantal Bairos

World class


AWESOME SERVICE
PASSIONATE
HONEST
OUR
VALUES
HUMAN
DYNAMIC
RECOGNITION

Contents

Who we are



https://www.youtube.com/watch?v=hZqu5k0QJUY

Southern Africa

OUTsurance — 100

OUTsurance provides short-term insurance cover direct to the **South African** public. Its product range includes personal lines and commercial insurance products. OUTsurance was established in 1998.

OUTsurance Life — 100

OUTsurance Life is a direct life insurer that offers basic and fully underwritten life insurance products to the South African market. OUTsurance Life was established in 2010.

OUTsurance Namibia — 49

OUTsurance Namibia was established in 2006 and provides personal lines and commercial lines short-term insurance products direct to the Namibian public. OUTsurance Namibia is 51% owned by FNB Namibia Holdings Limited.

OUTvest — 100

OUTvest provides investment advice and administration services to the **South African** public. OUTvest was established in 2017.

% Ownership

Australasia

Youi Australia — 93

In 2008, we launched Youi in **Australia**. The business provides personal lines short-term insurance cover direct to the Australian public.

Youi New Zealand — 93

Youi **New Zealand** was launched in July 2014. The start-up operation provides personal lines insurance cover direct to the New Zealand public.

% Ownership

United Kingdom

Hastings — 14.7%

The Group recently acquired a 14.7% indirect stake in Hastings Group Holdings PLC. Hastings is a fast growing digital insurer operating in the United Kingdom with a unique digitally enabled business model. Hastings provides personal lines insurance cover through direct and price comparison website channels.

% Ownership

How we performed in 2017

33.7% normalised ROE

Normalised earnings
R2 476 million
up by 24.7%

Annualised new premium written
R3 025 million
down by 25.1%

R36.9 million
up by 12.2%
spent on South African community initiatives including pointsmen

Gross written premium
R14 908 million
up by 1%

Ordinary dividend per share
40.2 cents
up by 11.7%

Diluted normalised earnings per share
63.3 cents
up by 15.7%

181 dedicated
OUTsurance pointsmen and pointswomen
up by 17.5%

R378 million
OUTbonus payments in 2017
up by 9.1%

Employment equity ratio in South Africa
59.6% ACI

Customer satisfaction index

OUTsurance 86.3%

Youi 88.9%

OUTvest is a direct to consumer investment platform that provides digital and human advice and investment administration to help everyone achieve their investment goals.

Focus on OUTvest

OUTvest is simple to use, but it isn't simple. It is a state-of-the-art investment planning service designed to help investors reach their goals.

OUTvest is a continuation of our strategy to expand our product range and direct to consumer business model.

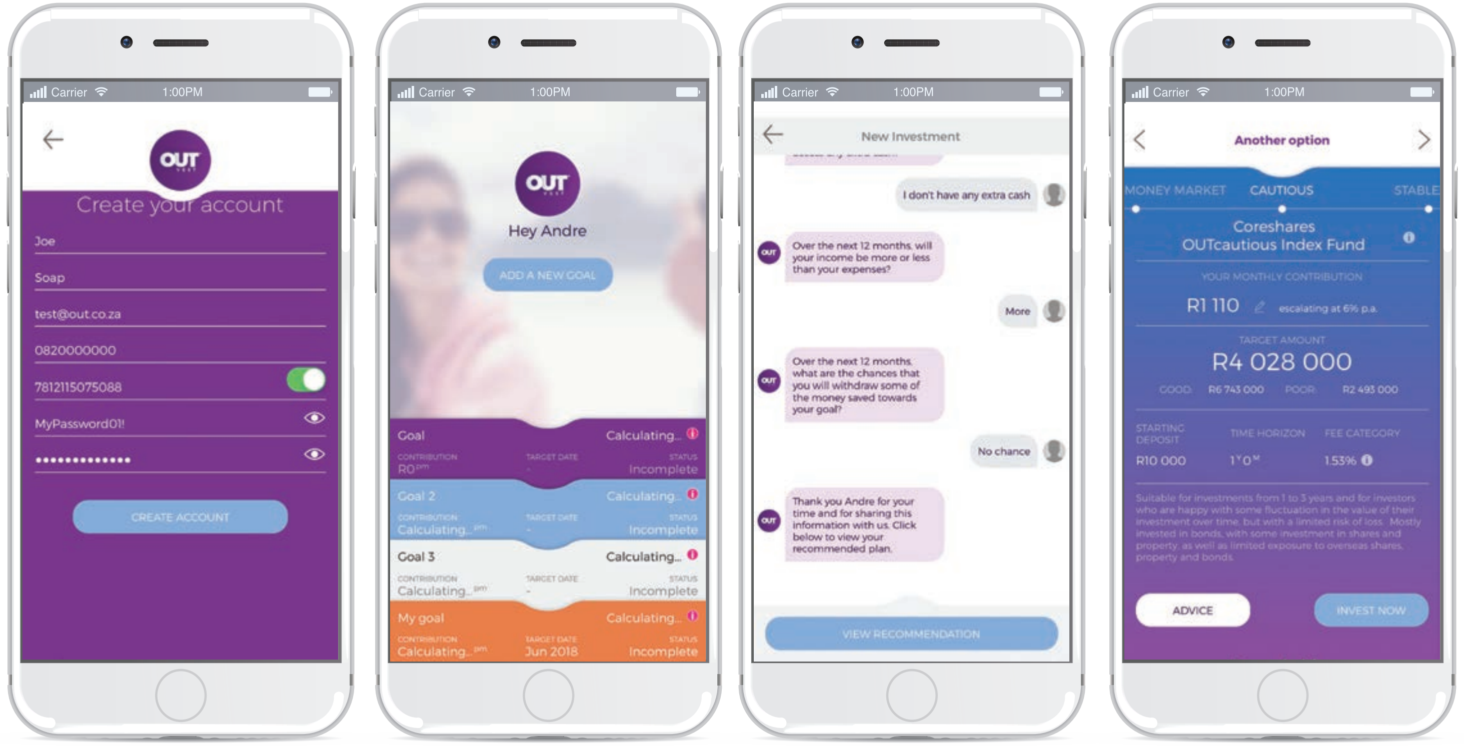
At OUTvest, we believe everyone has goals – some big, some small, all of them important. We created OUTvest so that anyone can access a professional investment plan to reach their goals without needing to know anything about investment.

Any investment goal, for example your child's university fees, an emergency fund, your wedding, or your December holiday, can be achieved by building an investment plan, online. Create as many investment plans as you like, and give each a unique name that means something to you. You can invest from as little as R100 per month. We can even help you work out how much you need to save for your goal using our awesome budgeting tools.

Log in to view all your investment plans and transact. Add or withdraw money and stop, start, or change contribution amounts whenever you like – no penalties or transaction fees. extra charges. We will track your progress towards your goal, and review your goal and investment every year to maximise the potential of reaching your goal.

As a client, you have access to our advisors, who will help you make informed decisions about your investment and answer any questions you may have.

Through Crowdvest, family and friends can also contribute towards your goal.



In a country with a low savings rate, large advice gap and expensive investment products, we are confident that OUTvest will have a positive impact on the consumer marketplace.

The state-of-the-art OUTvest unit trusts consist of one money market fund managed by Granate Asset Management (powered by RMI Investment Managers), and four portfolios managed by CoreShares. The portfolios run by CoreShares were developed in conjunction with Standard & Poor's Dow Jones Indices, one of the largest index providers in the world, and were designed to work with our digital advice system. The passive CoreShares portfolios are some of the most advanced in South Africa and exceptionally efficient to ensure the best value for our clients.

https://youtu.be/9S9WNy5fxn8

OUT SURANCE

Executive review

The Group delivered a positive set of financial results for the year ended 30 June 2017. Normalised earnings grew by 25% to R2.48 billion. The growth can be attributed to strong financial performances across the Group's operations. Lower claims ratios and cost efficiency were the key drivers as growth in premium income slowed.

> **Youi's financial performance was particularly pleasing with a 67% increase in normalised earnings to R578 million driven by lower claims and an improved cost-to-income ratio.**

> **The objective of OUTvest is to provide access to high quality algorithmic investment advice underpinned by products which track passive indices and thereby offers excellent value for money.**

Our various operations continue to deliver on our core philosophy of providing value for money insurance products and awesome service to our clients. Our customer satisfaction scores and claims ombudsman performance in South Africa and Australia remain industry leading. We thank our 4 291 committed colleagues for delivering exceptional and dedicated service.

The Group is experiencing challenging premium growth environments in South Africa and Australia. The South African economy has entered a recession following the recent sovereign credit downgrades and a disruptive political environment which has diluted consumer and business confidence. Lower new vehicle sales continue to negatively impact the growth of OUTsurance where premium growth in the personal lines segment is attributed to only inflationary drivers. Notwithstanding the challenging economic environment, OUTsurance South Africa grew earnings by a pleasing 14% to R1.78 billion. Outsurance incurred R140 million in gross claims from the Knysna fires. Our conservative reinsurance programme resulted in a net loss of R50 million related to this event.

The Australian general insurance market continues to experience a soft pricing environment where underlying industry profit margins on car and home insurance continues to deteriorate. Youi's disciplined approach to underwriting has resulted in a claims ratio which continues to outperform a deteriorating industry average and which positions the business well to compete within a higher inflationary environment.

In a partnership with our controlling shareholder, RMI Holdings, the Group acquired an indirect 14.7% interest in Hastings Group Holdings PLC. Hastings is a fast growing digital insurer operating in the United Kingdom through price comparison websites. We are excited about the financial prospects of Hastings and the added diversification the investment offers. The management teams of Hastings and OUTsurance are engaged in initiatives to optimise the relationship by exploring collaborative opportunities and to share best practice.

OUT SURANCE

The threat of disruption brought about by technological advancement and changing consumer behaviour requires us to remain agile and innovative to grow and compete in our respective markets. Over the last twelve months we launched numerous digital innovations such as a customer loyalty scheme at Youi as well as Smartdrive, the Group's in-house developed telematics technology. OUTvest was recently launched to the South African public as a digital investment advice platform. The objective of OUTvest is to provide access to high quality algorithmic investment advice underpinned by products which track passive indices and thereby offers excellent value for money. In a country with a low savings rate, a large advice gap end expensive investment products, we are confident that OUTvest will have a positive consumer impact in this market place.

Our strategic focus

The Group's core strategy is to achieve world-class client outcomes and appropriate financial returns for our shareholders. Our strategy focuses on delivering on this goal by driving incremental improvement in our operating areas and providing innovative product and service solutions to our customers. To ensure that we achieve this objective and continue to grow shareholder value, our key strategic focus areas for 2018 are:

Enhancing our digital product and service offerings

Our aim is to build more product and service capability onto our digital channels. A specific focus will be to enhance the YouiRewards loyalty scheme, increase the take-up of Smartdrive and expand the OUTvest product offering to include a broader set of investment products.

Ensuring that customers can fulfil more routine transactions digitally through our mobile applications will remain a continuous focus area.

Growing our footprint in Australia

Since its launch in 2008, Youi has been highly successful in growing share of the Australian personal lines insurance market. Although Youi has experienced growth challenges recently, reigniting profitable growth is a key priority.

During the 2018 year, Youi will enter the Compulsory Third Party (bodily injury) insurance market. This entry will result in a more holistic motor insurance product offering which will enhance our product and service proposition.

An incremental expansion into the commercial insurance market also presents Youi with a wider footprint to drive future growth and leverage the commercial underwriting capabilities of the Group.

Grow our share of the commercial insurance market

OUTsurance is developing a sophisticated capability to underwrite commercial insurance products. The key challenge to grow this business segment is to develop a tied-agent distribution model. Our focus for 2018 will be to grow the size of the agency-force and improve the technology which supports this distribution channel. OUTsurance's current share of the South African commercial insurance market is below potential. The South African commercial insurance market is estimated to be almost as large as the personal lines market with attractive profitability metrics.

Diversification

Two thirds of the Group's premium income is derived from motor insurance activities. Our team acknowledges the threat posed by autonomous vehicle technology to the size and the long-term profitability of the insurance market. Although these technologies will take some time to be adopted and impact our market, it is necessary for our Group to identify growth opportunities, which leverages our strong brand and operational strengths, with the objective of diversifying the Group's long-term revenue profile. As a direct financial services Group, we believe our operating entities are well positioned to explore Fintech strategies to develop ancillary financial products to broaden our customer proposition.

OUTvest and our commercial insurance objectives in South Africa and Australia support this diversification objective.

Regulatory environment

The regulatory environments of the Group's various operations continues to evolve which requires an ever increasing focus on the strength and depth of our risk management and compliance capabilities.

Following from the compliance breaches experienced in the Australasian business in 2016, a significant investment has been made to bolster oversight and control of client engagement activities across the Group to eliminate the occurrence of sub-standard customer outcomes. Our management team actively participates in regulatory interactions related to the development of new regulatory regimes and requirements.

Looking ahead

The major challenge facing our Group's operating entities is to sustain profitable growth. The South African economy is expected to remain challenging for the foreseeable future which is likely to result in below inflationary premium growth for our South African operation.

We hope to see improved growth for the Youi Group following the roll-out of product and service innovations coupled with entering the Compulsory Third Party and commercial insurance markets in the near future. These strategies will take some time to contribute to premium growth.

We are excited about the strength of the customer proposition of OUTvest and the positive impact the business can have on the savings and investment landscape in South Africa. During 2018, we will expand the advice and administrative offering of this new venture.

In the likely absence of strong premium growth in 2018, the Group will retain its focus on underwriting discipline and the pursuit of operational excellence.

Willem Roos
Chief Executive Officer

Laurie Dippenaar
Chairman

29 August 2017

Our strategic objectives and how we performed against them

> Our culture is our most valuable strategic asset.
>
> **– Willem Roos**
> **Group CEO**

Our shareholders

Our objective is to ensure sustainable profits through disciplined underwriting. We manage our financial resources prudently to provide capacity for expansion.

Our strategies to grow

- Profitable and sustainable growth of our major operations.
- Steer start-up operations, OUTvest and Youi New Zealand towards profitability.
- Expansion of OUTsurance's commercial insurance distribution footprint.
- Successfully enter the Compulsory Third Party (CTP) and commercial insurance markets in Australia.
- Expansion of our product range into ancillary financial services to drive long-term diversification.
- Evaluate opportunities for further international expansion.

What we have done in 2017

- Acquired a 14.7% indirect investment in Hastings Group Holdings PLC.
- Launched OUTvest to the South African public.
- Developed our strategies for CTP and commercial insurance.
- Group normalised earnings increased by 24.7%.
- Group solvency coverage ratio increased from 2.0 to 3.6.

Read more page 12

Our people

We treasure a thriving business culture which allows our people to develop and grow, where success is recognised and where our people have the freedom to innovate an contribute to the improvement and growth of our business.

Our strategies to grow

- Increase the participation in, and grow our employee wellness initiatives, OUTLive and YourLife.
- Drive transformation of our workforce to be representative of the societies we serve.
- Relocate Youi to its exciting new home on the Sunshine Coast.

What we have done in 2017

- Increased Group training spend by 25%.
- Grown our average length of service across the Group.
- 41.4% of the South African workforce engaged in training and development.
- Increased skills development points from 77.8% to 79.3%.
- Female employess increased form 41.7% to 44.1% of the workforce.

Read more page 26

Our clients

Our business philosophy is to provide value for money insurance and investment solutions backed by awesome client service.

Our strategies to grow

- Enhancing our digital channels to offer more product and service functionality.
- Increase the penetration of our YouiRewards programme.
- Continually drive incremental improvement of all our service metrics.
- Develop innovative and disruptive financial products to enhance our customer proposition.
- Ensure the highest level of compliance with existing and new regulations.
- Expand the OUTvest service offering to include more product options.

What we have done in 2017

- R378 million in OUTbonuses paid, up by 9.1% from 2016.
- Launched YouiRewards to our Australian clients.
- Launched SmartDrive, our telematics product.
- Re-launched the OUTsurance and Youi apps with increased functionality.

Read more page 29

Our communities

We give back to the community through our Staff Helping SA OUT and Youi@ Hand initiatives. Our dedicated Pointsmen and Pointswomen alleviate traffic congestion for thousands of commuters daily.

Our large service provider networks are valuable partners in achieving our business objectives.

Our strategies to grow

- Expand our supplier networks to drive South Africa's transformation objectives. Assist smaller and black-owned suppliers to develop their operations and capabilities.
- Increase our resource allocation for Staff Helping SA OUT and Youi@Hand.
- Continue to reduce our carbon footprint to be a friendlier environmental citizen.

What we have done in 2017

- Increased the OUTsurance Pointsmen spend by 11% to R35.6 million.
- Increased our South African procurement network by 5.5% to 2 122 suppliers.
- Reduced our carbon emissions by 3.8% to 12 558 TCO_2e.

Read more page 34

Financial review

Group key performance indicators

ROE

The Group achieved a 33.7% normalised ROE for the year under review. The decrease in the ROE is attributed to the equity raised to acquire the indirect interest in Hastings Group Holdings PLC.

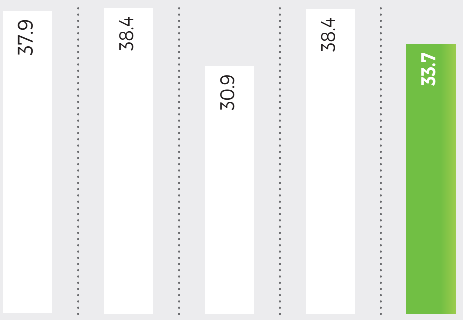
The Group targets a ROE of between 25% and 35%. ROE is the primary measure of shareholder value creation.

Claims ratio

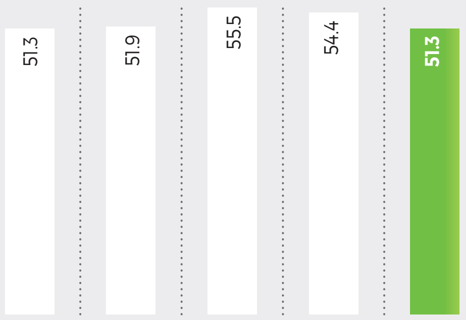
The claims ratio is the primary operational measure of the Group's short-term insurance operations. The Group targets a claims ratio of between 55% and 60%.

The Group achieved a 51.3% claims ratio for the year under review. The improved performance is attributed to lower claims ratios across all major Group operations.

ROE (%)



Claims ratio (%)



Cost-to-income ratio

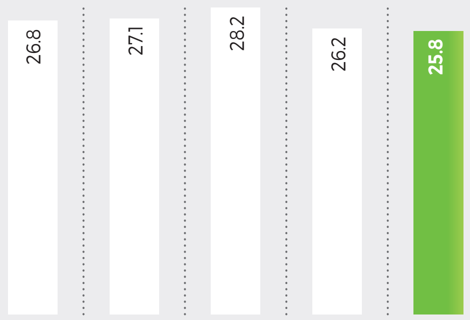
The cost-to-income ratio measures the Group's cost efficiency. The largest contributors to the Group's cost base are acquisition costs and call centre related expenses. The improvement in the Group's cost-to-income ratio is primarily attributable to efficiency gains achieved by Youi and OUTsurance Life.

New policy inceptions (measured in terms of annualised premiums – R'million)

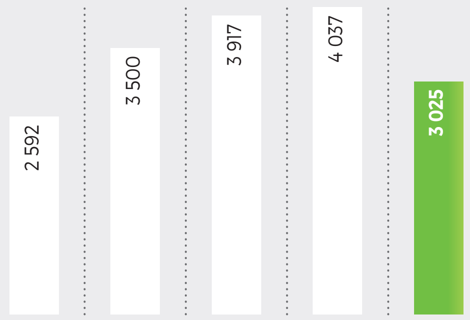
New policy inceptions for the Group, measured in terms of annualised premium income, decreased by 25% for the year under review. The reduction is primarily driven by price competition experienced in the Australasian business coupled with recessionary market conditions in South Africa.

The Group philosophy is to maintain pricing discipline throughout the economic cycle which is evident from the stability in the claim ratios achieved.

Cost-to-income ratio (%)

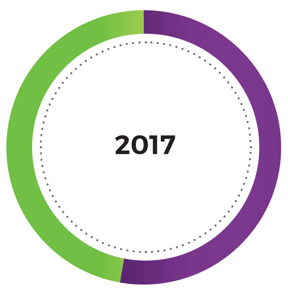


New policy inceptions (R'million)



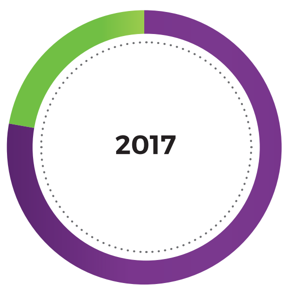
Diversification of premium revenue and earnings

Gross written premium (%)



Southern Africa	53 (2016: 51)
Australasia	47 (2016: 49)

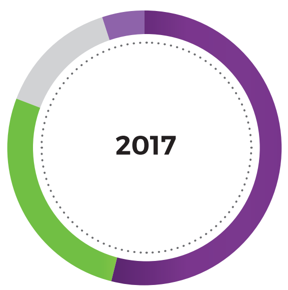
Normalised earnings (%)



Southern Africa	78 (2016: 83)
Australasia	22 (2016: 17)

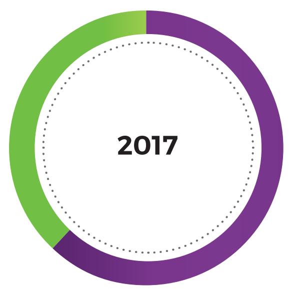
Diversification of premium revenue by product

Southern Africa (%)



Personal – motor	54
Personal – property	27
Commercial	14
Life	5

Australasia (%)



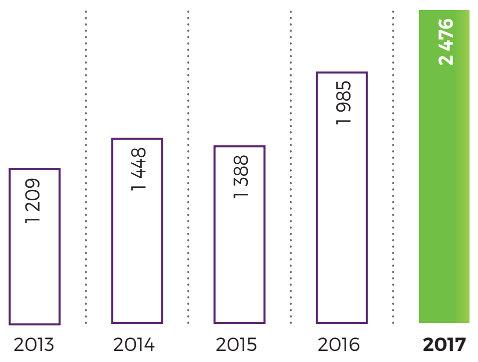
Personal – motor	62
Personal – property	38

Overview of results

The primary results and accompanying commentary are presented on a normalised basis as the Group believes this most accurately reflects its economic performance. Normalised earnings are specifically adjusted for the once off derivative gain associated with the indirect acquisition of a 14.7% interest in Hastings Group Holdings PLC.

The Group grew normalised earnings by 24.7% to R2 476 million, a satisfactory outcome in the context of slower revenue growth. Favourable claims experience across the Group was the primary contributor to the strong earnings performance.

Normalised earnings (R'million)



Group key financial ratios

The key financial outcomes of the Group are presented below:

R'million	Year ended 30 June 2017	2016	% Change
Gross written premium	14 908	14 754	1.0%
Net earned premium	14 064	13 427	4.7%
Operating profit	3 252	2 596	25.3%
Normalised earnings	2 476	1 985	24.7%
Normalised ROE (%)[1]	33.7%	38.4%	
Normalised earnings per share (cents)	65.8	57.0	15.4%
Diluted normalised earnings per share (cents)	63.3	54.7	15.7%
Dividend declared per share (cents)	40.2	36.0	11.7%
Claims ratio (including non-claims bonuses) (%)	51.3%	54.4%	
Cost-to-income ratio (%)	25.8%	26.2%	
Combined ratio (%)[2]	79.0%	82.7%	

1 Attributable to ordinary shareholders.
2 After profit share distributions paid to FirstRand Limited.

Sources of operating profit and normalised earnings

The various operating entities contributed to the Group result as follows:

	Operating profit			Normalised earnings		
R'million	2017	2016	% Change	2017	2016	% Change
OUTsurance	2 240	1 957	14.5%	1 784	1 570	13.6%
OUTsurance Life	105	49	>100%	112	60	86.7%
Youi Group	907	590	53.7%	578	347	66.6%
Youi Australia[2]	978	709	37.9%	701	506	38.5%
Youi New Zealand	(71)	(119)	40.3%	(62)	(107)	42.1%
Central and funding costs	–	–	–	(61)	(52)	(17.3%)
Operating profit	3 252	2 596	25.3%	2 474	1 977	25.6%
Central and new business development[1]	(2)	29	>(100%)	(30)	(7)	>(100%)
Earnings from associates	32	15	>100%	32	15	26.7%
Normalised Group	3 282	2 640	24.3%	2 476	1 985	24.7%

1 Includes consolidation entries, profit and losses generated by non-operating entities and new business development expenditure incurred across the Southern African Group. New business development expenditure includes the start-up loss of OUTvest and various research and development projects independent of the Group's core underwriting activities.
2 Total earnings and intercompany funding yield attributable to the Youi Group.

Business unit performance

OUTsurance

OUTsurance delivered strong operating profit growth of 14.5% to R2 240 million. The primary driver supporting the growth in profitability was a decrease in the claims ratio from 51.5% to 49.2%.

Normalised earnings for the year grew by 13.7% to R1 784 million. The slower growth when compared to operating profit is attributed to the cost of new business development expenses and slower investment income growth on shareholder funds resulting from a change in the investable asset mix.

OUTsurance's gross written premium income grew by 5.4%. The core personal lines operation, which excludes the Homeowners business sourced from the FirstRand Group, grew gross written premiums by 5.0% owing to inflationary growth. New business volumes in this segment remain under pressure as recessionary conditions affecting the South African consumer persist.

Business OUTsurance continues to deliver pleasing growth in line with an incremental expansion in product offering and agency distribution. Business OUTsurance grew gross written premiums by 10.6%.

Key ratios (%)

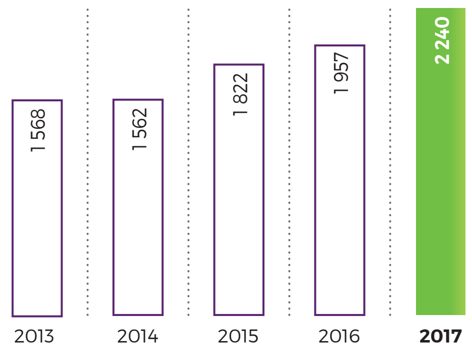
Despite numerous natural catastrophe events during the year, OUTsurance achieved a favourable claims ratio of 49.2%. Reduced new business strain owing to slower growth, a generally favourable accident claims environment and positive prior year claims development contributed to the reduced claims ratio.

The cost-to-income ratio increased from 18.9% to 19.1%. This increase is attributable to slower premium growth.

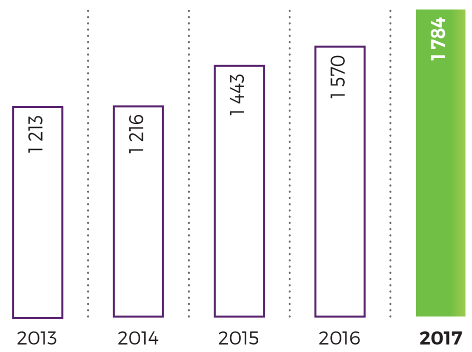
R'million	2017	2016	% Change
Gross written premium	7 396	7 020	5.4%
Net earned premium	7 251	6 907	5.0%
Operating profit	2 240	1 957	14.5%
Normalised earnings	1 784	1 570	13.6%
Claims ratio (%)	49.2%	51.5%	
Accident year claims ratio (%)	50.8%	52.4%	
Prior year development (%)	(1.6%)	(0.9%)	
Cost-to-income ratio (%)	19.1%	18.9%	
Combined ratio (%)[1]	72.1%	74.6%	

1 After profit share distributions paid to FirstRand Limited.

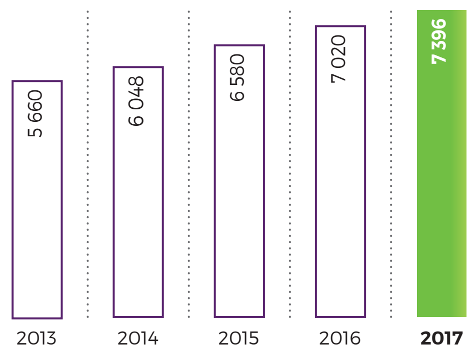
Operating profit (R'million)



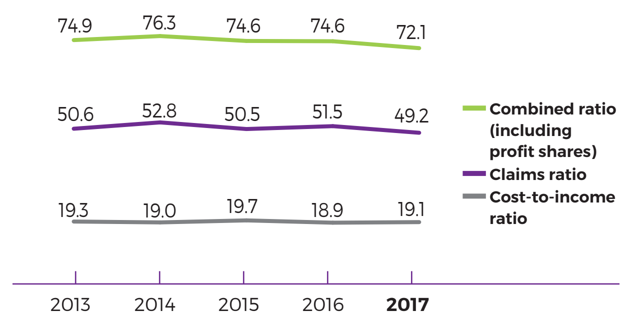
Normalised earnings (R'million)



Gross written premium (R'million)



Key ratios (%)

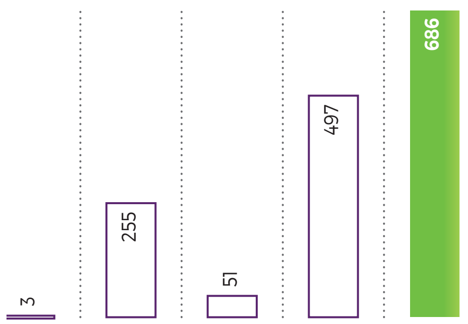


Financial review *continued*

Youi

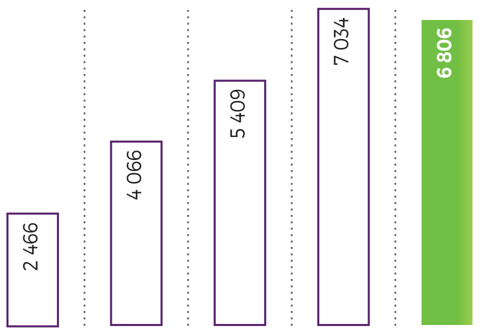
Notwithstanding a difficult growth environment, the Youi Group delivered strong financial performance for the year under review with operating profit and normalised earnings growing by 53.7% and 66.6% respectively. The growth in profitability is attributed to a lower claims ratio and a reduced start-up loss incurred by Youi New Zealand. After taking into account central funding costs, the Youi Group delivered headline earnings of R578 million. On a standalone basis, Youi Australia grew earnings by a pleasing 38.0% to R686 million whilst Youi New Zealand incurred a start-up loss of R62 million.

Youi Australia – normalised earnings (R'million)



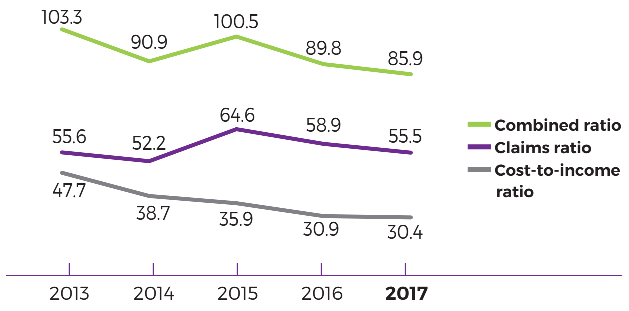
Youi Australia's gross written premium was 3.2% and 0.6% lower in Rand and Australian Dollars respectively. The reasons and management's action plans to drive premium growth are outlined in the executive review on page 8. Net earned premiums grew by 3.7% to R6 333 million.

Youi Australia – gross written premium (R'million)



Youi experienced highly favourable profitability metrics for the year under review. The claims ratio decreased from 58.9% to 55.5% driven by a favourable claims environment and positive prior year claims development. The cost-to-income ratio decreased from 30.9% to 30.4% on the back of slower relative cost growth. Youi Australia generated a pleasing combined ratio of 85.9% for the 2017 financial year.

Youi Australia – key ratios (%)



Youi Australia key financial outcomes

	2017	2016	% Change
Rand (R'million)			
Gross written premium	6 806	7 034	(3.2%)
Net earned premium	6 333	6 110	3.7%
Normalised earnings[1]	686	497	38.0%
Australian Dollars ($'million)			
Gross written premium	664	668	(0.6%)
Net earned premium	618	580	6.6%
Normalised earnings[1]	67	47	42.6%
Claims ratios			
Claims ratio (%)	55.5%	58.9%	
Accident year claims ratio (%)	59.2%	62.9%	
Prior year development (%)	(3.7%)	(4.0%)	
Cost-to-income ratio (%)	30.4%	30.9%	
Combined ratio (%)	85.9%	89.8%	
AUD / ZAR exhange rate			
– Closing	10.03	11.00	(8.8%)
– Average	10.25	10.53	(2.7%)

1 Net of intercompany funding expenses incurred on preference shares issued to Youi Holdings, the parent entity.

Youi New Zealand reduced its start-up loss to R62 million for the year driven by a significant improvement in the claims and cost-to-income ratios. New business volumes remained under pressure from the intensely competitive environment coupled with the impact of negative press received during the first half of the financial year. The claims ratio of 51% is pleasing considering the short trading history of the business.

Financial review *continued*

Youi New Zealand key financial outcomes

	2017	2016	% change
Rand (R'million)			
Gross written premium	265	308	(14%)
Net earned premium	76	52	46.2%
Normalised earnings	(62)	(107)	42.1%
Australian Dollars ($'million)			
Gross written premium	26	27	(3.7%)
Net earned premium	7	5	40%
Normalised earnings	(6)	(10)	(40%)
Ratios			
Claims ratio (%)	50.6%	78.0%	

Due to the relatively short trading history of Youi New Zealand, a deferred tax asset relating to the assessed loss of the business is not yet recognised.

As shown on page 14, the Youi Group incurred central funding costs of R61 million for the year under review. The funding costs relate to an intragroup funding arrangement established to support the expansion into the New Zealand market and to support the historically high growth rate of Youi Australia. The funding arrangement consists of long-term redeemable preference shares which were issued by Youi Holdings to OUTsurance. The instruments pay a market related yield and the income generated by OUTsurance is eliminated against this central cost upon Group consolidation. For the purpose of funding Youi Australia, the preference share structure is replicated between Youi Holdings and Youi Australia.

At 30 June 2017, the Group's effective interest in the Youi Group was 93.0%. Based on the number of share options currently in issue, the Group's interest can dilute to 82.9%.

OUTsurance Life

OUTsurance Life key financial outcomes

OUTsurance Life generated normalised earnings of R112 million which is 86.7% improvement on the prior year. Within the context of a tough consumer market, gross written premiums grew by 12.2% to R440 million. The strong growth in profitability was aided by enhanced economies of scale. The embedded value is analysed on page 44.

R'million	2017	2016	% Change
Gross written premium	440	392	12.2%
Normalised earnings	112	60	86.7%
Embedded value	835	682	22.4%

OUTsurance Namibia

OUTsurance Namibia generated normalised earnings of R39 million for the year under review. New business volumes came under pressure due to increased competition on the back of new market entrants. The discontinuance of an insurance cell structure contributed to the negative premium growth. The 30% improvement in normalised earnings was driven by a lower cost-to-income ratio.

OUTsurance Namibia key financial outcomes

R'million	2017	2016	% Change
Gross written premium	205	215	(4.7%)
Net earned premium	207	194	6.7%
Normalised earnings	39	30	30.0%
Claims ratio (%)	53.8%	53.0%	

The Group owns 49% of OUTsurance Namibia with a 51% controlling stake owned by FNB Namibia Holdings Limited.

Hastings

During the year under review, the Group acquired a 49% interest in Main Street 1353 ("Main Street") which owns a 29.9% interest in Hastings Group Holdings PLC ("Hastings"). Main Street is a 51% held subsidiary of Rand Merchant Investment Holdings Limited ("RMI Holdings"). The Group's effective exposure to Hastings is therefore 14.7%.

In addition to the 29.9% interest in Hastings, Main Street has GBP 150 million of term debt which was used as part funding to acquire the interest in Hastings. The term debt is linked to LIBOR and the maturity ranges from three to five years.

The contractual date of the acquisition in Main Street was 1 March 2017 with an effective date of 1 June 2017 when regulatory approval was obtained. The total cost of investment was R3 033 million and was funded by R678 million in cash and a R2 355 million equity issuance. Between the contractual and effective dates the fair value of Main Street increased materially due to an increase in the share price of Hastings over that period. As a result, the purchase consideration was R750 million less than fair value of Main Street measured on 1 June 2017. A once-off gain of R750 million was subsequently recognised in current year earnings.

IFRS deems the period between the contractual date and the effective date as a derivative contract and therefore this R750 million gain is recognised as a gain on a derivative contract. As this gain is a once-off occurrence which is not linked to the operating activities of the Group, it is excluded from normalised earnings as shown on the reconciliation on page 19.

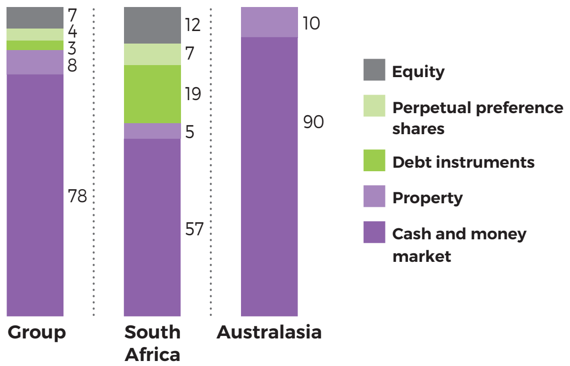
At 30 June 2017, the fair value, based on the closing Hastings share price and exchange rate was R3 783 million.

The Group accounts for its interest in Main Street as an investment in associate.

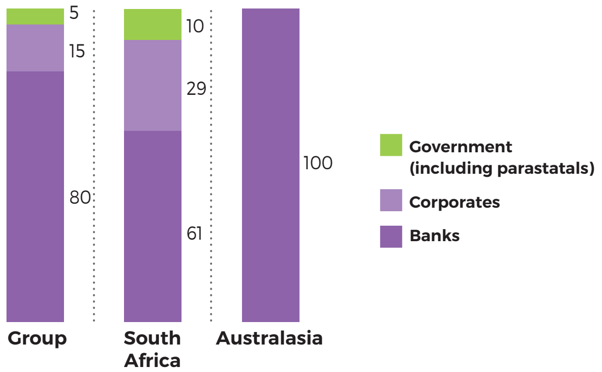
Balance sheet management

The majority of the Group's assets are invested in cash and near cash instruments. The optimal investable asset mix is considered with reference to the liquidity requirements of each entity and the net economic return generated by each asset class after allowing for the cost of regulatory capital. The Southern African Group continues to incrementally increase its exposure to listed equity instruments to take advantage of the diversification benefits available under the Solvency Assessment and Management (SAM) regulatory regime, effective 1 July 2018.

Composition of investable assets (%)



Credit risk exposure (%)



Capital position

At 30 June 2017, the regulated entities in the Group traded from adequate capital positions as summarised in the table below:

Solvency coverage ratio	2017	2016	Target
Group	3.6	2.0	1.2
Short-term insurance			
OUTsurance	2.0	1.8	1.2
OUTsurance Namibia	2.0	1.6	1.2
Youi Group	3.4	2.7	1.8
Long-term insurance			
OUTsurance Life	5.0	3.9	1.5

The target solvency coverage ratio for each entity has been set considering the likelihood and impact of various stress scenarios coupled with the unique risk profile of each business.

The new SAM regime which will apply to the South African insurance entities and the consolidated Group is expected to be effective from 1 July 2018. SAM is a risk-based regulatory regime which is closely aligned with the principles of Solvency II.

Dividends

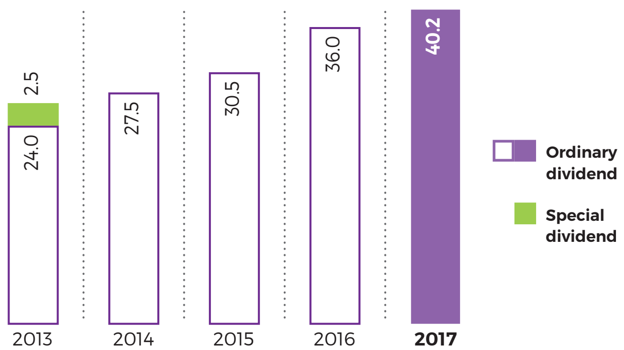
The Group declared a final dividend of 22.7 cents per ordinary share resulting in a full year dividend of 40.2 cents a share or 11.7% growth. Compared to the 24.7% growth in normalised earnings, the slower growth is explained as follows:

- The acquisition of the Group's indirect stake in Hastings Group Holdings plc was funded by a combination of cash and equity which increased the number of issued shares by 8%.
- Youi continues to retain surplus capital to support growth and the capital required to fund its new head office on the Sunshine Coast. The dividend is therefore limited to the surplus capital generated by the Southern African operation.

The total dividend distributed by the Group increased by 16.7% to R1 478 million.

The Group's dividend is considered with reference to the surplus regulatory capital of the various individual licensed entities as well as the consolidated Group together with surplus capital to be maintained in support of the Group's strategic growth initiatives.

Dividend history (cents per share)



Jan Hofmeyr
Chief Financial Officer

29 August 2017

Earnings reconciliation

R'million	2017	2016	% change
IFRS profit attributable to equity holders	3 253	2 009	61.9%
Non-controlling interest	(40)	(26)	(53.8%)
IFRS earnings attributable to ordinary shareholders	3 212	1 983	62.0%
Adjusted for:			
Impairment of available-for-sale reserve[1]	13	4	
Loss / (gain) on disposal of property and equipment	1	(2)	
Tax effect of headline earnings adjustments	(3)	(0.5)	
Headline earnings	3 223	1 985	62.4%
Adjusted for:			
Add back of gain on derivative related to Main Street 1353 acquisition[2]	(750)	–	
Amortisation of intangible assets related to Main Street 1353[3]	3	–	
Normalised earnings	2 476	1 985	24.7%

1 *The impairment of accumulated losses in the available-for-sale reserve is associated with mark-to-market losses on the Group's investment in listed perpetual preference shares.*

2 *During the year, the Group acquired a 49% interest in Main Street 1353 which owns a 29.9% interest in Hastings Group Holdings PLC (Hastings). This gain represents the movement in the fair value of Main Street from 1 March 2017, the contractual date, up to 1 June 2017 when the contract became effective. The once-off gain is linked to the significant appreciation in the share price of Hastings between these dates. IFRS deemed the period between 1 March 2017 and 1 June 2017 to be a derivative contract and therefore the gain that arises is considered a derivative gain.*

3 *As part of the purchase price allocation of Main Street's investment in Hastings, intangible assets were recognised associated with the customer list of the entity. This intangible asset is amortised over a period of 5 years. Included in this amount is Main Street's equity accounted share of intangible asset amortisation as accounted for in the consolidated statement of comprehensive income of Hastings.*

Five year financial review

R'million	2013	2014	2015	2016	2017
Statement of pofit or loss and other comprehensive income – IFRS					
Gross written premium	8 288	10 352	12 469	14 754	**14 908**
Underwriting result[1]	1 378	1 681	1 533	2 328	**2 954**
Profit before tax	1 823	2 089	1 971	2 913	**4 331**
Headline earnings attributable to ordinary shareholders	1 209	1 448	1 388	1 985	**3 223**
Earnings attributable to ordinary shareholders	1 250	1 445	1 346	1 983	**3 212**
Earnings per share (cents)					
– Basic	36.4	41.8	38.7	56.9	**85.4**
– Diluted	35.5	40.1	38.0	54.7	**82.6**
Headline earnings per share (cents)					
– Basic	35.2	41.8	39.9	57.0	**85.7**
– Diluted	34.4	40.2	39.2	54.7	**82.9**
Dividend declared per share (cents)	24.0	27.5	30.5	36.0	**40.2**
Special dividend declared per share (cents)	2.5	–	–	–	**–**
Statement of financial position – IFRS					
Total assets	7 750	9 898	11 858	14 716	**18 165**
Total equity	3 784	4 453	4 711	5 896	**9 824**
Average equity attributable to ordinary shareholders	3 350	3 818	4 490	5 170	**7 601**
Key ratios					
Claims ratio (including non-claims bonuses) (%)	51.3%	51.9%	55.5%	54.4%	**51.3%**
Cost-to-income ratio (%)	26.8%	27.1%	28.2%	26.2%	**25.8%**
Combined ratio (%)	81.8%	81.8%	86.3%	82.7%	**79.0%**
Normalised results					
Normalised gross written premium	8 288	10 352	12 469	14 754	**14 908**
Normalised earnings	1 209	1 448	1 388	1 985	**2 476**
Normalised earnings per share (cents)					
– Basic	35.2	41.8	39.9	57.0	**65.8**
– Diluted	34.4	40.2	39.2	54.7	**63.3**
Normalised return on equity (%)[2]	37.9%	38.4%	30.9%	38.4%	**33.7%**

1 After taking into account profit share distributions.
2 Attributable to ordinary shareholders and calculated based on average normalised equity.

Stakeholder engagement

We engage with our stakeholders to understand their material needs and to establish sustainable, long-term, mutually beneficial relationships. This allows us to have ongoing conversations that support our continuous improvement and help us deliver on our strategic objectives. Our main stakeholder groups are summarised in the table below.

	Their material needs	How do we communicate with them?
Our people Permanent and temporary employees as well as contractors.	A great company to work for; a safe work environment; a caring employer; high performance focus balanced with fun activities; innovative corporate culture; company values; open and honest communication; fair remuneration and development opportunities.	Employee wellness initiatives; 100% open plan offices; regular team, department and company meetings; value surveys; various forums, functions, fun and sport activities; recognition and development programmes; electronic communication; "TalkOUT" sessions.
Our clients Existing clients and prospective clients. Consumers include individuals, businesses and companies.	Value for money products and services; fair treatment and awesome service.	Through our employees in call centres or face to face; surveys; advertising; electronic media; social media; press releases; policy and contract documentation.
Our suppliers Claims and other service providers and suppliers.	Prompt and accurate payments; access to procurement opportunities.	Personal interaction procurement road shows; newsletters; electronic communications and call centre.
Our community Communities in which companies and offices in our group operate, including charity organisations.	Responsible corporate citizenship; charitable initiatives; enterprise development; access to insurance services.	Staff Helping SA OUT; staff volunteers; electronic communications; face-to-face visit; OUTsurance Pointsmen project; procurement opportunities; various projects where our companies, employees and suppliers are involved to make a difference in our communities.
Government, Regulators and industry bodies The various regulators, industry bodies, government departments, associations and Ombud schemes that are relevant to the various group companies.	Comply with laws, regulations and codes of conduct and communicate openly to the benefit of the industry and consumers.	Engagement and participation through various monthly and quarterly committee, board and other forum meetings. Electronic communications; telecommunications; dedicated officers for direct liaison; statutory returns and other reporting.

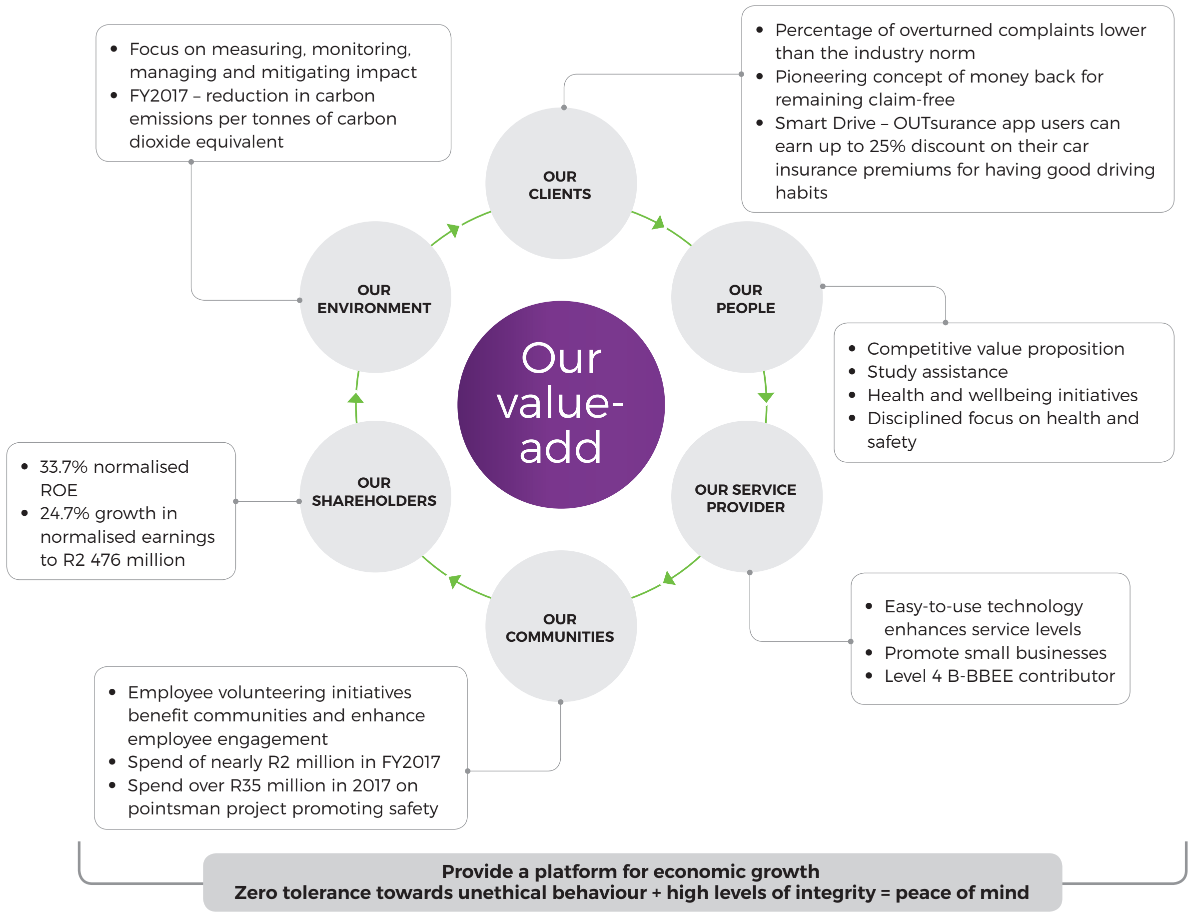
OUTsurance and sustainable development

Essentially, our business is founded on providing peace of mind and security which we provide by going the extra mile to give our clients value-for-money products, Awesome Service and a fair deal. In doing so, we deliver consistent returns for our shareholders and we also contribute to the economic growth and development of individuals, businesses and society at large.

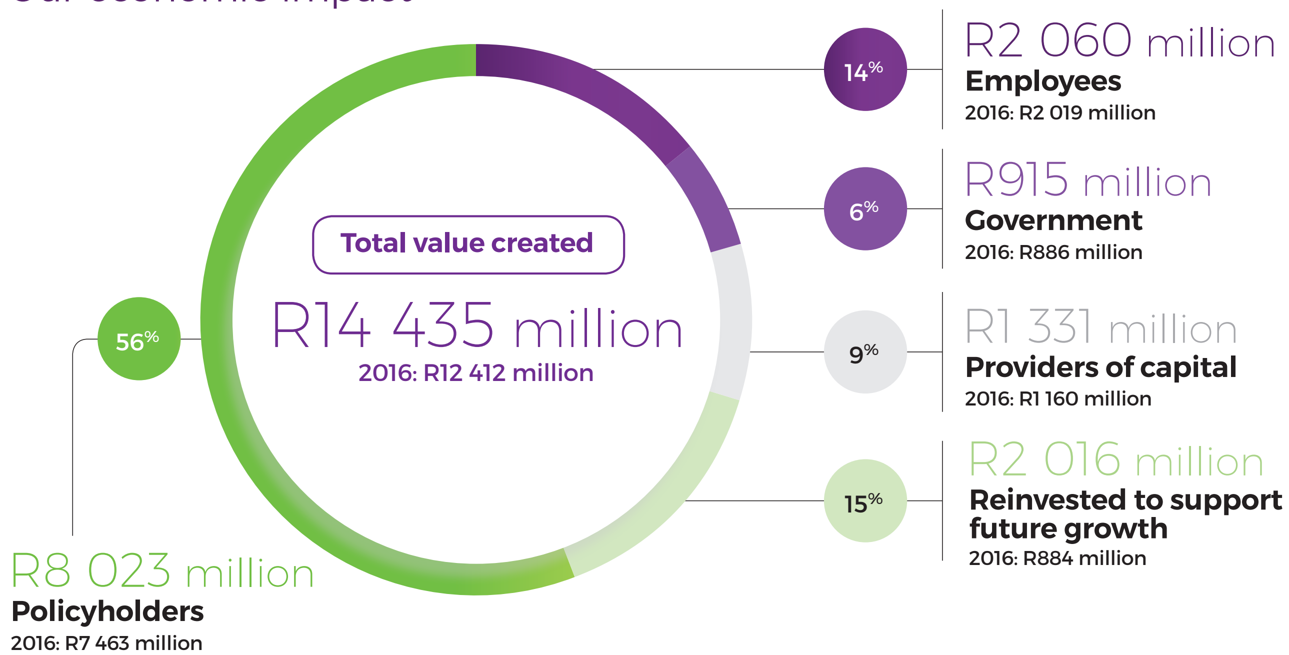
We focus on ensuring that the development we promote is sustainable by adding value. We achieve this by investing to create a great workplace for our people; enabling our clients to lean on us and provide them with the opportunities to do so; partnering with our service providers to build client's confidence in our service offerings; and giving back to communities.

In addition, we are mindful of our impact on the environment, even though, as a financial services organisation we do not have a significant environmental footprint. However, we believe we have a responsibility to measure, monitor, manage and mitigate our impact on the earth's natural resources.

We want to ensure that all our stakeholders have the utmost confidence in our company and our service offerings. Accordingly, we focus on the implementation of sound business principles and on fostering a strong culture that values effective governance, ethical behaviour, accountability and transparency. Our aim is to run a world-class business that delivers value to all our stakeholders and manage our business for long-term success and ongoing viability.



Our economic impact



Our people

Striving to be an employer of choice

We depend on demand from our clients, as well as strong partnerships with our service providers across our value chain to help us grow our business sustainably. This in turn depends on our people living up to our core values of Passion and Awesome Service which is why, at OUTsurance we strive to be an employer of choice. In this way, we ensure that our people can effectively meet the needs of our clients, no matter the circumstances.

69.5% of total staff complement reside in South Africa.

99.8% of total workforce are permanently employed.

Total Group workforce[1]
4 291
4 285 (2016)
4 436 (2015)
% Change (2016 / 2017) 0.1%

South African ACI[2] ratio
59.6%
59.7% (2016)
62.6% (2015)
% Change (2016 / 2017) (0.1%)

South African disabled staff members
21
30 (2016)
26 (2015)
% Change (2016 / 2017) (30.0%)

Group female ratio
44.1%
41.6% (2016)
42.9% (2015)
% Change (2016 / 2017) 2.5%

South African ACI management
49.3%
48.4% (2016)
49.6% (2015)
% Change (2016 / 2017) 0.8%

1 Staff members in South Africa, Australia and New Zealand.
2 Africans, Coloureds and Indians.

	South Africa	Youi – Australia and New Zealand
Total staff members	2 990	1 301
Average length of service[1]	46.2	35.5
Operational staff		
Percentage of total staff members	86.4%	82.0%
Average length of service	40.1	31.7
Support staff		
Percentage of total staff members	13.6%	18.0%
Average length of service	83.5	52.8

1 Average length of service was determined in months.

In our efforts to be an employer of choice, we focus on maintaining a competitive employee value proposition in order to attract and retain the best talent. In line with this goal, we offer our employees:

- Employee benefits[1] (Group);
- An outsourced Employee Assistance Programme (Group);
- On-site canteen (Group);
- Health and wellness events (Group);
- An accredited learning academy (SA);
- A clinic staffed by a qualified nurse (SA);
- Onsite sports and recreation facilities (SA); and
- A day care facility (SA).

1 Fulltime employees.

https://www.youtube.com/watch?v=aE1PAxPvg_I - Working at outsurance

https://www.youtube.com/watch?v=wx9MQ_wdZVw - working at Youi

Developing our people

To deliver on our strategy we need the right people, in the right roles, at the right time, with the required skills and capabilities. The Group encourages employees to develop personally and professionally, by providing them with study assistance to advance in their relevant fields.

In South Africa, the cost of external training increased by over 80.1% due to industry-required qualifications such as regulatory exams and full qualification, a requirement for employees to obtain the necessary credits to work within the financial industry.

Group training spend
R7 866 460
2016: R6 288 214

External training
R6 812 393

- **OUTsurance** R5 061 375
  2016: R2 810 726
  2015: R2 443 725
- **Youi** R1 751 018

Study assistance
R1 054 068

- **OUTsurance** R850 148
  2016: R988 329
  2015: R675 987
- **Youi** R203 920

Skills development[1]
79.3%
2016: 77.8%
2015: 77.7%
% Change (2016 / 2017) 1.5%

Group employees trained 2 408

41.4% of total workforce trained in South Africa

14.6% of total workforce trained were Youi employees trained in Australia and New Zealand

1 The score is expressed as a percentage of total possible points available. The figure is externally calculated and confirmed by AQRate (B-BBEE verification agency).

Our people *continued*

Promoting health and wellbeing

Research indicates a strong correlation between being healthy and productive at work. Accordingly, we invest in various health and wellbeing activities, services and events and make it easy for employees to participate in them.

The OUTsurance OUTlive campaign is one of our "great company to work for" initiatives that aims to improve the overall mental, physical and financial wellness of our employees.

The campaign focuses on three main areas:

1. **Mind** Includes reading, studying and e-learning
2. **Body** Physical fitness, health and nutrition
3. **Soul** Financial wellbeing, stress management and detection

OUTLIVE • mind • body • soul

In order to promote a culture of wellness, employees participating in health and wellness activities earn points and stand a chance of being rewarded with cash incentives and by means of a lucky draw for their participation. During the 2017 financial year, OUTsurance employees participated in 54 different health and wellness activities. This resulted in a total of 539 784 points accumulated by employees – an average of 209 points per staff member and an increase of 2.6% in points per participating employee.

OUTLIVE • mind • body • soul

Activity point highlights 2017

Monthly gym visits: 51.4%

Running/walking track: 17.2%

No sick leave over six months: 11.7%

The balance of 19.7% is allocated to the remaining 51 activities

In 2014, Youi established the YourLife health and wellbeing programme to promote work-life balance. During 2016, the programme was re-launched, with a shift on driving physical activity within the organisation. Inspired by Goal 3 of the Global Goals for Sustainable Development 2030: Ensure healthy lives and promote wellbeing for all at all ages, the head of each department became programme ambassadors and made a commitment to wellbeing targets such as healthy eating and regular exercises. Staff have followed their example, with departments arranging activities like walking meetings, team physical training sessions, meditation and sporting events.

The average sick leave ratio for Youi employees participating in the various activities was 4.4% compared to an average 6.1% for non-participating individuals.

yourlife highlights 2017

Number of different YourLife activities provided: 114

Average number of activity participation per staff member: 13.5

A dedicated Occupational Health and Safety (OHS) officer and committee oversee the health and safety of our people. We train our staff in disciplines like emergency evacuation, first aid and firefighting. Regular fire drills and training sessions are overseen and certified on completion by independent specialists.

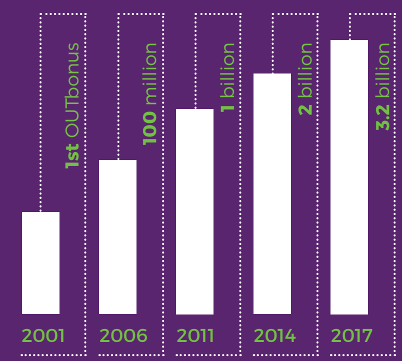
Our clients

Enabling our clients to lean on us

We go the extra mile to provide our clients with value-for-money products, Awesome Service, and a fair deal. Whether it's paying claims quickly and fairly, roadside assistance or our Pointsmen project, OUTsurance is always looking for ways our clients can lean on us.

Our OUTbonus pay-outs are actual financial rewards and represent tokens of appreciation to every loyal client who is claims-free. We are very proud of the R3.2 billion paid to Southern African clients since 2001.

OUTbonus



25 million in Life OUTbonus pay-outs during the past two years

YouiDollars allocated to Youi Rewards participants ('000)
74 489
% Change (2016 / 2017) **100%**

Number of live policies ('000)
1 903
1 967 (2016)
1 883 (2015)
% Change (2016 / 2017) **(3.2%)**

OUTbonus value paid out per annum (R'000)
362 971
346 497 (2016)
315 157 (2015)
% Change (2016 / 2017) **4.8%**

Life OUTbonus value paid out per annum (R'000)
14 974
10 033 (2016)
N/A (2015)
% Change (2016 / 2017) **49.2%**

Exceeding client expectations

Exceeding client expectation and delivering on our promises is the backbone of our business. Awesome Service defines the way we treat our clients and this sets us apart from our competitors. To ensure we live up to our promise of Awesome Service, we encourage clients to give us feedback through an online survey feedback system. Client experience is monitored by a dedicated department that responds to queries and tracks progress to ensure that these matters are resolved timeously and efficiently.

	2017	2016	2015	% Change (2016 / 2017)
OUTsurance Customer Satisfaction Index (CSI)	86.3%	86.1%	87.9%	0.2%
Youi Customer Satisfaction Index (CSI)	88.9%	89.8%	90.8%	(0.9%)

https://www.youtube.com/watch?v=dUtu_JUMIP8 - Outbonus

Our clients *continued*

OUTsurance Talk@OUT

"Awesome service as always. No one ever looks forward to any type of loss and the trauma it can bring at times but to know and to have the peace of mind that you are covered with OUTsurance should this occur, brings peace of mind. Thanks so much again for the awesome service that you offer and for always putting your customers first.

– Mrs Wendy Stanley"

"I just have to share with everybody, that I have had the best service from OUTsurance . The Call Centre agent, Percy, he is the best, couldn't ask for better. I would recommend OUTsurance to anybody, anytime. Thanx a lot OUTsurance (Percy), you made my experience memorable.

– Mrs August Hall"

"I must say OUTsurance is the best.....Ally Moodley from the day I reported my claim, she has been so professional. The way she handled the process you just can't describe. She's the best, keep up the good work. You know when bad things like this happen to anyone, you lose hope, you get mixed feelings but, the way Ally treated me, she gave me that hope. I don't think I will look for any other insurance company again. I feel much more comfortable with OUTsurance. Thanks to Ally Moodley.

– Ms Simlindile Ntoni"

"Voting Kamogelo for President! Exceptionally good humor and professional. Made the experience of insuring my vehicle a pleasurable one.

– Mrs Tanja Thelma Schalkwyk"

"I would like to recommend the service of OUTsurance to anyone including my family. OUTsurance is the best insurance I ever had. They understand the challenges that we do face in life. The level of your service is excellent. Keep it up guys.

– Mr Raphiri Moletsane"

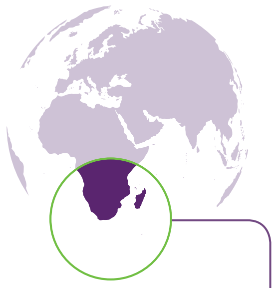
"Jimmy the driver from the towing company has a reassuring nature and explained the process in detail. I therefore felt safe and knew what to expect. Thank you Jimmy for excellent service. Delmarie Schoeman.

– Mrs Delmarie Schoeman"

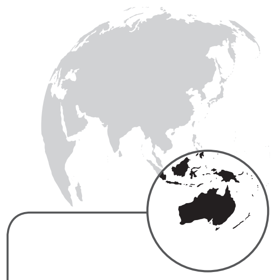
"On Saturday morning our geyser at home burst. After having phoned some plumbers to come out and not received any answer, after an hour my wife decided to phone OUTsurance. The plumbers were at my front gate literally before she had put down the phone. After having paid the excess the job was done in 3 hours. Thanks and well done OUTsurance.

– Mr Giorgio Tarazza"

You always get something out.



we get you



The Customer Satisfaction Index (CSI)
is based on clients evaluating our service after interaction following each sale, policy amendment or claim. Clients receive an automated email survey and can select the following categories: awesome, good, acceptable, bad or very bad. The CSI is calculated by subtracting the number of "detractors" (sum of the bad and very bad responses) from the number of "promoters" (sum of the good and awesome responses) and dividing this by the total number of responses received. The CSI figure excludes social media feedback.

CSI

86.3% — 88.9%[1]

1 Includes Youi Australia + Youi New Zealand.

In addition to the CSI surveys, both OUTsurance and Youi clients can access our websites and provide feedback for everyone to see.

Youi Wall

"Amazing really, from helping and then checking on the help they have given in roadside assist to my first claim. I couldn't be happier.

– Lee"

"Spoke initially with Trey in Sales to get a new quote – he is BRILLIANT! Friendly, helpful and explained everything in detail. Also took time to listen to my exact requirements. They went through to Chris in Customer Services, to update an existing policy – also AMAZING! Again, he was friendly and helpful. Calling an insurance company is not generally high on my wish list (especially living in Christchurch), but I have to say I am truly impressed with the service at all the levels, from the speed of getting the call answered, to the assistance on the call and not being made to feel a nuisance. No-one tried to hurry the call, both guys were pro-active with their approach, and the paperwork came through immediately. Both these gentlemen are an asset to your team. I would most certainly recommend Youi anytime. Thank you!

– Colin"

"I am very happy with Blake at Youi, he covered my concerns with my home and contents insurance. He was very understanding of my issues and helped me with direct answers. I also was able to get him to quote me on my boat. Thank you again Youi.

– Socharmin"

"I made a claim for water damage. The staff couldn't have been more friendly or helpful. The follow up was excellent. I made another claim for my car. The rep arrived exactly when he said he would. The whole process was painless. I have always like dealing with Youi reps. Some previous experiences with other insurers was like having teeth pulled. Thank you Youi.

– Michelle"

"I just want to say that it was a pleasure dealing with Tom at Youi to get my new policy. Tom took the time to answer all my questions and went above and beyond to ensure that I was happy with my new policy.It's people like Tom that makes dealing with Youi such a breeze. Thank you Tom. Dr Hellene Demosthenous, PhD.

– Hellene"

"I would like to commend Dean for his efforts and patience in running through my insurance policies with me. He asked pertinent questions and have detailed several policy benefits which I were not aware of which were beneficial to me and has ultimately won me over to retain my policies with Youi. Dean has also helped me to restructure my policies to maximise cost versus the benefits which were relevant to me. Kudos to him for making me stay with Youi despite having to pay a little bit more compared to other insurance providers.

– Kelvin"

Our clients *continued*

The Ombudsman for Short-Term Insurance (OSTI) in South Africa is an independent body where clients can submit complaints if they feel that they have not been treated fairly or when they feel that incorrect claims decisions have been made. The OSTI's 2016 annual report published industry statistics for 56 insurers which indicated that, for the third consecutive year, OUTsurance had beaten the industry averages in terms of the proportion of complaints referred to the Ombudsman as well as the number of complaints overturned in favour of the client. These results underline OUTsurance's approach to paying claims – we look at the merit and fairness of the claim, not merely contractual position. Industry figures are published on the website of the OSTI www.osti.co.za for download.

	OUTsurance	Industry
Claims received by insurers (Financial Services Board statistics)	279 437	3 206 257
Number of complaints received by OSTI per thousand claims	1.62/1000	2.94/1 000
Overturn rate	11.6%	27.3%
Number of claims decision overturned per 10 000 claims[1]	2/10 000	7/10 000

1 *Company calculated amount, derived from expressing number of OSTI complaints and overturn rate per 10 000 claims.*

The Financial Ombudsman Service (FOS) in Australia is an independent body that ensures an accessible, fair dispute resolution process for consumers and financial services providers. Their latest annual report was released in September 2016 and included statistics from July 2015 to June 2016.

The report indicates with which insurers consumers are likely to have a dispute. The calculation is based on the number of disputes divided by the number of policies per product group multiplied by 100 000. Based on the FOS report, Youi clients had a 7.9% likelihood of a dispute compared to the industry median of 10.6%. Only Financial Services Providers (FSP) with similar product offerings are used for comparative purposes. The relevant information can be found at www.fos.org.au.

Awards

Beeld – public/Readers favourite – Insurance category

Mail and Guardian – Top Reputation Award

2016 Ask Afrika Orange Index Awards – Short-term Insurance Category

Our service providers

Partnering with our service providers

OUTsurance currently has over 2 122 service providers throughout South Africa, all of whom play a significant role in delivering Awesome Service to our customers. To ensure that high levels of service are maintained, after service providers complete the task at hand, clients receive an automated customer survey through which they can rate the service they've received. The feedback is provided to our service providers to help build on strengths and identify potential areas of improvement.

In order to enhance client service provider interactions, OUTsurance has launched a mobile application that can be downloaded by any one of our service providers for use during their inspections.

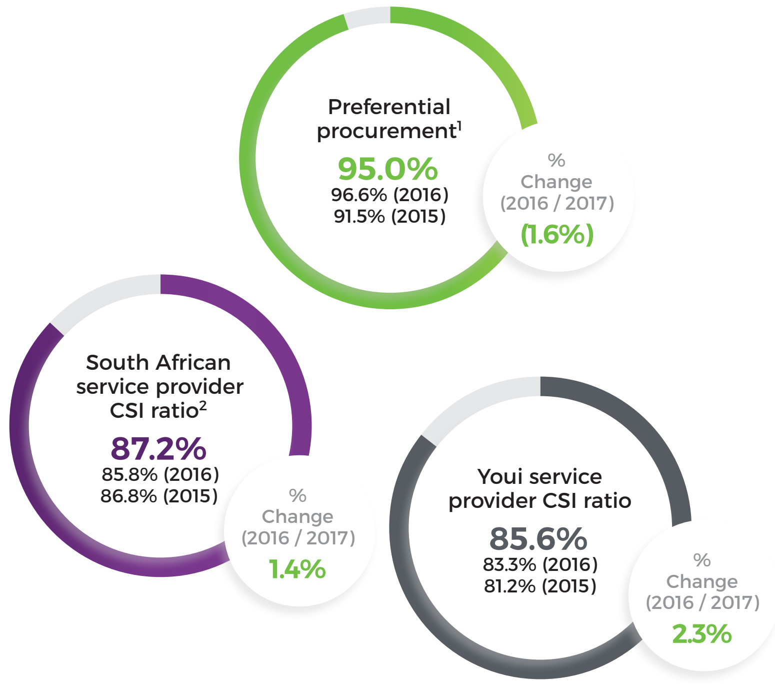
This technology is fast, convenient and environmentally friendly and helps to minimise the risk of inspection books being stolen and vehicles being cloned. It also speeds up the process as the completed inspection is delivered electronically in an instant and automatically attached to the facility.

Demonstrating our commitment to Broad-Based Black Economic Empowerment

OUTsurance is committed to Broad-Based Black Economic Empowerment (B-BBEE) and is currently rated as a level four contributor and recognised as a value-adding supplier.

Our commitment to transformation and empowerment is expressed through, amongst other things;

- Black Ownership, Management Control and Employment Equity; and
- Procurement of raw materials, products and services from B-BBEE rated companies.



1 *The score is expressed as a percentage of total possible points available. The figure is externally calculated and confirmed by AQRate (B-BBEE verification agency). Our full B-BBEE certificate can be found on our website.*

2 *The CSI ratios have been re-stated to reflect the ratios as at the end of every financial year.*

Our community

Giving back

Giving back to the community is an integral part of the Group's culture and we contributed over R1 923 811 towards corporate social responsibility (CSR) initiatives. Employees are given the opportunity to contribute to CSR by means of monthly salary deductions.

OUTsurance total contributions **R1 645 590**

youi total contributions **R278 221**

OUTsurance employee payroll giving (R'000)

330 (2015)

612 (2016)

721 (2017)

% Change (2016 / 2017) 17.8%

Over and above the monthly contribution, there was an additional **R414 279** donated by Group staff members.

In South Africa, our employees donated 957 hours (R186 380 value of time spent) of their time volunteering to make the country a better place in which to live.

The Staff Helping SA OUT and the Youi@hand initiatives provide support to less fortunate communities. Initiatives included:

OUTsurance

- **Sleep@OUT** – During winter, OUTsurance employees spent the night outside on the campus to raise funds for the homeless. Employees were asked to make a donation to join the sleep@OUT event.
- **Shavathon** – OUTsurance employees support a very worthy cause to show solidarity with people affected by cancer. Funds were raised through donations given for having their hair coloured or shaved; and
- **The Stiletto run** – To advance the interests of women with ovarian cancer, OUTsurance employees wore a pair of stilettos and participated in a race held at the campus.

https://www.youtube.com/watch?v=k5nvMXTfbHs – Staff helping SA out

Youi

- The Compass Institute is dedicated to providing real futures for young people with disabilities by assisting them in 'Mastering the Art of Life'. Youi employees washed cars to raise awareness and funds for the organisation.
- Sunshine Coast Animal Refuge provides temporary refuge and finds new homes for abandoned, abused and unwanted cats and dogs. Youi employees got hands-on with various initiatives such as cleaning, painting and gardening, as well as a pet food drives for much-needed supplies.
- The Blanket Drive makes a difference in the lives of the less fortunate by collecting and distributing blankets and clothes to various charities.

https://www.facebook.com/7NewsSC/videos/1552868411437254/

CSI funding raised

	OUTsurance 2017	Youi 2017
Employee contribution	R720 517	R34 055
Company contribution	R597 133	R157 827
Staff additional contributions	R327 940	R86 340
Total contribution	**R1 645 590**	**R278 221**

CSI funding spend	OUTsurance 2017 R
Rand Value of CSI / SED spend on infrastructure development	373 454
Rand Value of CSI / SED spend on basic needs and social development	505 539
Rand Value of CSI / SED spend on health and or HIV/AIDS	291 811
Rand Value of CSI / SED spend on skills development	122 662
Rand Value of CSI / SED spend on education projects	10 935
Total Rand Value of CSI / SED spend	1 304 401

Youi total spend **R254 020**

The Group supports blood donation drives in all regions. In South Africa, the National Blood Service brings their mobile units to the OUTsurance campus for staff to conveniently donate blood at work.

South African new donors **140** 67 (2016) 98 (2015) — % Change (2016 / 2017) 109.0%

Group units blood donated **1 387** 1 259 (2016) 1 502 (2015) — % Change (2016 / 2017) 10.2%

South African number of blood units collected **1 127**

Australia and New Zealand – number of blood units collected **260**

Enhancing safety through pointsmen

OUTsurance has helped to lessen traffic congestion, contributing towards road safety and creating job opportunities in underprivileged communities through the OUTsurance Pointsmen Project, established in 2005. Thousands of motorists in and around Johannesburg, Tshwane and Cape Town have come to rely on this project.

There are two types of pointsmen; static and mobile, the static pointsmen are located at specific high-traffic intersections, while the latter are dispatched to hot spots as and when requested through the OUTsurance App. All motorists (including those not covered by OUTsurance) can use the OUTsurance App to request a pointsman to be sent to any location that they are needed within the three major cities.

Currently there are 181 pointsmen on the high traffic intersections and hot spots of the abovementioned cities.

	2017	2016	2015	% Change (2016 / 2017)
Total pointsmen programme spend (R'000)	35 633	32 049	28 779	11.2%
Total number of OUTsurance pointsmen	181	154	144	17.5%

Customers who are not OUTsurance clients can earn R400 in cash (or OUTsurance can donate R400 on their behalf to the 'staff Helping SA OUT' initiative). If clients complete a personal car insurance quote and the OUTsurance quote is more expensive, on a like-for-like basis than their current insurance. This amount will increase to R800 if the client has not had a vehicle claim in the past three years.

https://www.youtube.com/watch?v=cmpgW7YulD4 – Pointsman

Our environment

Lessening our carbon footprint

Global climate change is happening all around the world and man-made greenhouse gas emissions (GHGs) are a crucial factor driving this process. The impacts of climate change are beginning to be felt in agriculture, human health, ecosystems, water supplies and economies, with negative impacts on our clients, which is why this issue is becoming increasingly material to our business. We are committed to lessening our greenhouse gas emissions.

About greenhouse gases

A greenhouse gas (GHG) is any gaseous compound in the atmosphere that is capable of absorbing infrared radiation, thereby trapping and holding heat in the atmosphere. By increasing the heat in the atmosphere, greenhouse gases are responsible for the greenhouse effect, which ultimately leads to global warming. Carbon dioxide (CO_2) is a common GHG which is produced when something that contains carbon (C) combusts in an atmosphere that contains oxygen (O_2).

Our carbon footprint

Electricity (Scope 2) represents the biggest part (66%) of the Group's carbon footprint. Scope 1, 2 and 3 emissions are indicated in the carbon emissions calculated for the Group and are summarised in the table alongside:

Scope 1
Business fleet fuels and refrigerants
1 385 (2017)
1 501 (2016)
1 639 (2015)
11.0% (2017 % of total)

Scope 2
Electricity
8 282 (2017)
8 563 (2016)
8 876 (2015)
66.0% (2017 % of total)

Scope 3
Paper used, Scope 3 electricity, business air and road travel
2 891 (2017)
2 972 (2016)
2 968 (2015)
23.0% (2017 % of total)

	Emissions 2017	Emissions 2016	Emissions 2015	2017 % of Total	2017 / 2016 Variance
Fleet petrol	**823**	874	851	6.6%	(6.2%)
Fleet diesel	**383**	402	457	3.1%	(5.0%)
Generator diesel	**20**	43	35	0.2%	(116.7%)
Liquid petroleum gas	**12**	23	23	0.1%	(94.1%)
R22 Refrigerants	**22**	159	262	0.2%	(633.4%)
R410A Refrigerants	**125**	0	10	1.0%	100.0%
Electricity – Generated	**8 282**	8 563	8 876	66.0%	(3.4%)
Electricity – Transmission and distribution	**862**	913	957	6.9%	(5.9%)
Actual paper (kg) used	**1**	3	4	0.0%	(117.2%)
Business air (Domestic)	**270**	277	230	2.2%	(2.5%)
Business air (International)	**232**	219	253	1.8%	5.5%
Employee claimed – Petrol	**1 092**	1 201	1 273	8.7%	(10.0%)
Employee claimed – Diesel	**434**	359	252	3.5%	17.1%

2017 Total emissions

	Total carbon emissions per annum (TCO_2e)	Number of employees	TCO_2e per employee	Total number of person hours worked (HW)[1]	Tons CO_2e/HW[2]
2017	**12 558**	**4 291**	**2.9**	**7 826 784**	**0.0016**
2016	13 037	4 285	3.0	7 815 840	0.0017
2015	13 484	4 436	3.0	8 091 264	0.0017
2017 / 2016 Variance	(3.8%)	0.1%	(4%)	0.1%	(4.0%)

There are different types of GHGs and they vary in terms of their impact on earth, also referred to as the global warming potential (GWP). It is important to convert the different types of GHGs into a measurement that will allow us to compare apples with apples which is why we measure in terms of tonnes of carbon dioxide equivalent (TCO_2e). We use various conversion factors for each type of emission to get to the TCO_2e we show in the carbon footprint table. The TCO_2e in the table is simply: the (global warming potential) x (tonnes of specific GHG).

1 Calculated: 1 824 HW multiplied by number of employees at year end.
2 Average volume of carbon emissions per person hour worked.

During the 2017 carbon footprint assessment, the electricity consumption information for 2016 and 2015 was corrected. It was previously understated due to a supplier's measurement and billing errors which have now been rectified. A more appropriate carbon emissions conversion factor was used for all reporting periods included in the above tables for domestic air travel in light of the average distances of domestic flights in South Africa and Australia.

Additional Energy consumption information	2017	2016	2015
Total Electricity Consumption (MWh)	10 193 690	10 211 376	10 745 363
Total Indirect Energy Consumption (Gigajoules, GJ) – from electricity consumed	36 697	36 761	38 683
Total Indirect Energy Consumed per person hour worked (MJ / HW)	0,000005	0,000005	0,000005
Total Electricity Consumed per person hour worked (MWh / HW)	1,30	1,31	1,33

We continue our endeavours to keep our energy consumption and carbon footprint as low as possible as evident in the above tables and through the following initiatives:

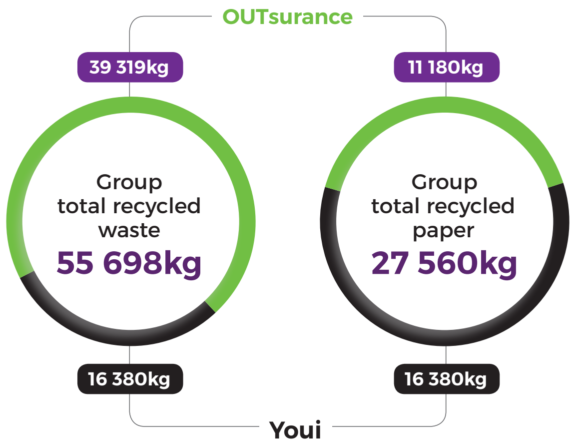
- Energy saving projects and improved facilities management have resulted in more energy efficient buildings.
- Carbon reduction projects include geyser timers, energy saving LED lights and air-conditioning that deactivates during periods of inactivity.
- Night-watchman Enterprise Solutions are used to power off our idle call centre computers outside business hours.
- The installation, at the end of 2016, of 810 solar panels which generate on average approximately 25 000 kWh energy per month.
- A reliable online system for our service providers which conducts fast, secure online transactions that requires the least amount of paper possible.
- Our clients are encouraged to receive their documentation via email rather than hard copies in order to reduce the carbon emissions associated with paper usage. All policy documentation is also available on our website *www.outsurance.co.za* for download.

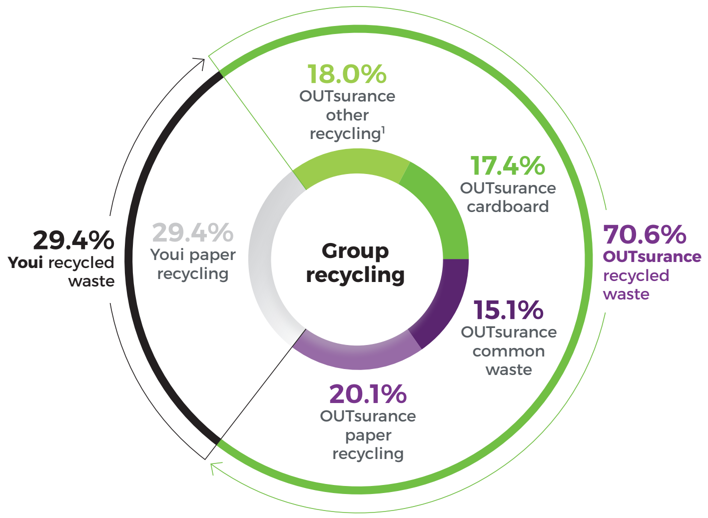
Southern Africa	2017	2016	2015	% Change (2016 / 2017)
Electronic Document Ratio (EDR)[1]	85.2%	83.1%	80.8%	2.1%
Electronic Document Ratio – excluding 'welcome packs'	91.3%	88.2%	86.4%	3.1%

1 Electronic Document Ratio (EDR) measures the total number of electronic policy documents distributed to clients expressed as a percentage of all the documents sent to clients.

Managing water and waste

- OUTsurance is registered for the storing, handling and/or use of hazardous substances. We recycle our waste in an environmentally friendly manner through certified recyclers.
- The OUTsurance campus canteen uses South African Bureau of Standards (SABS) approved cleaning chemicals that have been tried and tested for use in the food industry.
- We also gather rain water from the roof, which is topped up by council water for emergencies. The water is used for our carwash as well as for flushing our bathrooms should there be water restrictions.





1 Combination recycling of E-waste, mixed waste, glass, mixed plastic, tin steel and aluminium, phones and cables and tetrapack.

Risk management

A Board-approved Group Risk Management Strategy and Framework (GRMS) forms the foundation of the group's risk management system and processes. The risk management system includes various strategies, policies and procedures for identifying, measuring, monitoring, managing, controlling, mitigating and reporting of all current and emerging material risks to which the companies and Group may be exposed.

The Board, senior management and the risk management department work with the risk owners in the business with a view to ensure that risk management is embedded in all operations whilst managing the group of companies in terms of the business strategy and goals. This approach is key to an effective risk management system and practices and also to ensure that risks are managed in line with the Board-approved risk appetite.

Regular risk management reports inform the Board and its committees as well as senior management and risk owners about the risk profile of the respective insurers as well as the Group. The evaluation of the effectiveness of the risk management function takes place on an annual basis and the risk management system is reviewed on an annual basis by the internal audit function.

Risk appetite

A business profits from taking desired risks, but will only generate a sustainable profit from its activities if the risks are adequately managed and controlled to avoid or minimise the impact of adverse outcomes. OUTsurance's approach to risk management is to establish an effective control environment to manage material risks to its business and customers.

The key business objectives and values, and related material risks addressed within our risk management strategy are to ensure sustainability, profitability and optimal return on capital, and to safeguard policyholders' interests. As such, the high-level description of the Group's risk appetite is as follows:

- A balanced level of risk is desirable to achieve an optimal return on risk-adjusted capital, sustainability and profitability. Risks of a business nature which need to be taken will be accepted at a moderate level.
- A minimum level of risk will be tolerated in relation to the protection of policyholders' interests. Risks which impact on policyholder' interests must be tightly managed.

A detailed risk appetite framework which is approved by the Board is in place. It provides a breakdown of the risk appetite and key risk indicators for each main risk type. Regular assessments of actual key risk indicator measurements against the agreed risk appetite takes place and are reported on to various forums in the Group and the Board. These assessments also form part of our annual own risk and solvency assessment (ORSA).

Risk culture

At OUTsurance we endeavour to create a risk-aware culture. This is defined as the system of values and norms of behaviour that influence the decisions and actions of staff and their ability to identify, understand and act on the risks that the company faces, to make educated risk-related decisions on a consistent basis within the risk appetite and ultimately achieve the strategic goals and objectives of the company. It is values based and ethics driven.

The tone is set from the top and leadership communication is crucial to ensure that our purpose, values, acceptable behaviour and risk appetite are communicated and understood. Enablers, such as procedures, policies, guidelines, processes and training interventions, serve to reinforce and support the message communicated about the desired risk culture. The actual risk culture manifests and is demonstrated through our conduct, behaviours, relationships and various business and performance results.

The control environment

The Group has the following control functions in place: internal audit, risk management, compliance and actuarial. The internal control system serves to provide the Board with reasonable assurance that our businesses are managed and operated:

- Within the applicable laws and regulations as well as industry codes of conduct;
- In accordance with the delegation of authority, business strategy and objectives; and
- In accordance with company policies and procedures.

OUTsurance relies on an effective control environment to manage the significant risks to its operations.

Combined assurance

OUTsurance follows a combined assurance model, which is a three-layered coordinated assurance approach to ensure the integration, coordination and alignment of risk management and assurance processes to optimise and maximise the level of risk, governance and control oversight in the group. This model is illustrated in the table below.

The three lines of defence provide a sound governance model which promotes transparency, accountability, consistency and segregation of roles. The first line assurance is provided by the management team, the second line assurance providers are the risk, compliance, actuarial control and quality assurance departments. The third line of defence comprises the internal and external auditors and statutory actuaries.

The combined assurance forum serves to ensure that the objectives of the model are achieved and reports in this regard to the Board's audit, risk and compliance committee.

Combined Assurance Model – three lines of defence

	First line of defence	Second line of defence	Third line of defence	
	1 Management oversight	2 Management of risk & compliance	3 Independent internal assurance	Independent external assurance
Objective	Setting strategy, performance measurement, establishing & maintaining risk management, compliance, control & governance across the business.	Providing effective risk management & compliance framework and systems for sound decision making, planning and prioritisation of the business activities.	Provides independent & objective assurance of the overall adequacy and effectiveness of governance, risk management & control as established by the first and second layers of defence.	
Reporting lines	EXCO, OPSCO, Board. Providing direction, guidance and oversight over the focus areas.	Internal Committees, Board Committees, Board, Regulators.	Internal Committees, Board Committees, Board, Regulators.	Board Committees, Board, Regulators.
Assurance providers	Management	Risk Management, Compliance & Actuarial Control Functions, Quality Assurance.	Internal Auditors & Internal Statutory Actuaries.	External Auditors, Statutory Actuaries & Regulatory Inspectors.
	Line functions that own & manage risks	Specialist functions that facilitate & oversee risk management & compliance.	Internal third line assurance.	External third line assurance.

The risks we face

Our risks are classified broadly into strategic, financial and operational risks in terms of the risk classification system. Detailed and matured risk registers are maintained through collaboration between risk owners and the risk management function through effective processes to identify, assess, manage, monitor and mitigate risks.

The governance structures receive regular reports on the risk profiles and top risks as well as key risk indicators monitored for each entity in the group in line with the Board-approved risk appetite and risk management strategy. The main risks are summarised below.

The risk	Context and impact	Mitigation
Reputational risk	Our brand and reputation are important to us. Stakeholders should associate our name with a credible, long-term sustainable and trustworthy insurance group where they always get something out. In a group of companies there is the risk of brand contagion where an event relating to one entity may affect other entities in the group.	We have a corporate value of providing awesome service to our clients and this remains a focus area where we seek continuous improvement as it is key to our efforts to protect our reputation. Behaviour that can harm our reputation and credibility is closely monitored and managed through various initiatives.
Inadequate transformation progress	Our endeavours to build a proudly South African transformed business may show inadequate or unsatisfactory progress to internal and external stakeholders for various reasons.	This is a strategic agenda point for senior management and the board, driven through the relevant governance structures. Continuous monitoring and reviewed goals and dedicated focus.
Cyber and information security risk	There are various risks linked to cyber risks, information technology, our networks and our business operating systems. Information security and cyber-attacks are main risks as well as the possible disruption of operating systems.	We have numerous policies and processes in place to ensure the continuity and stability of our information technology systems, recovery in a possible disaster situation, the security of data and that of our operating systems are aligned with business objectives and strategy.
Economic risk	Poor economic conditions may result in less favourable business conditions leading to spending cuts and cancellation of policies.	We endeavour to offer value for money products and to retain our clients. Our scientific underwriting model which is based on the risk profile of each client, ensures that we offer appropriate premiums.
Regulatory compliance risk	Regulatory compliance describes the goal to ensure that we are aware of and take reasonable steps to comply with the relevant laws and regulations. Regulatory changes also affect business processes, procedures, increase costs.	Training and awareness programmes are provided. Our governance processes are pro-active in identifying and acting on legislative changes. Compliance consultations and assessments of our business practices and processes support other efforts.

The risk	Context and impact	Mitigation
Market conduct risk	Market conduct risks are managed to ensure good and fair customer outcomes. Placing the client's best interest at the heart of everything we do has always been part of our corporate culture. We ensure that we deliver the desired outcomes and live the fair treatment principles.	We carefully identify and assess any possible market conduct risk and behaviour which is not aligned with the principles of Treating Customers Fairly ("TCF"). Various initiatives to monitor and report on such risks are in place and processes and procedures to support TCF outcomes are embedded in our operations, enabling a risk aware culture and leading from the top.
Operational risk	Operational risk refers to the exposure to potential losses caused by internal shortcomings and/or failures of processes, people and systems. Internal shortcomings include errors and fraud.	These risks are managed through various processes and procedures to identify, mitigate and report on operational risks. The internal control environment is subject to reviews by the Control Functions. The three lines of defence create a safety net through combined assurance activities.
Disruptive technology & competitor risk	Disruptive technology, which include trends and changes in the industry or in business in general can adversely affect us if we do not evolve and innovate. Changes in the competitive environment can put pressure on our company to make changes to product offerings, processes, systems or policies.	We maintain our innovative focus, we strive to be pro-active, we monitor technological, global and industry trends and developments to ensure that our products and service offerings remain relevant.
Underwriting risk	Due to the unpredictable nature of our business and the many factors that can affect business volumes, profitability and claim incidents, underwriting risk is a major consideration for any insurer to ensure long term sustainability and protecting the interest of policyholders.	Our underwriting processes are based on a trusted and robust underwriting philosophy of prudent consideration of risk factors. We have a documented underwriting risk policy and underwriting risk indicators are monitored closely and regularly. Our reinsurance programme assists in managing the Groups underwriting risk.
Marketing & advertising risk	Failure to have relevant marketing strategies in place may result in a decline in leads and business growth. It affects the overall sustainability of a direct insurer.	There are internal marketing committees responsible for screening, approval and monitoring of all marketing campaigns and material. Regular reporting takes place on key performance indicators including lead volumes.

Embedded Value

Embedded value of covered business

Actuarial Practice Note (APN) 107 governs the way in which embedded values of life insurance companies are reported.

The embedded value of covered business is the present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business. It is calculated on an after-tax basis taking into account current legislation and known future changes.

The embedded value of covered business consists of:

- Adjusted net worth (ANW); plus
- The value of in-force covered business; less
- The cost of required capital.

The total profit recognised over the lifetime of a policy is the same as under International Financial Reporting Standards (IFRS) but the timing of recognition of profits is different.

Covered business is defined as business regulated by the Financial Services Board (FSB) as long-term insurance business written in OUTsurance Life Insurance Company Limited (OUTsurance Life).

The ANW represents the excess of assets over liabilities on the statutory valuation method.

The value of in-force covered business is the discounted value of the projected stream of after-tax shareholder profits arising from existing in-force covered business. These shareholder profits arise from the release of margins under the statutory basis of valuing liabilities which differs from the release of profits on the published accounting basis.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory Capital Adequacy Requirement (CAR) calculated in accordance with Standard Actuarial Practice (SAP) 104 plus any additional capital considered appropriate by the Board given the risks of the business. The required capital has been set at 1.5 x CAR, which is the target CAR Ratio.

The cost of required capital is the present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.

The value of new business is calculated as the discounted value, at point of sale, using a risk discount rate, of the projected stream of after-tax profits for new covered business issued during the past twelve months. The value of new business is also reduced by the cost of required capital for new covered business. The value of new business has been calculated on closing assumptions. No adjustment has been made for the discounting of tax provisions in the embedded value.

Profitability of new covered business is measured by the ratio of the net value of new business to the present value of new business premiums (gross of reinsurance), which is defined as the discounted value, using a risk discount rate, of expected future premiums on new recurring premium business.

The return on embedded value is calculated by expressing the embedded value earnings as a percentage of the embedded value at the beginning of the period.

Embedded value of covered business

	2017 June R'000	2016 June R'000	% Change
Covered business ANW	527 859	431 908	22.2%
Free surplus	379 240	276 449	37.2%
Required capital	148 619	155 459	(4.4%)
Present value of in-force business	516 151	434 367	18.8%
Cost of required capital	(208 569)	(184 001)	13.4%
	835 441	682 274	22.4%
Return on embedded value	22.5%	15.7%	

The embedded value of OUTsurance Life increased by 22.4% since June 2016, with the return on embedded value increasing to 22.5% from 15.7% in June 2016. Significant contributors to the growth in the embedded value are valuation basis changes, the maturing of the asset-liability matching strategy and a reduction in the risk premium assumed in the risk discount rate. The risk discount rate is derived using the capital asset pricing model (CAPM) approach, with the Beta and market risk premium (MRP) combining to calculate an overall risk premium which is added to the risk free rate. Previously, the Beta was set on a Group level, with more weighting on general insurance business and the MRP was set based on historical pure equity premiums. For this financial year, the Beta was set at 1 and the MRP at 4% which is considered conservative as a Beta of less than 1 and a MRP of between 3% and 4% is deemed the best estimate. Overall, the assumed risk premium decreased from 5.0% to 4.0%.

The table below shows the reconciliation of ordinary shareholders' funds to covered business ANW:

	2017 June R'000	2016 June R'000
Ordinary shareholders funds on a published basis	638 024	526 718
Allowance for deferred acquisition costs in policyholder liabilities (net of tax)	(110 165)	(94 810)
Covered business ANW	527 859	431 908

Embedded value *continued*

Embedded value earnings

The tables below show the embedded value earnings of OUTsurance Life for the twelve months under review:

	Adjusted net worth R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
at June 2017				
Embedded value at end of the period	527 859	516 151	(208 569)	835 441
Movement in available-for-sale reserve	501	–	–	501
Embedded value at beginning of the period	(431 908)	(434 367)	184 001	(682 274)
Embedded value earnings for the period	96 452	81 784	(24 568)	153 668
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	15 355			
Headline earnings	111 807			
at June 2016				
Embedded value at end of the period	431 908	434 367	(184 001)	682 274
Capital injected	(50 000)	–	–	(50 000)
Movement in available-for-sale reserve	112	–	–	112
Embedded value at beginning of the period	(331 452)	(383 738)	168 594	(546 596)
Embedded value earnings for the period	50 568	50 629	(15 407)	85 790
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	9 383			
Headline earnings	59 951			

Embedded value *continued*

Components of embedded value earnings

The tables below show the components of the embedded value earnings of OUTsurance Life for the year under review:

	Adjusted net worth R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
at June 2017				
Value of new business at point of sale	–	46 115	(20 994)	25 121
New business strain at point of sale	(136 944)	136 944	–	–
Expected return on covered business	–	60 848	(11 725)	49 123
Expected profit transfer	141 662	(141 662)	–	–
Operating experience variances	26 987	(33 668)	13 474	6 793
Operating assumption and model changes	20 898	(3 717)	31 235	48 416
Embedded value earnings from operations	52 603	64 860	11 990	129 453
Investment return variances	29 163	–	–	29 163
Effect of economic assumption changes	14 686	16 924	(36 558)	(4 948)
	96 452	81 784	(24 568)	153 668
at June 2016				
Value of new business at point of sale	–	62 560	(23 391)	39 169
New business strain at point of sale	(133 808)	133 808	–	–
Expected return on covered business	–	51 285	(923)	50 362
Expected profit transfer	129 814	(129 814)	–	–
Operating experience variances	12 563	(49 106)	(38 780)	(75 323)
Operating assumption and model changes	5 045	1 916	(470)	6 491
Embedded value earnings from operations	13 614	70 649	(63 564)	20 699
Investment return variances	33 402	–	–	33 402
Effect of economic assumption changes	3 552	(20 020)	48 157	31 689
	50 568	50 629	(15 407)	85 790

Value of new business

The table below shows the value of new business written for the preceding twelve months:

	2017 June R'000	2016 June R'000
Value of new business (at point of sale)		
Gross value of new business	46 115	62 560
Cost of required capital	(20 994)	(23 391)
	25 121	39 169
Present value of new business premiums	578 922	693 145
New business margin	4.3%	5.7%

Embedded value *continued*

Sensitivity analysis

The table below provides an analysis of the sensitivities of the embedded value of the in-force book:

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change R'000
Value of in-force sensitivity analysis				
at June 2017				
Base value at 30 June 2017	516 151	(208 569)	307 582	–
1% increase in risk discount rate	497 798	(207 734)	290 064	(5.7%)
1% decrease in the interest rate environment	545 585	(245 322)	300 263	(2.4%)
10% decrease in maintenance expenses	530 238	(208 449)	321 789	4.6%
10% decrease in new business acquisition expenses	516 151	(208 569)	307 582	–
10% decrease in lapse rates	517 933	(225 678)	292 255	(5.0%)
5% decrease in morbidity and mortality rates	540 737	(208 730)	332 007	7.9%
at June 2016				
Base value at 30 June 2016	434 367	(184 001)	250 366	–
1% increase in risk discount rate	418 625	(184 367)	234 258	(6.4%)
1% decrease in the interest rate environment	461 690	(219 298)	242 392	(3.2%)
10% decrease in maintenance expenses	448 968	(183 819)	265 149	5.9%
10% decrease in new business acquisition expenses	434 367	(184 001)	250 366	–
10% decrease in lapse rates	425 693	(197 367)	228 326	(8.8%)
5% decrease in morbidity and mortality rates	455 368	(183 458)	271 910	8.6%

The table below provides an analysis of the sensitivities of the value of new business written:

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change R'000
Value of new business sensitivity analysis				
at June 2017				
Base value at 30 June 2017	46 115	(20 994)	25 121	–
1% increase in risk discount rate	40 995	(20 185)	20 810	(17.2%)
1% decrease in the interest rate environment	53 414	(33 045)	20 369	(18.9%)
10% decrease in maintenance expenses	48 723	(20 968)	27 755	10.5%
10% decrease in new business acquisition expenses	60 481	(20 994)	39 487	57.2%
10% decrease in lapse rates	57 880	(22 119)	35 761	42.4%
5% decrease in morbidity and mortality rates	49 809	(21 106)	28 703	14.3%
at June 2016				
Base value at 30 June 2016	62 560	(23 391)	39 169	–
1% increase in risk discount rate	57 071	(22 182)	34 889	(10.9%)
1% decrease in the interest rate environment	71 177	(38 920)	32 257	(17.6%)
10% decrease in maintenance expenses	66 307	(23 344)	42 963	9.7%
10% decrease in new business acquisition expenses	76 674	(23 391)	53 283	36.0%
10% decrease in lapse rates	71 616	(26 963)	44 653	14.0%
5% decrease in morbidity and mortality rates	66 779	(23 451)	43 328	10.6%

Embedded value *continued*

Notes to the embedded value of covered business

Economic assumptions

The following economic assumptions were used in calculating the embedded value at 30 June:

	2017 June R'000	2016 June R'000
Gross investment return, risk discount rate and inflation		
Point used on the relevant yield curve[1]	11.1	11.8
Fixed-interest securities (bond curve – non ALM)	11.8%	11.2%
Fixed-interest securities (swap curve – ALM)	9.7%	8.9%
Inflation rate	9.1%	9.4%
Risk discount rate	15.8%	16.2%

1 The point provided is an estimate of the full curve used in the embedded value calculation.

Corporate governance

Our governance framework

The Board of Directors of OUTsurance Holdings Limited as well as the Boards of the insurers in the Group have adopted a Group Governance Framework to ensure the prudent management and oversight of the insurance business of the OUTsurance Group in order to protect the interests of policyholders and other stakeholders.

Our Board of directors

The OUTsurance Holdings Board's primary responsibility is to oversee, direct and control the affairs and performance of the Group's operations in a transparent and responsible manner and to drive the sustainable growth of shareholder interests. The Board recognises its responsibility to ensure that there is effective corporate governance and risk management in the Group and to uphold high standards in terms of regulatory compliance, social, environmental and ethical matters. The Board of directors oversees the activities of the group ensuring that these are in line with best practice and that the conduct of employees has the fair treatment of customers at heart.

Board members have full and unrestricted access to management, information and property. The Board is guided by a formal charter. Amongst others, the charter gives the Board the responsibilities to approve corporate strategy set to achieve objectives, to ensure that there are appropriate policies and procedures, effective risk management and governance, as well as reliable, transparent financial and regulatory reporting. The Board reviews and approves business strategy and plans, monitors financial performance and evaluates the successful implementation of strategic decisions.

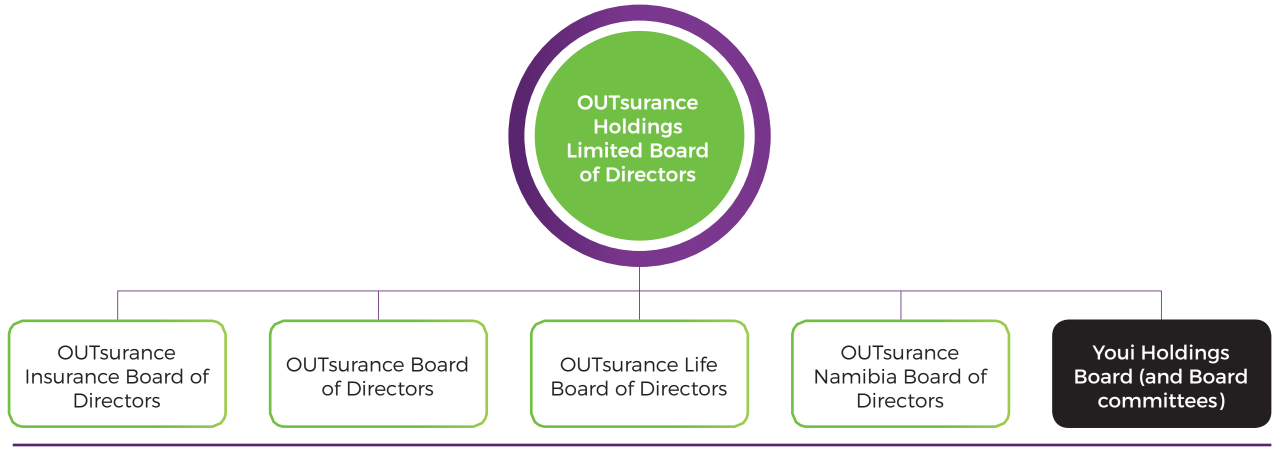
The Board is supported by subsidiary boards and Board committees in performing its oversight responsibilities and ensuring that the company activities and culture is aligned with our corporate values and policies.

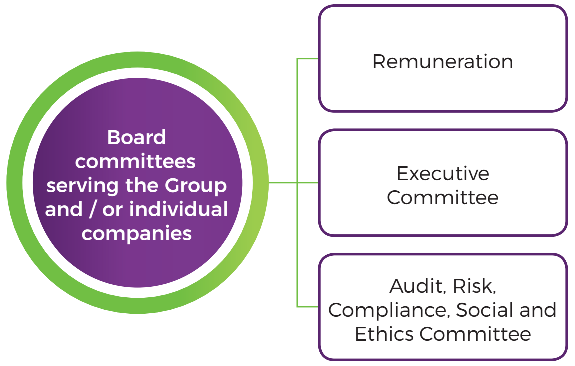
Delegation of authority

The Board delegates its authority as stipulated in the delegation of authority document which is reviewed and approved on an annual basis. This allows efficient management of the daily affairs of the companies in the Group within the framework of the delegation of authority. Other governance policies as well as company procedures are maintained in a central register and are reviewed by the respective governance structures.

Insurer and licenced entities Boards and Board committees

The Group's performance in respect of financial and non-financial objectives are overseen by the respective Boards of directors and Board committees in the Group as depicted on the opposite page.





The various Board and other management committees which exist to ensure effective governance and oversight for insurers and other licenced entities in the Group in the Southern African, Australasian and Namibia operations respectively, all ultimately report back into the OUTsurance Holdings Board committees. The Board committees facilitate the discharge of specific Board responsibilities and provide dedicated and skilled focus on particular areas.

The Board committees have the appropriate resources, skills, expertise, independence and authority. The Group remuneration Board committee consists of three non-executive members and the chairperson in an independent director. The Group audit, risk, compliance, social and ethics committee comprises three independent non-executive members and the chairperson is an independent director. The relevant formal charters and policies are in place.

Board and committee evaluation

The Board, the Board committees and control functions undergo annual effectiveness evaluations through a formal evaluation process which is concluded by providing comprehensive reports to the relevant governance structures, including the Board. The evaluations conducted for the year revealed no material concerns and feedback provided indicated that the Board, the Board committees and the control functions operated effectively and as stipulated by the respective charters.

The directors confirmed that Board reports are detailed, informative and comprehensive and that all relevant aspects of the business were dealt with in the reports and at the meetings which were reported to be well organised and effectively run.

Board composition, skills and expertise

The OUTsurance Holdings Board consists of an appropriate mix of executive and non-executive directors. The Board comprises 13 members (including an alternate director) of whom 10 are non-executive directors. The majority of non-executive directors are also independent. The average length of service of a director on the Board is 11.3 years, with the average length of service for non-executive directors being 10.7 years and 13.3 for executive directors. The Board composition includes one female independent director. Two of the independent directors are from the historically disadvantaged South Africans (HDSA) group.

The chairperson of the Board is assisted by a lead independent director as and when required.

Formal procedures are followed for the appointment of new Board members. The Group's Fit and Proper Policy is applicable to all responsible persons as defined in the policy including directors. An informal orientation programme is available to incoming directors. All directors have unlimited access to the services of the company secretary, who is responsible to the Board to ensure that proper corporate governance principles are adhered to.

Below is more information regarding the directors of the OUTsurance Holdings Board:

Directorate

Mr Laurie Dippenaar (68)
Non-executive director, Chairman
M.Com – University of Pretoria, CA (SA)
Appointed: 27 January 1998

Mr Kuben Pillay (56)
Independent Director
BA, LLB, MCJ (USA)
Appointed: 19 February 2014

Mr Alan William Hedding (66)
Independent director
B.Com; B.Compt (Hons); CA (SA)
Appointed: 10 October 2013

Ms Judy Madavo (58)
Independent Director
BA (Hon) Sociology and Social Administration
MSc Medical Sociology – University of London / Bedford College
Appointed: 8 November 2004

Mr George Louis Marx (63)
Independent director
BSc (Econ) Cum Laude – Potchefstroom / Northwest, F.I.A.C
Fellow – Institute of Actuaries (London);
Fellow – Institute of Risk Management (SA), CFP
Appointed: 20 August 2008

Mr Rudolf Pretorius (55)
Independent director
B.Com (Hon), CA (SA)
Appointed: 27 January 1998

Mr Herman Lambertus Bosman (48)
Non-executive director
BCom (Law), LLB, LLM, CFA
Appointed: 5 November 2015

Mr Neville Nightingale (71)
Lead Independent Director
F.I.A.C; PMD from Harvard
Appointed: 8 March 1999

Mr Willem Roos (45)
Executive director
B.Com (Hon) (Actuarial Science), FASSA
Appointed: 30 April 2001

Mr Howard Aron (51)
Non-Executive Director*
Diploma Business Management – Newport University
Diploma BM(EE)
Appointed: 30 April 2001
(*Resigned as Executive Director 1 March 2017)

Mr Marthinus Visser (43)
Alternate executive director
B.Com (Hon) Actuarial Science, FASSA, FIA
Appointed: 20 August 2009

Mr Peter Cooper (61)
Non-executive director
B.Com (Hons) – University of Cape Town,
CA (SA), Higher Diploma in Income Tax – Wits
Appointed: 11 May 2000

Mr Francois Knoetze (54)
Non-executive director
B.Com (Hon), FIA
Appointed: 19 February 2014

Proceedings 2017

The Board met five times during the period under review. Four meetings were scheduled meetings and one special Board meeting was convened in January 2017. The directors' attendance of meetings is summarised in the next table. The meeting attendance ratio for the year was 91%.

Board meetings and attendance

	Aug 2016	Nov 2016	Jan 2017	Feb 2017	May 2017
Mr Laurie Dippenaar (Chairman)	✓	✓	✓	✓	✓
Mr Neville Nightingale	✓	✓	✓	✓	✓
Mr Kuben Pillay	✓	✓	✓	✓	✓
Mr Alan Hedding	✓	A	✓	✓	✓
Ms Judy Madavo	✓	✓	A	✓	✓
Mr George Marx	✓	✓	✓	A	✓
Mr Rudolf Pretorius	✓	✓	✓	✓	✓
Mr Peter Cooper	✓	✓	✓	✓	✓
Mr Francois Knoetze	A	✓	✓	✓	✓
Mr Willem Roos	✓	✓	✓	✓	✓
Mr Howard Aron	✓	A	A	✓	✓
Mr Herman Bosman	✓	✓	✓	✓	✓
Mr Marthinus Visser (*alternate to H Aron)	✓	✓	A	✓	✓

Notes:
A – Apologies noted
Attendance ratio 91%
November 2016 H Aron's alternate attended

Executive committee

Responsibility for implementing strategies approved by the Board and managing the day-to-day affairs of the Group is mandated to the OUTsurance Holdings executive committee by the Board. Chaired by the Group's chief executive officer, the committee meets every two weeks.

Mr Gouws resigned as the chief executive officer of OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited on 23 November 2016 with Mr Roos taking over such responsibilities until 1 July 2017, when Mr Danie Matthee took over as CEO of the Southern African operations. The members of the executive committee are tabled below:

OUTsurance EXCO

Mr Willem Roos
Group Chief Executive Officer

Mr Jan Hofmeyr
Group Chief Financial Officer

Ms Lynette Bisschoff
Chief Risk Officer

Mr Suren Naidoo
Head of Human Resources

Mr Wilbur Smith
Chief Operating Officer: Service and Client Care

Mr Matt Cole
Head of Information Technology

Mr Marthinus Visser
Chief Actuary

Ms Keneiloe Selamolela
Head of Training

Mr Peter Cronje
Head of Marketing

Mr Burton Naicker
Chief Operating Officer: Claims and Legal

Youi EXCO

Mr Danie Matthee
Chief Executive Officer

Mr Frank Costigan
Deputy Chief Executive Officer

Mr Bert Bakker
Chief Operating Officer

Mr Douglas Inman
Group Chief Information Officer

Mr Scott North
Chief Risk Officer

Ms Hanneli Combrink
Chief Financial Officer

Mr Charlie Pollack
Chief Actuary

Mr Hugo Schreuder
Chief Marketing Officer

Mr Ivan Pierce
Head of Human Capital

Operational Committee
Internal Risk Committee
Internal Investment Committee
Reinsurance Committee
Claims Committee
Combined Assurance Committee
System Strategic Committee
Transformation Committee

Operational Committee
Internal Risk Committee
Internal Investment Committee
Reinsurance Committee
Claims Committee
Combined Assurance Committee
System Strategic Committee

Report by the audit risk and compliance committee

Composition

The OUTsurance Holdings Limited audit, risk and compliance committee is comprised of three independent non-executive directors and is chaired by the lead independent director. The Group's chief executive officer, chief financial officer, chief risk officer, audit executive, external auditors and other assurance providers attend committees in an ex-officio capacity. The chief risk officer, audit executive and external auditors meet independently with non-executive members as and when required.

Role

The audit, risk and compliance committee is appointed by the Board and has a formally approved charter prescribing the following duties:

- Nominate the appointment of the independent external auditor in accordance with the Companies Act requirements;
- Monitor, evaluate and review internal audit, risk management, compliance, financial accounting and reporting practices;
- Monitor, evaluate and review the functioning of the internal control environment;
- Monitor, evaluate and review corporate governance practices; and
- Monitor, evaluate and review social and ethics practices.

Annual report

The committee is aware of the significance of accounting policies in presenting financial results. The committee has reviewed the accounting policies and is satisfied that they are in compliance with the International Financial Reporting Standards (IFRS).

Internal audit

Internal audit is a key independent assurance provider to the audit, risk and compliance committee. Accordingly, the committee approves the internal audit charter and the annual internal audit plan. The audit executive is responsible for reporting on the findings of the internal audit work against the agreed internal audit plan to the committee on a regular basis and has direct access to the committee primarily through its chairman.

The committee has accordingly assessed the performance of the audit executive and is satisfied that the internal audit function is independent and appropriately resourced, and that the audit executive has fulfilled the obligations of the position.

During the year internal audit performed a review of the adequacy and effectiveness of the Group's internal control environment. Based on the results of these reviews, internal audit confirmed to the committee that nothing has emerged to indicate material control weakness in the risk management and internal control process including internal financial controls whether from design, implementation or operation. This written assessment by internal audit formed the basis for the committee's recommendation to the Board in this regard.

Combined assurance

The combined assurance forum has the objective of overseeing the internal controls assessments performed by internal audit, risk management and external audit. The forum is composed of the audit executive as chairman, chief risk and compliance officer, external audit, IT risk manager and the chief financial officer. The primary function of the combined assurance forum is to ensure that the effectiveness of all material internal financial controls is assessed at least annually by either internal or external assurance providers or both.

Finance function expertise

The audit, risk and compliance committee considers the expertise and experience of the chief financial officer and is satisfied that the appropriate requirements have been met. The committee is also satisfied with the expertise and adequacy of the resources of the finance function and experience of the senior members of management responsible for it.

External audit

At the annual general meeting held in November 2016, shareholders approved the committee's nomination of PricewaterhouseCoopers Inc. as auditor of the Group and Company until the next annual general meeting. The committee, in consultation with executive management, agreed to the engagement letter, terms of engagement, audit plan and budgeted audit fees for the 2017 financial year.

There is a formal procedure that governs the process whereby auditors are considered for non-audit services.

The committee is satisfied that the external auditors were independent of the Group and Company as set out in Section 90(2) of the Companies Act, which includes consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors for the Group and compliance with criteria relating to the independence or conflict of interest as prescribed by the Independent Board of Auditors. Requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate its claim to independence.

Regulatory environment

The audit, risk and compliance committee monitors the ever changing regulatory and legislative compliance landscape applicable to the Group's operations. Progress and compliance is monitored through regular management reporting. Of particular interest is the adoption of the Solvency assessment and Management (SAM) regime. The implementation date for SAM was expected in 2017. However, this has been delayed with the estimated implementation date being extended to 1 July 2018 to accommodate the legislative timeline of the Insurance Bill.

The committee is satisfied with the implementation progress of the SAM requirements as well as the skills and expertise of management in this regard.

Composition and oversight

The audit, risk and compliance committee is accountable to fulfil the audit and risk committee functions, duties and oversight for OUTsurance and OUTsurance Life Insurance Companies Limited. The composition, knowledge, experience and size of the audit, risk and compliance committee complies with the requirements of Section 22 of the Short Term Insurance Act 53, 1998 and Section 23 of the Long Term Insurance Act 52, 1998. The audit, risk and compliance committee at all times includes members with technical, accounting and actuarial skills as well as experience in both long and short-term insurance. The audit, risk and compliance committee ensures that adequate time and oversight is provided to all licenced entities.

Going concern

The audit committee has assessed the going concern status of the Group and Company and has accordingly confirmed to the Board that the Group and its trading operations will be a going concern for the foreseeable future.

Proceedings

Membership and attendance of the audit, risk and compliance committee meetings held during the period under review were as follows:

	Aug 16	Feb 17	May 17
Mr Neville Nightingale (Chairman)	✓	✓	✓
Mr George Marx	✓	✓	✓
Mr Alan Hedding	✓	✓	✓

N L Nightingale
Chairman
29 August 2017

Report by the remuneration committee

The remuneration committee (Remco) serves to review and assess the effectiveness of the Group's remuneration policy. It ensures that the policy is aligned with the risk management strategy of the Group and that it adequately reflects and protects the interests of major stakeholders.

Remco's key responsibilities include the review and approval of annual remuneration packages of employees and non-executive directors. During the evaluation of recommended remuneration packages and / or annual increases, Remco considers, within the context of the business plan, factors such as economic indicators, the Group's performance, comparisons to market salaries, salary survey data, outcomes of performance reviews and may seek independent advice or other relevant material, where required.

Committee members and meetings

The charter of the committee stipulates that there must be a minimum of three members of the Board serving as members of the remuneration committee, that the majority must be non-executive directors and that the chairman of the committee must be an independent director of the Board.

In the past year the committee comprised of the members listed below:

Remuneration Committee Members		Meeting Attendance June 2017
Mr Kuben Pillay (Chairman)	Independent director	✓
Mr Laurie Dippenaar	Non-Executive director	✓
Mr Peter Cooper	Non-Executive director	✓
Mr Willem Roos	Executive director	✓

The committee meets at least once a year and special meetings may be convened if required. In the past year, one meeting was held in June 2017 and the attendance of members is noted in the above table.

Remuneration policy

A remuneration policy is in place and approved by the OUTsurance Holdings Board of directors for the entities in the Southern African Group of companies. Remco, on behalf of the Board, adopts and oversees the effective implementation of the remuneration policy. The purpose of the policy is to prevent excessive or inappropriate risk taking, in line with the Board's identified risk management strategy and appetite. It is consistent with our business strategy and performance, thus protecting the long-term interests of our group and our stakeholders.

The remuneration policy for the Australian and New Zealand subsidiaries of Youi Holdings (Pty) Ltd is documented in a separate policy as approved by the Youi Holdings Board. This policy is aligned with the OUTsurance Holdings Group Policy.

The remuneration policy outlines key components and objectives of how OUTsurance considers, reviews and approves all employees' and directors' remuneration, inclusive of executive management and heads of control functions as well as other employees whose actions may have a material impact on the risk exposure of the company.

The above-mentioned components and objectives include the:

- Group's remuneration objectives;
- Mix or types of remuneration arrangements, including fixed and variable components;
- Measurement of an individual employee's performance; and
- Structure for the approval of remuneration arrangements, including, but not limited to, performance-based remuneration components.

The Group's primary remuneration objectives are to ensure that:

- The total remuneration payable is commensurate with its business plan, risk appetite and objectives;
- The total remuneration does not limit the company from achieving key growth and profitability targets, or its ability to strengthen its capital base;
- Individual employee remuneration remains adequate for attracting and retaining quality employees;
- All individual employee remuneration is aligned to, but not limited only to, company role requirements; their performance against set objectives; general conduct and level of experience; and
- Remuneration practices give effect to the principle of equal pay for work of equal value, ensuring fairness and equity.

The basis of remuneration:

- Is viewed in conjunction with wider people-management practices to support a consistent approach to achieving desired culture and behaviour in the organisation;
- Is performance related and linked to delivery against agreed targets and objectives. In defining an individual's performance, both financial and non-financial performance are considered, where applicable;
- Is benchmarked to reliable and relevant market data specific to the financial services and insurance sector;
- Remuneration design and management is considered a key business competence and receives the required focus and resources;
- Individual and Group performance objectives are aligned to business plans and performance reviews on all levels are done at least once a year; and
- Underperformance is dealt with in line with agreements, policies and objectives.

Information regarding directors' and prescribed officers' emoluments is available on page 126.

Kuben Pillay
Chairman
29 August 2017

Group annual financial statements

for the year ended 30 June 2017

The reports and statements set out below comprise of the consolidated financial statements presented to the shareholders:

Statement of responsibility by the Board of directors

In accordance with Companies Act requirements, the directors of OUTsurance Holdings Limited are responsible for the preparation of the financial statements which conform with International Financial Reporting Standards (IFRS) and, in accordance with IFRS, fairly present the financial position of the Group and Company as at the end of the financial year and the comprehensive income and cash flows for that period.

The directors are ultimately responsible for the Group's system of internal control. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for Group assets. Accounting policies supported by judgements, estimates and assumptions which comply with IFRS are applied on a consistent and going concern basis.

Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. Systems and controls are monitored throughout the Group.

Based on the information and explanations given by management, internal audit and the audit, risk and compliance committee, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the Group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Group and Company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

It is the responsibility of the Group's independent external auditors to report on the fair presentation of the financial statements. Their unqualified report appears on pages 64 to 65.

The preparation of the financial statements for the year ended 30 June 2017 was supervised by JH Hofmeyr, Chief financial officer of the OUTsurance Holdings Group. The financial statements have been audited in compliance with section 30(2)(a) of Companies Act, 71 of 2008.

The financial statements for the year ended 30 June 2017 prepared in accordance with IFRS which appear on pages 54 to 55, and 60 to 163, were approved by the Board of directors on 29 August 2017 and are signed on its behalf by:

LL Dippenaar

Chairman
Signed: Sandton
Date: 29 August 2017

P Cooper

Non-executive director
Signed: Sandton
Date: 29 August 2017

Certificate by the Group company secretary

for the year ended 30 June 2017

As company secretary, I hereby confirm, in terms of section 88(2)(e) of the Companies Act of 2008, that for the year ended 30 June 2017, the Group and Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

M Ehlert

Company secretary
Signed: Centurion
Date: 29 August 2017

Directors' report

Nature of the business

OUTsurance Holdings Limited (the Company) is a public company and the holding company of the OUTsurance Group of companies (the Group). The Group conducts short-term and long-term insurance business and related investment activities. The Group operates in South Africa, Australia, New Zealand and Namibia.

An organogram of the Group is provided on page 2 of this report.

Annual report

The Board acknowledges responsibility for the integrity of this annual report. The Board believes that this report fairly represents the performance of the Group and Company.

Group results

A general review of the financial results of the Group and Company and the operations of its major subsidiaries is provided in the executive review on page 8. The results are presented in the statement of profit or loss and other comprehensive income on page 66. A segmental analysis is provided on page 89.

Dividends

Ordinary dividend

The following ordinary cash dividends were declared in respect of the 2017 financial year:

	Year ended 30 June	
Cents per share	2017	2016
Interim (declared 28 February 2017)	17,50	16,50
Final (declared 29 August 2017)	22,70	19,50
	40,20	36,00

The final dividend is payable on 04 October 2017 to shareholders registered on 29 September 2017.

Ordinary share capital

Details of the holding company's authorised and issued share capital is provided in note 24 to the financial statements.

During the year, OUTsurance Holdings Limited issued 280.7 million ordinary shares to the value of R2 355 million to shareholders, in exchange for ordinary shares in Main Street 1353 (Pty) Ltd which owns a 29.9% interest in British based insurance group Hastings Group Holdings PLC.

During the current year the Group converted 1000 authorised ordinary shares to 1000 authorised A preference shares having no par value or nominal value.

Shareholder analysis

The following shareholders have a beneficial interest of 5% or more in the issued share capital of the holding company:

	2017	2016
Firness International Pty Limited	80.3%	83.6%
OUTsurance Investment Trust	3.9%	6.4%
RMI Asset Company (Pty) Ltd	7.4%	–

Events subsequent to reporting date

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

Directorate and prescribed officers

The following individuals were directors of OUTsurance Holdings Limited throughout the period under review:

Directors		Date appointed
Mr LL Dippenaar	(Chairman)	27 / 01 / 1998
Mr H Aron		30 / 04 / 2001
Mr WT Roos	(CEO)	30 / 04 / 2001
Mr MC Visser	(alternate to H Aron)	20 / 08 / 2009
Mr P Cooper		11 / 05 / 2000
Mr PR Pretorius		27 / 01 / 1998
Mr NL Nightingale		08 / 03 / 1999
Ms J Madavo		08 / 11 / 2004
Mr G Marx		20 / 08 / 2008
Mr AW Hedding		28 / 05 / 2013
Mr F Knoetze		19 / 02 / 2014
Mr K Pillay		19 / 02 / 2014
Mr HL Bosman		05 / 11 / 2015

The following individuals were prescribed officers of the Group throughout the period under review:

Mr WT Roos	(Group CEO)
Mr MC Visser	(Group Chief Actuary)
Mr JH Hofmeyr	(Group CFO)

Mr E Gouws resigned as the CEO and director of OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited on 23 November 2016.

During the current year, Mr H Aron retired from his executive role as Joint Group CEO but will continue to serve on the board of OUTsurance Holdings Limited in a non-executive capacity.

Please refer to page 52 for the register of board meeting attendance.

Directors and prescribed officer emoluments

Details of director and prescribed officer remuneration, is provided in note 35 to the financial statements.

Audit, risk and compliance committee report

The report of the audit, risk and compliance committee appears on pages 54 to 55.

Management by third parties

The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders in Rand Merchant Investment Holdings Limited which has management control over OUTsurance Holdings Limited.

Directors' interest in contracts

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the Group.

Property and equipment

There is no change in the nature of the property and equipment of the Group or in the policy regarding their use during the year, other than that described below.

The Group is in the process of establishing a new head office for the Youi Group on the Sunshine Coast in Australia. The building will be completed by the end of 2017. The property will be owned by the Group.

Insurance

The Group adequately protects itself against the occurrence of specified events. The level of insurance cover is commensurate with the size and stature of the Group.

Subsidiaries and associates

Interests in subsidiaries and associates are disclosed in note 18 and 19 of the financial statements.

On 1 June 2017, OUTsurance Holdings Limited purchased 49% of the ordinary share capital of Main Street 1353 (Pty) Limited for a purchase consideration of R3 033 049 318. Main Street owns 29.9% of the British insurer, Hastings Group Holdings PLC.

Company secretary and registered address

On 1 March 2017, Mr AH Wilson resigned as company secretary. Mr M Ehlert was appointed as company secretary on the same date. The registered addresses are:

Business address:	Postal address:
1241 Embankment Road	PO Box 8443
Zwartkop Ext 7	Centurion
Centurion	0046

Independent auditor's report

To the Shareholders of OUTsurance Holdings 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 OUTsurance Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2017 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

OUTsurance Holdings Limited's consolidated and separate financial statements set out on pages 66 to 163 comprise:

- the consolidated and separate statements of financial position as at 30 June 2017;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B).

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Report of the Audit, Risk and Compliance Committee and the certificate by the Group Company Secretary as required by the Companies Act of South Africa and other information included in the annual report. Other information does not include the consolidated and seperate 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.

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 the OUTsurance Holdings Limited for 19 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: FJ Kruger
Registered Auditor

Johannesburg

15 September 2017

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June

	Notes	2017 R'000	Restated 2016 R'000
Gross insurance premium written	5	14 907 697	14 753 916
Outward reinsurance premiums		(881 681)	(854 358)
Net premiums written		14 026 016	13 899 558
Change in provision for unearned premiums	25	38 186	(472 292)
Earned premiums, net of reinsurance		14 064 202	13 427 266
Commission income		106 598	91 900
Other income	6	3 898	8 920
Investment income	7	527 268	487 971
Net gain from fair value adjustments on financial assets	8	1 547	9 868
Income		14 703 513	14 025 925
Policyholder benefits on insurance contracts net of reinsurance	9	(7 183 155)	(7 250 920)
Gross policyholder benefits under insurance contracts		(7 994 951)	(7 411 627)
Reinsurers' share of insurance contract claims		811 796	160 707
Transfer to policyholder liabilities under insurance contracts		(28 468)	(51 533)
Acquisition expenses	10	(24 985)	(29 204)
Marketing and administration expenses	11	(3 715 503)	(3 591 462)
Fair value adjustment to financial liabilities	32	(198 563)	(204 351)
Result of operating activities		3 552 839	2 898 455
Finance charges	12	(586)	(160)
Equity accounted earnings		28 697	14 671
Gain on derivative related to acquisition of investment in associate	18	750 269	–
Profit before taxation		4 331 219	2 912 966
Taxation	13	(1 078 647)	(904 063)
Net profit for the year		3 252 572	2 008 903
Net profit attributable to:			
Ordinary shareholders		3 212 292	1 982 956
Non-controlling interest		40 280	25 947
Net profit for the year		3 252 572	2 008 903
Other comprehensive income			
Fair value losses on available-for-sale financial instruments	8	(21 889)	(2 776)
Impairment of available-for-sale financial instruments	8	12 608	3 804
Deferred income tax relating to available-for-sale financial instruments		2 079	(4 077)
Exchange differences on foreign operations		(248 232)	364 444
Total comprehensive income for the year		2 997 138	2 370 298
Total comprehensive income attributable to:			
Ordinary shareholders		2 970 827	2 323 184
Non-controlling interest		26 311	47 114
Total comprehensive income for the year		2 997 138	2 370 298
Earnings attributable to shareholders			
Earnings per share (cents)	14		
Basic earnings per share		85.38	56.92
Diluted earnings per share		82.60	54.67
Weighted average number of ordinary shares ('000)		3 762 173	3 483 476
Weighted average number of diluted ordinary shares ('000)		3 818 466	3 547 329

Consolidated statement of financial position

as at 30 June

	Notes	2017 R'000	Restated 2016 R'000	Restated 2015 R'000
ASSETS				
Investment in associates	19	3 842 191	38 626	32 775
Property and equipment	17	992 187	669 372	520 642
Employee benefits	27	88 713	110 245	64 100
Reinsurers' share of insurance contract provisions	25	672 014	257 324	568 845
Deferred acquisition costs	25	338 478	365 074	332 434
Financial assets				
Fair value through profit or loss	20	7 721 871	8 369 491	6 296 372
Available-for-sale	20	1 101 254	1 452 529	1 305 922
Deferred income tax	22	152 740	220 642	199 659
Loans and receivables	21	2 533 889	2 755 336	1 955 614
Tax receivable		–	–	526
Cash and cash equivalents	23	721 460	477 856	581 389
TOTAL ASSETS		18 164 797	14 716 495	11 858 278
EQUITY				
Capital and reserves attributable to equity holders				
Share capital	24	37 649	34 780	34 843
Share premium	24	2 599 038	197 656	249 923
Other reserves				
Share-based payment reserve		13 711	8 580	2 914
Foreign currency translation reserve		316 732	550 995	183 498
Available-for-sale reserve		73 573	80 775	83 824
Retained earnings		6 639 636	4 893 454	4 019 227
Total shareholders' equity		9 680 339	5 766 240	4 574 229
Non-controlling interest	18	143 635	130 137	136 344
TOTAL EQUITY		9 823 974	5 896 377	4 710 573
LIABILITIES				
Insurance contract liabilities	25	6 841 308	7 067 907	5 936 745
Share-based payment liability	28	115 208	202 105	147 151
Employee benefits	27	162 269	153 430	138 287
Financial liabilities at fair value through profit or loss	29	110 372	104 461	107 063
Deferred income tax	22	52 659	26 920	11 364
Tax liabilities		120 686	244 582	42 016
Insurance and other payables	26	938 321	1 020 713	765 079
TOTAL LIABILITIES		8 340 823	8 820 118	7 147 705
TOTAL EQUITY AND LIABILITIES		18 164 797	14 716 495	11 858 278

Consolidated statement of changes in equity

for the year ended 30 June

Group	Share capital R'000	Share Premium R'000	Available-for-sale reserves R'000	Foreign Currency translation reserve R'000	Share-based payment reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Non-controlling interest R'000	Total R'000
Balance as at 30 June 2015	34 843	249 923	83 824	183 498	2 914	4 019 227	4 574 229	136 344	4 710 573
Total profit for the year	–	–	–	–	–	2 008 903	2 008 903	–	2 008 903
Total other comprehensive (loss) / income for the year	–	–	(3 049)	364 444	–	–	361 395	–	361 395
Profit attributable to non-controlling interests	–	–	–	(21 167)	–	(25 947)	(47 114)	47 114	–
Purchase of treasury shares from non-controlling interests	(63)	(52 267)	–	–	–	–	(52 330)	–	(52 330)
Share options spread payment	–	–	–	–	–	(3 384)	(3 384)	–	(3 384)
Share based payment expense	–	–	–	–	5 666	–	5 666	–	5 666
Transactions with non-controlling interests of subsidiary	–	–	–	24 220	–	29 101	53 321	(53 321)	–
Ordinary dividend paid (Note 16)	–	–	–	–	–	(1 134 446)	(1 134 446)	–	(1 134 446)
Balance as at 30 June 2016	34 780	197 656	80 775	550 995	8 580	4 893 454	5 766 240	130 137	5 896 377
Total profit for the year	–	–	–	–	–	3 252 572	3 252 572	–	3 252 572
Total other comprehensive loss for the year	–	–	(7 202)	(248 232)	–	–	(255 434)	–	(255 434)
(Loss) / profit attributable to non-controlling interests	–	–	–	13 969	–	(40 280)	(26 311)	26 311	–
Purchase of treasury shares from non-controlling interests	62	49 186	–	–	–	–	49 248	–	49 248
Issue of share capital	2 807	2 352 196	–	–	–	–	2 355 003	–	2 355 003
Reserve adjustment of associate entities	–	–	–	–	–	370	370	–	370
Share options spread payment	–	–	–	–	–	(188 700)	(188 700)	–	(188 700)
Share-based payment expense	–	–	–	–	5 131	–	5 131	–	5 131
Transactions with non-controlling interests of subsidiary	–	–	–	–	–	12 813	12 813	(12 813)	–
Ordinary dividend paid (Note 16)	–	–	–	–	–	(1 290 593)	(1 290 593)	–	(1 290 593)
Balance as at 30 June 2017	37 649	2 599 038	73 573	316 732	13 711	6 639 636	9 680 339	143 635	9 823 974

Consolidated statement of cash flows

for the year ended 30 June

	Notes	2017 R'000	Restated 2016 R'000
OPERATING ACTIVITIES			
Cash generated by operations	30	2 751 423	3 254 497
Interest received		477 923	437 053
Dividends received		58 165	59 738
Finance charges		(586)	(160)
Taxation paid	31	(1 038 537)	(686 636)
Ordinary dividends paid		(1 290 593)	(1 134 446)
Preference dividends paid	32	(192 652)	(206 953)
Cash inflow from operating activities		765 143	1 723 093
INVESTING ACTIVITIES			
Acquisition of investment in associate	19	(678 046)	–
Property and equipment acquired to maintain operations		(481 174)	(262 829)
Proceeds on disposal of property and equipment		2 146	18 581
Proceeds on disposal of financial assets		9 469 329	3 492 706
Purchase of financial assets		(8 926 194)	(5 697 744)
Cash outflow from investing activities		(613 939)	(2 449 286)
FINANCING ACTIVITIES			
Purchase of treasury shares by share scheme participants		206 961	83 640
Purchase of treasury shares by share trust from share scheme participants		(157 714)	(135 970)
Cash inflow / (outflow) from financing activities		49 247	(52 330)
Increase / (decrease) in cash and cash equivalents		200 451	(778 523)
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		477 856	581 389
Effect of exchange rate on cash and cash equivalents		43 153	674 990
Increase / (decrease) in cash and cash equivalents		200 451	(778 523)
Closing balance of cash and cash equivalents	23	721 460	477 856

Notes to the consolidated financial statements

1. General information

OUTsurance Holdings Limited (the Company), its subsidiaries and associates (collectively referred to as the Group) is a financial services Group offering both short-term and long-term insurance products. The Group has operations in South Africa, Australia, New Zealand and Namibia.

OUTsurance Holdings Limited is an unlisted public company and a subsidiary of Rand Merchant Investment Holdings Limited.

The financial statements were authorised for issue by the directors on 29 August 2017.

2. Basis of presentation

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

The financial statements are prepared in accordance with the going concern principle using the historical cost basis except for certain financial assets and liabilities where it adopts the fair value basis of accounting. Such financial assets and liabilities include financial assets classified as available-for-sale; and financial instruments designated as fair value through profit or loss. The South African life insurance liabilities are valued based on the Financial Soundness Valuation (FSV) method as detailed in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (ASSA).

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements that affect the reported amounts in the statement of financial position and the statement of profit or loss and other comprehensive income. Where appropriate, details of estimates are presented in the accompanying notes to the consolidated financial statements. All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

All significant accounting policies are contained in note 38. Please refer to note 38.21 for the amendment to published standards effective in the current year. The following changes were made to the annual financial statements in the current year in terms of the IAS 1 disclosure initiative:

- Reordering line items in the statement of financial position to reflect least liquid to most liquid assets and liabilities;
- The accounting policies were included after the notes to the consolidated financial statements;
- Only accounting policies relating to transactions occurring in the current and prior year have been included.

The Group adjusts comparative figures to conform to changes in presentation in the current year. For details refer to note 37.

3. Management of risk and capital

3.1 Risk Management Framework

The Group has developed an Enterprise Risk Management framework to provide reasonable assurance that the Group's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on Corporate Governance and Risk Management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored and mitigated.

Risk and governance oversight is provided by the OUTsurance Holdings Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Investment Committee, OUTsurance Reinsurance Committee and the OUTsurance Holdings Risk Committee, the latter three being internal management committees. Risk and governance oversight for the Youi Group is provided by the Youi Holdings Board, Audit and Risk and Compliance Committees.

3.2 Insurance risk management

3.2.1 Short-term insurance

3.2.1.1 Terms and conditions of insurance contracts

The Group conducts short-term insurance business on different classes of short-term insurance risk. Below is a table showing the risks and the percentage premium written per risk category:

Types of insurance contracts written	Personal lines	Commercial
Personal accident	<1.0%	<1.0%
Liability	–	14.4%
Miscellaneous	<1.0%	–
Motor	64.9%	57.6%
Property	34.4%	25.9%
Transportation	<1.0%	1.9%

Notes to the consolidated financial statements *continued*

3. Management of risk and capital *continued*

3.2. Insurance risk management *continued*

3.2.1 Short-term insurance ***continued***

3.2.1.1 Terms and conditions of insurance contracts *continued*

The personal lines segment of the business provides insurance to the general public allowing them to cover their personal possessions and property. The commercial segment of the business targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. The following gives a brief explanation of each risk:

Personal accident
Provide compensation arising out of death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within twelve months of this accident.

Liability
Provide cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.

Miscellaneous
Provide cover relating to all other risks that are not covered more specifically under another insurance contract.

Motor
Provide indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft and liability to other parties.

Property
Provide indemnity relating to damage to movable and immovable property caused by perils including fire, explosion, earthquakes, acts of nature, burst geysers and pipes and malicious damage.

Transportation
Provide cover to risks relating to stock in transit.

3.2.1.2 Insurance risks

Insurance risk is a risk other than a financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or 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.

The primary activity of the Group relates to the assumption of possible loss arising from risks to which the Group is exposed through the sale of short-term insurance products. Insurance risks to which the Group is exposed relate to property, personal accident, liability, motor, transportation and other miscellaneous perils that may result from a contract of insurance. The Group is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the Group can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent, which expose the Group to a risk that the effect of future insured losses could exceed the expected value of such losses.

Along with its underwriting approach, the Group also manages its insurance risk through its reinsurance programme which is structured to protect the Group against material losses to either a single insured risk, or a group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks. The reinsurance programme also provides protection against the occurrence of multiple catastrophe events.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below.

Underwriting strategy
The Group aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item, and so forth. Risks are priced and accepted on an individual basis and as such there is a minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Notes to the consolidated financial statements *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.1 Short-term insurance ***continued***

3.2.1.2 Insurance risks *continued*

Insurance risk is monitored within the Group on a daily basis to ensure that risks accepted by the Group for its own account are within the limits set by the Board of directors. Exception reporting is used to identify areas of concentration of risk so that management are able to consider the levels adopted in the reinsurance programme covering that pool of risk.

Risks are rated individually by programmes loaded onto the computer system based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to predetermined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance can be accepted without the necessary facultative cover being arranged. Non-claims bonuses which reward clients for not claiming also form part of the Group's Southern African underwriting strategy.

Multi-claimants are also monitored and managed by tightening conditions of cover or ultimately cancelling cover.

Reinsurance strategy
The Group reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the Group to losses arising from insurance contracts and in order to protect the profitability of the Group and its capital. A suite of treaties are purchased in order to limit losses suffered from individual and aggregate insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the Board of directors. The Group only enters into reinsurance agreements with reinsurers which have adequate credit ratings.

Concentrations of risk and mitigating policies
Risk concentrations are monitored by means of exception reporting. When large risks are underwritten individually, the impacts which they could have on risk concentrations are considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as the result of a single event are declined due to inadequate diversification and overall pool of risk covered. Attention is paid to attract large numbers of relatively small independent risks which would lead to very stable and predictable claims experience.

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 52.44% (2016: 53.87%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland of Australia where 21.4% (2016: 21.3%) of the total sum insured is domiciled. The New Zealand operation is exposed to concentration of insurance risk in Auckland where 53.6% (2016: 59.9%) of the total sum insured is domiciled. The concentration risk which arises in each insurance entity is mitigated through the catastrophe excess of loss programme entered into by that entity.

Exposure to catastrophes and policies mitigating this risk
Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of our exposure with the balance of their exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account.

Profit sharing arrangements
A profit sharing arrangement has been entered into between the OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit sharing arrangement, ninety percent of the operating profit generated on the Homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a biannual preference dividend. Where operating losses arise, OUTsurance remains liable for such losses in full, but these losses may be offset against future profit distributions.

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.2 Long-term insurance

3.2.2.1 Terms and conditions of insurance contracts

The Group conducts long-term insurance business on various classes of long-term insurance risk. Products are only sold to the South African retail market. The types of insurance products sold are as follows:

- Underwritten Life;
- Life Protector;

The following gives a brief explanation of each product:

Underwritten Life

The Underwritten Life Insurance product is a fully underwritten product and covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover; and
- Family funeral cover.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life Insurance Company Limited (OUTsurance Life) pays the contractual sum assured.

An optional OUTbonus is also available to policyholders. This allows the policyholder to receive all premiums paid over a period of 15 years, if all terms and conditions are met.

Life Protector

The Life Protector product is a limited underwritten product and covers the following insurance risks:

- Death cover;
- Disability cover;
- Critical illness cover;
- Retrenchment cover;
- Temporary disability cover;
- Family funeral cover; and
- Premium waiver.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life pays the contractual sum assured. The policyholder's OUTsurance Personal cover premiums will also be waived following a valid claim. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder a monthly instalment of a specified percentage of the sum assured as well as the premium for the specified period.

3.2.2.2 Insurance risks

The primary activity of OUTsurance Life relates to the assumption of loss arising from risks to which it is exposed through the sale of long-term insurance products. It is exposed to uncertainty regarding primarily the timing, frequency and to a lesser extent, the magnitude of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, OUTsurance Life can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio.

Along with its underwriting approach OUTsurance Life also manages its insurance risk through its quota share and excess of loss reinsurance programme which is structured to protect it against material losses on single insured risks.

The underwriting of insurance risk and the passing on of excessive insurance risk to reinsurers is further described below.

Refer to section 25.5 for a sensitivity analysis of policyholder liabilities.

Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life insurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health related claims being higher than expected.

The following processes and procedures are in place to manage mortality and morbidity risk:

- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claims experience such as medical history and condition, age, gender, smoker status and HIV status.
- The expertise of reinsurers is used for pricing where adequate claims history is not available.
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual policy and provide cover in catastrophic events.

3. Management of risk and capital *continued*

3.2. Insurance risk management *continued*

3.2.2 Long-term insurance *continued*

3.2.2.2 Insurance risks *continued*

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of the claims being higher than expected. Selection risk is the risk that worse than expected risks are attracted and charged inadequate premiums. There is also a risk that the number of claims can increase due to the emergence of a new disease or pandemic. Underwriting experience risk is managed through:

- Product design and pricing
  Rating factors are applied to different premium rates to differentiate between different levels of risk. Amongst other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the statutory actuary.
- Underwriting
  Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The Group has developed an advanced medical underwriting system which captures detailed information regarding the clients' medical history and condition which is used for premium adjustments and to indicate where further underwriting is required by experienced medical underwriters. To verify the accuracy of client data, all new clients are subject to various medical tests. Quality audits are performed on the underwriting process to ensure underwriting rules are strictly followed.
- Reinsurance
  OUTsurance Life's quota share and excess of loss reinsurance programme mitigates claims volatility and risk accumulation. Reinsurers also assist with pricing and product design decisions.
- Experience monitoring
  Experience investigations are conducted and corrective action is taken where adverse experience is noted.

Lapse risk

Policyholders have the right to cancel their policies at any given time during the policy duration. There is a risk of financial loss and reduced future profitability due to the lapse experience being higher than expected. Lapse risk is managed by ensuring:

- Appropriate product design and pricing;
- Providing high quality service; and
- Continuous experience monitoring.

Modelling and data risk

Modelling risk is the risk that discounted cash flow models used to calculate actuarial liabilities and valuations do not accurately project the policy cash flows into the future. Data risk is the risk that the data which is used by the above models is inaccurate relative to actual experience.

Modelling risk is mitigated by way of employing specialist actuarial software which is widely used by industry participants. The services of the statutory actuary are also employed to ensure models are accurately set up.

Data risk is managed by using internal systems and data warehouse technology. Data reports are readily available and frequently used and reviewed by management to track performance and verify experience variables.

Expense risk

Expense risk is the risk that actual expenses are higher than the budgeted expenses on which premium rates are calculated. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from budget is investigated, reported and remedial action taken where necessary.

Non-claims bonus risk

Non-claims bonus risk is the risk that the future contractual bonus payments are higher than assumed in the calculation of the policyholder liability (lapse risk) or that the investment return received is lower than expected (economic risk). A decrease in the lapse rate will result in an increase in the non-claims bonus risk. This risk is managed by applying an appropriate lapse assumption to allow for uncertainty. A decrease in interest rates would result in a lowering of the investment return achieved on the assets backing the bonus liabilities, increasing the economic risk. This risk is mitigated by a zero-coupon deposits matching strategy, where the investment return on the zero coupon deposit matches the required investment return in both timing and amount.

3. Management of risk and capital *continued*

3.3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including equity price risk, interest rate risk and currency risk), credit risk and liquidity risk.

3.3.1 Financial Instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments. These levels are defined as follows:

- **Level 1** – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured on reporting date.
- **Level 2** – fair value is determined through inputs, other than quoted prices included in level 1 that are observable for the assets and liabilities, either directly (prices) or indirectly (derived from prices).
- **Level 3** – fair value is determined through valuation techniques which use significant unobservable inputs.

The following table presents the Group's financial assets and liabilities that are measured at fair value:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
30 June 2017				
Financial assets				
Equity securities				
Exchange traded funds	619 046	–	–	619 046
Listed preference shares	377 131	–	–	377 131
Collective investment schemes	–	98 804	–	98 804
Debt securities				
Unlisted preference shares	–	105 077	–	105 077
Zero-coupon deposits	–	207 545	–	207 545
Term deposits	–	4 428 701	–	4 428 701
Government, municipal and public utility securities	–	456 941	–	456 941
Money market securities <1 year	–	1 464 959	–	1 464 959
Money market securities >1 year	–	1 064 921	–	1 064 921
	996 177	7 826 948	–	8 823 125
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit or loss	–	–	110 372	110 372
	–	–	110 372	110 372
30 June 2016				
Financial assets				
Equity securities				
Exchange traded funds	411 766	–	–	411 766
Listed preference shares	393 298	–	–	393 298
Debt securities				
Unlisted preference shares	–	647 465	–	647 465
Zero-coupon deposits	–	82 987	–	82 987
Term deposits	–	5 218 801	–	5 218 801
Government, municipal and public utility securities	–	431 145	–	431 145
Money market securities <1 year	–	1 959 974	–	1 959 974
Money market securities >1 year	–	676 584	–	676 584
	805 064	9 016 956	–	9 822 020
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit or loss	–	–	104 461	104 461
	–	–	104 461	104 461

There were no transfers between levels during the year.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.1 Financial Instruments measured at fair value *continued*

The fair values of the above instruments were determined as follows:

Level 1

The fair value of financial instruments traded in an active market is based on quoted market prices at the statement of financial position 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 listed preference share investments comprise instruments which are listed on a securities exchange. The fair values of these investments are calculated based on the quoted closing prices of the individual investments on reporting date. These instruments are included in level 1 and comprise mainly equity and debt instruments classified as trading securities. The investment in the exchange traded funds track the performance of the top forty and top fifty companies listed on the JSE.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2.

Level 2 instruments comprise derivative, debt and short-term money market instruments where the value is determined by using market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments

The unlisted preference shares are redeemable with a notice period of one year. Dividend yields are 65% of the prime overdraft rate. The fair value of the preference shares with a maturity date of longer than one year, is calculated on a discounted cash flow basis with the discount rate adjusted for changes in credit risk of the ultimate counterparty. Due to the redeemable nature, the preference shares are deemed to be debt securities.

The fair value of money market instruments and government, municipal and public utility securities is determined based on observable market inputs. These instruments consist of fixed and floating rate notes held in segregated portfolios and are typically listed on the Bond Exchange of South Africa (BESA). Instruments listed on BESA are not as actively traded as Level 1 instruments. Despite this, the fair values of these instruments can be readily determined as the inputs utilised in the fair value calculation are available in the open market and on the coupon face at issue date.

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as Level 2 financial instruments.

The Group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free Swap Yield Curve produced every business day by the Johannesburg Securities Exchange is referenced. The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.1 Financial Instruments measured at fair value *continued*

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. The financial instruments at fair value through profit or loss represent profits arising out of the profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends biannually to the FirstRand Limited Group. The only significant unobservable input in the calculation of the preference dividend is the historic profit of the profit sharing arrangements and there are no other inputs that determine the value of these instruments. Should the profit of the profit sharing arrangement increase or decrease, the preference dividend will increase or decrease in direct proportion.

A specific valuation technique is used to value this Level 3 financial instrument which represents an accrued profit related to the FirstRand Limited Homeowners profit sharing arrangement:

The fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted.

Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

The table below analyses the movement of the Level 3 financial instrument for the period under review:

	2017 R'000	2016 R'000
Opening balance	104 461	107 063
Preference dividend paid	(192 652)	(206 953)
Preference dividend charged to profit or loss	198 563	204 351
	110 372	104 461

The profit or loss of these profit sharing arrangements is sensitive to:

- claims ratio of the pool of business;
- expense ratio of the pool of business; and
- investment income on this pool of business.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.2 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in the market price. Investments valued at fair value are therefore subject to changes in value due to market fluctuations, which may impact on the net income during those financial years in which such fluctuations occur. Market risk therefore comprises equity price risk, interest rate risk and currency risk.

Equity price risk

Equity price risk is the risk that the price of an equity instrument will fluctuate due to market forces rather than as a direct result of some other market risk such as currency or interest rate risk.

The Group is exposed to equity price risk because of the listed equity investments held by the Group and classified on the statement of financial position as either available-for-sale or fair value through profit or loss. The Group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. The Group's holdings are diversified across companies and concentration in any one company is limited by parameters established by management which is influenced by solvency capital changes. The Group's internal investment committee actively monitors equity assets owned by the Group as well as the concentration of these holdings.

	2017 R'000	2016 R'000
Ordinary shares		
Exchange traded funds	619 046	411 766
Perpetual preference shares		
Listed preference shares	377 131	393 298
Collective investment schemes		
Collective investment schemes	98 804	–
	1 094 981	805 064

The Group's largest concentration of equity investments in one particular company comprises 10.34% (2016: 35.94%) of the total assets subject to equity risk.

At 30 June 2017, the Group's total equities securities were recorded at their fair value of R1 095 million (2016: R805 million). A hypothetical decrease or increase of 10% in each individual unit price would decrease or increase profit or loss or other comprehensive income with a R109.5 million (2016: R80.5 million) before tax.

Interest rate risk

Interest rate risk is the risk that the value or the future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates.

The Group's financial assets are exposed to interest rate risk as a significant portion of the Group's assets are invested in interest rate sensitive debt and money market securities. The risk attached to these securities is managed according to pre-specified risk levels based on a mandate with the fund manager. Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million rand invested. These levels are approved annually by the Board of directors and the investment committee.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.2 Market risk *continued*

Interest rate risk *continued*

The Group's exposure to interest rate risk is R8 242 million (2016: R9 412 million), which consists of fixed rate instruments of R4 770 million (2016: R5 264 million) and variable rate instruments of R3 472 million (2016: R4 148 million).

An increase or decrease of 1% in the market interest rate would result in the following changes in profit or loss and other comprehensive income before tax of the Group:

	2017 1% increase R'000	2017 1% decrease R'000	2016 1% increase R'000	2016 1% decrease R'000
Fixed rate instruments				
Cash and cash equivalents	472	(472)	(1)	1
Term deposits	44 287	(44 287)	52 188	(52 188)
Government, municipal and public utility securities	907	(907)	82	(82)
Money market securities <1 year	1 608	(1 608)	370	(370)
Money market securities >1 year	422	(422)	–	–
Variable rate instruments				
Cash and cash equivalents	6 743	(6 743)	4 779	(4 779)
Unlisted preference shares	1 051	(1 051)	6 475	(6 475)
Government, municipal and public utility securities	3 662	(3 662)	4 230	(4 230)
Money market securities <1 year	13 041	(13 041)	19 230	(19 230)
Money market securities >1 year	10 227	(10 227)	6 766	(6 766)
	82 420	(82 420)	94 119	(94 119)

The Group's asset portfolio used to match regulatory long-term policyholder liabilities is exposed to interest rate risk. At 30 June 2017, the carrying value and fair value of this portfolio was R208 million (2016: R83 million). A 100 basis point shift in the market yield curve would result in the following changes in the capital value of this portfolio:

	2017 100 bps increase R'000	2017 100 bps decrease R'000	2016 100 bps increase R'000	2016 100 bps decrease R'000
Zero-coupon deposits	(77 253)	89 146	(52 356)	60 873
	(77 253)	89 146	(52 356)	60 873

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.2 Market risk *continued*

Currency risk – Translation risk

Translation risk arises as a result of movements between the functional currencies of foreign subsidiaries and the Group's reporting currency.

The Group's exposure to translation risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the Board for seeking international diversification of investments to expand its income stream. The Group has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily the Australian Dollar, the New Zealand Dollar and the Pound Sterling. The Group does not use currency hedging to manage the impact of currency translation on reported earnings.

The Group's investment in Youi Australia and Youi New Zealand are subsidiary companies of which 93% of the shares are owned. These entities are ultimately controlled by the Group.

The Group's investment in Main Street 1353 Proprietary Limited (Main Street), which is an investment in an associate (49% of its equity), is also subject to translation risk. The underlying investment in Main Street is a 29.9% investment in Hastings Group Holdings PLC (Hastings) as well as debt funding whose functional currency is the Pound Sterling. As a result of this, the Group's equity accounted earnings from Main Street has an indirect translation risk due to the translation of Hastings' earnings and debt servicing expenses to Rand.

The table below illustrates the Group's exposure to the Australian Dollar, the New Zealand Dollar and the Pound Sterling. The amounts represent the assets, liabilities and equities of foreign subsidiaries and associates:

	Australian $ exposure		New Zealand $ exposure		Pound Sterling exposure	
	2017 $'000	2017 R'000	2017 $'000	2017 R'000	2017 £'000	2017 R'000
At 30 June 2017						
Assets	815 260	8 177 133	59 811	572 351	286 941	4 880 866
Liabilities	556 397	5 580 717	31 355	300 047	73 500	1 249 941
Equity	258 863	2 655 379	28 456	276 758	–	–
Exchange rates:						
Closing rate at 30 June 2017	10.03		9.57		17.01	
Average rate: 1 July 2017 to 30 June 2017	10.25		9.71		–	

	Australian $ exposure		New Zealand $ exposure		Pound Sterling exposure	
	2016 $'000	2016 R'000	2016 $'000	2016 R'000	2016 £'000	2016 R'000
At 30 June 2016						
Assets	774 377	8 518 147	72 339	761 464	–	–
Liabilities	(580 627)	(6 386 897)	(37 456)	(394 272)	–	–
Equity	(193 750)	(2 131 250)	(34 883)	(367 192)	–	–
Exchange rates:						
Closing rate at 30 June 2016	11.00		10.53		–	
Average rate: 1 July 2015 to 30 June 2016	10.53		9.69		–	

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.2 Market risk *continued*

Currency risk – Translation risk *continued*

The effect on the Group total comprehensive income after tax and the net asset value of the Group after an appreciation or depreciation in the foreign currency rate is provided in the following table:

	AUD		NZD		GBP	
	2017 10% Rand appreciation	2017 10% Rand depreciation	2017 10% Rand appreciation	2017 10% Rand depreciation	2017 10% Rand appreciation	2017 10% Rand depreciation
Total comprehensive income after tax	(65 000)	65 000	6 289	(6 289)	(7 500)	7 500
Net asset value	213 125	(213 125)	36 719	(36 719)	21 344	(21 344)

	AUD		NZD		GBP	
	2016 10% Rand appreciation	2016 10% Rand depreciation	2016 10% Rand appreciation	2016 10% Rand depreciation	2016 10% Rand appreciation	2016 10% Rand depreciation
Total comprehensive income after tax	(50 641)	50 641	10 715	(10 715)	–	–
Net asset value	183 679	(183 679)	36 719	(36 719)	–	–

3.3.3 Credit risk

Credit risk is the risk that a financial asset may not be realisable due to the inability or unwillingness of the issuer of such instrument to discharge its contractual obligations. The key areas where the Group is exposed to credit risk are:

- Financial instruments and cash and cash equivalents;
- Reinsurer's share of insurance liabilities; and
- Amounts due from policyholders and debtors.

The Group limits its counterparty exposures from its money market and preference share investment operations by investing in entities with a minimum credit rating and ensuring counterparty diversification. The credit quality of the Group's counterparties as well as the exposure to credit risk is monitored by the Group's internal investment committee against a set Board investment mandate. The mandate is informed by the prudential regulatory capital requirements of each entity.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

The table below indicates the credit quality of the Group's financial assets:

	AAA R'000	AA R'000	A R'000	BBB R'000	BB R'000	B R'000	Not rated R'000	Total R'000
At 30 June 2017								
Cash and cash equivalents	544	312 055	–	–	408 861	–	–	721 460
Term deposits	–	4 428 701	–	–	–	–	–	4 428 701
Government, municipal and public utility securities	–	12 803	–	159 094	269 139	–	15 905	456 941
Money market securities <1 year	86 068	84 453	44 820	45 103	1 168 725	2 301	33 489	1 464 959
Money market securities >1 year	71 946	14 475	92 172	149 987	519 203	12 404	204 734	1 064 921
Zero-coupon deposits	–	–	–	–	207 545	–	–	207 545
Listed preference shares	–	–	–	53 638	321 603	1 890	–	377 131
Unlisted preference shares	–	–	–	102 423	2 654	–	–	105 077
Reinsurers' share of insurance contract provisions	–	449 486	124 533	97 995	–	–	–	672 014
Loans and receivables	–	–	–	–	–	–	2 477 330	2 477 330
Total	158 558	5 301 973	261 525	608 240	2 897 730	16 595	2 731 458	11 976 079
At 30 June 2016								
Cash and cash equivalents	–	240 444	–	237 412	–	–	–	477 856
Term deposits	–	5 218 801	–	–	–	–	–	5 218 801
Government, municipal and public utility securities	–	–	–	315 697	115 448	–	–	431 145
Money market securities <1 year	–	1 619	72 398	1 800 131	63 393	–	22 433	1 959 974
Money market securities >1 year	–	–	242 251	393 694	40 639	–	–	676 584
Zero-coupon deposits	–	–	–	82 987	–	–	–	82 987
Listed preference shares	–	–	–	306 813	80 568	–	5 917	393 298
Unlisted preference shares	–	–	100 581	546 884	–	–	–	647 465
Reinsurers' share of insurance contract provisions	968	122 348	42 809	91 199	–	–	–	257 324
Loans and receivables	–	8 261	3 278	2 038	–	–	2 741 759	2 755 336
Total	968	5 591 473	461 317	3 776 855	300 048	–	2 770 109	12 900 770

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the table above.

Where available, the Group utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is utilised.

In instances where the credit rating for the counterparty is not available, the Group utilises the credit rating provided by a service provider amended to take into account the credit risk appetite of the Group. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. This methodology has been approved by the Group's internal investment committee. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

The ratings are defined as follows:

Long-term ratings

AAA Highest credit quality. The ratings denote the lowest expectation of credit risk. 'AAA' ratings are assigned only in the case of exceptionally strong capacity or payment of financial commitments.

AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

BB Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B Highly speculative. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Reinsurance credit exposures

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that the gross claim is paid. However, the Group remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Group is exposed to credit risk. The Group reviews its reinsurance agreements on an annual basis and ensures the appropriate credit quality of any reinsurer prior to renewing or entering an agreement. The Group's reinsurers have credit ratings of between BBB and AA, measured on an international scale.

Impairment of financial assets

None of the Group's financial assets exposed to credit risk are past due or impaired.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.4 Liquidity risk

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient liquid assets in the Group. To ensure that the Group's operating entities are able to meet their liabilities when they fall due, the liquidity profile of the various balance sheets are actively managed with a defined investment mandate. The table below provides a liquidity profile of the Group's financial assets. The liquidity profile assumes that instruments can be traded in the ordinary course of business and in markets with sufficient liquidity. The effects of discounting are considered to be immaterial.

	30 June 2017 R'000	%	30 June 2016 R'000	%
Liquid financial assets				
Realisable within 30 days				
Cash and cash equivalents	721 460	6%	477 856	4%
Collective investment schemes	98 804	1%	–	–
Government, municipal and public utility securities	456 941	4%	431 145	3%
Money market securities	2 529 880	21%	2 636 558	20%
Exchange traded funds – ordinary shares	619 046	5%	411 766	3%
Realisable between one and twelve months				
Term deposits	4 428 701	37%	5 218 801	40%
Loans and receivables[1]	2 477 330	20%	2 755 336	21%
Total liquid financial assets	11 332 162		11 931 462	
Illiquid assets				
Realisable in more than twelve months				
Zero-coupon deposits	207 545	2%	82 987	1%
Listed perpetual preference shares	377 131	3%	393 298	3%
Unlisted preference shares	105 077	1%	647 465	5%
Total illiquid assets	689 753		1 123 750	
Total financial assets held	12 021 915	100%	13 055 212	100%
Insurance contract assets				
Realisable within 30 days	147 221		45 210	
Realisable between one and twelve months	387 563		118 564	
Realisable after more than twelve months	137 230		93 550	
Total insurance contract assets held	672 014		257 324	
Total assets (excluding non-monetary assets)	12 693 929		13 312 536	

1 This constitutes loans and receivables classified as financial assets.

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.4 Liquidity risk *continued*

Maturity profile of liabilities

The table below shows the expected liquidity profile of the Group's liabilities and shows the liquid asset coverage ratio which indicates how many times the liabilities are covered by liquid assets. This ratio is actively tracked in accordance with the investment and balance sheet management mandate of each Group entity. The effects of discounting are considered to be immaterial.

	0 – 12 months	13 – 36 months	37 – 60 months	>60 months	Total
At 30 June 2017					
Expected discounted cash flows					
Insurance contract liabilities	5 932 521	93 266	(242 363)	1 057 884	6 841 308
	5 932 521	93 266	(242 363)	1 057 884	6 841 308
Contractual undiscounted cash flows[1]					
Financial liabilities at fair value through profit or loss	110 372	–	–	–	110 372
Insurance and other payables	257 006	–	–	–	257 006
	367 378	–	–	–	367 378
Other liabilities					
Share based payment liability	115 208	–	–	–	115 208
Employee benefits	162 269	–	–	–	162 269
Tax liabilities	120 686	–	–	–	120 686
Insurance and other payables	681 315	–	–	–	681 315
	1 079 478	–	–	–	1 079 478
Total liabilities	7 379 377	93 266	(242 363)	1 057 884	8 288 164
Liquid asset coverage ratio	1.54				1.37
Financial assets coverage ratio					1.45

	0 – 12 months	13 – 36 months	37 – 60 months	>60 months	Total
At 30 June 2016					
Expected discounted cash flows					
Insurance contract liabilities	5 772 448	588 093	(225 956)	933 322	7 067 907
	5 772 448	588 093	(225 956)	933 322	7 067 907
Contractual undiscounted cash flows[1]					
Financial liabilities at fair value through profit or loss	104 461	–	–	–	104 461
Insurance and other payables	568 469	–	–	–	568 469
	672 930	–	–	–	672 930
Other liabilities					
Share based payment liability	202 105	–	–	–	202 105
Employee benefits	153 430	–	–	–	153 430
Tax liabilities	244 582	–	–	–	244 582
Insurance and other payables	452 244	–	–	–	452 244
	1 052 361	–	–	–	1 052 361
Total liabilities	7 497 739	588 093	(225 956)	933 322	8 793 198
Liquid asset coverage ratio	1.59				1.36
Financial assets coverage ratio					1.48

1 *The effects of discounting does not have a significant effect on the contractual undiscounted cash flow due to the short-term maturity profile.*

3. Management of risk and capital *continued*

3.4 Capital management

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in conducting insurance business and to facilitate growth and strategic objectives.

The Group's objectives when managing capital are:

- to comply with the solvency capital requirements required by the regulators of the insurance markets where the Group operates;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return for shareholders by pricing insurance commensurately with the level of risk; and
- to retain sufficient surplus capital to facilitate future growth and strategic expansion.

The Group and its insurance entities assess the solvency capital requirement as follows:

- Non-life underwriting risk: The risk that arises from insurance obligations for short-term insurance business and includes reserve, premium, catastrophe and lapse risk.
- Life underwriting risk: The risk that arises from insurance obligations for long-term insurance business and includes lapse, mortality, morbidity, catastrophe and expense risks.
- Market risk: The risk of loss arising from movements in market prices on the value of the insurer's assets and liabilities or of loss arising from the default of the insurer's counterparties.
- Operational risk: The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities.

The Group and its insurance entities set a target solvency coverage multiple of the regulated minimum for each jurisdiction and the Group in aggregate to act as a buffer against uncertainty. These target multiples are derived from considering the unique risk characteristics of each entity and the Group in aggregate. These risk characteristics include the impact of stress and scenario tests, the level and variability of profits and the accepted risk appetite. The target multiple is maintained at all times throughout the year.

Qualifying regulatory capital or own funds, include retained earnings, contributed share capital and distributable reserves. Adjustments are made for non-qualifying or inadmissible assets and for differences between the fair value and carrying value of assets and liabilities.

3. Management of risk and capital *continued*

3.4 Capital management *continued*

The table below summarises the statutory solvency requirements for each of the regulated Group companies and the actual solvency achieved.

Solvency coverage ratio	Jurisdiction	2017	2016	Target
Group		3.6	2.0	1.2
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	2.0	1.8	1.2
OUTsurance Insurance Company of Namibia Limited (Associate)	Namibia	2.0	1.6	1.2
Youi Pty Limited	Australia	3.3	2.5	1.5
Youi NZ Pty Limited	New Zealand	6.2	6.3	1.5
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	5.0	3.9	1.5

* *Solvency coverage ratio, which is defined as the ratio of regulatory admissible net assets to the solvency capital requirement.*

The regulated solvency capital requirement for the various regulated entities are calculated as follows:

Southern African operations – Short-term Insurance operations

The Financial Services Board (FSB) requires short-term insurers to hold a solvency capital adequacy requirement (SCR) calculated in accordance with Board Notice 169 of 2011 and is calculated as the greater of

- Minimum Capital Requirement (MCR) – lower boundary for the required solvency capital, below which policyholders and beneficiaries would be exposed to an unacceptable level of risk if the insurer were allowed to continue its operations; and
- Solvency Capital Requirement (SCR) – sum of the Basic Solvency Capital Requirement (BSCR) and the Operational Risk Capital Factor (OP). The BSCR is the aggregation of the Insurance Risk Capital Factor (IC), the Market Risk Capital Factor (MC) and the Credit Risk Capital Factor (CC) making allowance for diversification between these risk factors.

New Zealand operations – Short-term Insurance operations

The Reserve Bank of New Zealand (RBNZ) imposes capital requirements on New Zealand subsidiaries which are licensed general insurers calculated in accordance with the Solvency Standard for Non-life Insurance Business issued under section 55 of the Insurance (Prudential Supervision) Act 2010.

The Minimum Solvency Capital is calculated as the sum of:

- Insurance Risk Capital Charge;
- Catastrophe Risk Capital Charge;
- Reinsurance Recovery Risk Capital Charge;
- Asset Risk Capital Charge;
- Foreign Currency Risk Capital Charge; and
- Interest Rate Capital Charge.

Notes to the consolidated financial statements *continued*

3. Management of risk and capital *continued*

3.4 Capital management *continued*

Australian operations – Short-term Insurance operations

The Australian Prudential Regulation Authority (APRA) imposes capital requirements on Australian subsidiaries which are licensed general insurers calculated in accordance with Prudential Standards GPS 110 Capital Adequacy. The prudential capital requirement (PCR) is equal to the sum of the prescribed capital amount (PCA) and any supervisory adjustment determined by APRA.

The PCA is calculated in accordance with the Standard Method as the sum of:

- Insurance Risk Charge;
- Insurance Concentration Risk Charge;
- Asset Risk Charge;
- Asset Concentration Risk Charge;
- Operational Risk Charge; and
- Aggregation benefit.

Southern African operations – Long-term Insurance operations

The Financial Services Board (FSB) requires long-term insurers to hold a solvency capital adequacy requirement (CAR) calculated in accordance with the Long-term Insurance Act (1998) including Board Notice 72 of 2005 and SAP 104 – Calculation of the Value of Assets, Liabilities and Capital Adequacy Requirement of Long-Term Insurers issued by the Actuarial Society of South Africa.

The CAR is calculated as the greater of:

- MCAR – the minimum capital requirement for maintaining a South African long-term insurance licence. This is set at R10 million or 13 weeks operating expenses or 0.3% of gross policyholder liabilities;
- TCAR – this requirement examines a highly selective scenario in which all policies with surrender values greater than the policyholder liability terminate immediately. A surrender value is not a feature of the existing product line which removes TCAR as an appropriate valuation technique; and
- OCAR – is a risk based measure based on a number of market and insurance risk stress tests, which together with compulsory margins are intended to provide approximately a 95% confidence level that the insurer will be able to meets its obligations to policyholders.

Southern African operations – Solvency and Assessment Management (SAM)

In addition to the above the Group monitors its capital adequacy in terms of the SAM regime which is expected to become effective for the Group and the South African insurance entities on 1 July 2018. SAM is a risk-based prudential solvency regime which is closely aligned with the principles Solvency II, the European prudential standard for insurance operations. The regime also prescribes risk management and governance standards.

The Group and its operating entities are well prepared to adopt the requirements of the SAM regime.

4. Segment information

For management purposes, the Group is organised into business units based on product offering. Consequently the Group has the following operating segments:

- Personal insurance: This segment provides short-term insurance products to individuals. Personal insurance business is conducted in OUTsurance Insurance Company Limited, Youi Pty Limited (Australia) and Youi NZ Pty Limited;
- Commercial insurance: This segment provides short-term insurance products to small and medium sized businesses. Commercial insurance business is conducted in OUTsurance Insurance Company Limited; and
- Life insurance: This segment provides long-term insurance products to individuals. Life insurance business is conducted in OUTsurance Life Insurance Company Limited.

The information in the segment report is presented on the same basis as reported to management. Reporting adjustments are those accounting reclassifications and entries required to produce IFRS compliant results. Specific details of these adjustments are included as footnotes.

The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties. Given the nature of the operations there is no single external customer that provides 10% or more of the Group's revenues.

4. Segment information *continued*

4.1 Market segmentation

	Short-term insurance		Short-term insurance		Life insurance		
	Outsurance Personal[1] R'000	**OUTsurance Commercial R'000**	**Youi Australia Personal R'000**	**Youi New Zealand Personal R'000**	**Outsurance Life R'000**	**Central and new business development R'000**	**Group Total R'000**
Segment income statement information							
Year end 30 June 2017							
Gross written premium	6 335 764	1 060 352	6 805 744	265 462	440 375	–	14 907 697
Outward reinsurance premiums	(114 121)	(22 214)	(481 263)	(228 439)	(35 644)	–	(881 681)
Change in provision for unearned premium	(6 745)	(1 751)	8 107	38 575	–	–	38 186
Earned premium, net of reinsurance	6 214 898	1 036 387	6 332 588	75 598	404 731	–	14 064 202
Commision income	–	2 458	–	104 140	–	–	106 598
Other income	–	–	461	–	–	3 437	3 898
Policyholder benefits on insurance contracts net of reinsurance	(3 084 316)	(481 777)	(3 513 746)	(38 274)	(65 042)	–	(7 183 155)
Transfer to policyholder liabilities under insurance contracts	–	–	–	–	(28 468)	–	(28 468)
Marketing, acquisition and administration expenses[2]	(1 114 100)	(247 419)	(1 927 213)	(216 782)	(221 597)	(6 064)	(3 733 175)
Fair value adjustment to financial liabilities	(198 563)	–	–	–	–	–	(198 563)
Underwriting result	1 817 919	309 649	892 090	(75 318)	89 624	(2 627)	3 031 337
Investment income on technical reserves	99 850	13 516	86 059	4 564	15 339	–	219 328
Operating profit	1 917 769	323 165	978 149	(70 754)	104 963	(2 627	3 250 665
Equity accounted earnings							28 697
Gain on derivative related to acquisition of investment in associate							750 269
Operating profit including associate earnings							4 029 631
Net investment income on shareholder investment capital							301 588
Profit before tax							4 331 219

	Short-term insurance		Short-term insurance		Life insurance		
	Outsurance Personal[1] R'000	OUTsurance Commercial R'000	Youi Australia Personal R'000	Youi New Zealand Personal R'000	Outsurance Life R'000	Central and new business development R'000	Group Total R'000
Segment income statement information							
Year end 30 June 2016							
Gross written premium	6 061 469	958 347	7 034 145	308 434	391 521	–	14 753 916
Outward reinsurance premiums	(87 390)	(16 067)	(514 475)	(203 061)	(33 365)	–	(854 358)
Change in provision for unearned premium	(7 537)	(2 103)	(409 533)	(53 119)		–	(472 292)
Earned premium, net of reinsurance	5 966 542	940 177	6 110 137	52 254	358 156	–	13 427 266
Commision income				91 900			91 900
Other income	–	–	168	377	–	8 375	8 920
Policyholder benefits on insurance contracts net of reinsurance	(3 098 092)	(457 048)	(3 600 373)	(41 003)	(54 404)	–	(7 250 920)
Transfer to policyholder liabilities under insurance contracts	–	–	–	–	(51 533)	–	(51 533)
Marketing, acquisition and administration expenses[2]	(1 050 469)	(240 356)	(1 887 630)	(226 963)	(229 479)	21 038	(3 613 859)
Fair value adjustment to financial liabilities	(204 351)	–	–	–	–	–	(204 351)
Underwriting result	1 613 630	242 773	622 302	(123 435)	22 740	29 413	2 407 423
Investment income on technical reserves	90 963	10 232	86 899	4 882	25 087		218 063
Operating profit	1 704 593	253 005	709 201	(118 553)	47 827	29 413	2 625 486
Share of profit of associate							14 671
Operating profit including associate earnings							2 640 157
Net investment income on shareholder investment capital							272 809
Profit before tax							2 912 966

1 *Includes Homeowners cover book sourced from the FirstRand Limited.*
2 *Excludes investment management expenses.*

4. Segment information *continued*

4.2 Geographical segmentation

A summary of the Group's assets, liabilities and equity are shown below:

	Southern Africa		Australasia			
	OUTsurance R'000	**OUTsurance Life R'000**	**Youi Australia R'000**	**Youi New Zealand R'000**	**Unallocated and consolidation adjustments R'000**	**Group Total R'000**
Segment Balance sheet information						
Year ended 30 June 2017						
Segment assets						
Property and equipment	143 725	–	41 010	17 754	789 698	992 187
Financial assets	5 276 174	790 944	6 722 097	313 966	(401 802)	12 701 379
Cash and cash equivalents	304 366	38 262	236 259	30 700	111 873	721 460
Other assets	236 863	125 783	921 073	209 931	2 256 121	3 749 770
Total segment assets	5 961 128	954 989	7 920 439	572 351	2 755 890	18 164 797
Segment Equity						
Share capital	25 000	435 002	1 351 726	576 604	248 355	2 636 687
Retained earnings	3 573 388	203 635	795 117	(322 042)	2 389 538	6 639 636
Other reserves	74 187	(613)	248 245	17 742	208 090	547 651
Total segment equity	3 672 575	638 024	2 395 088	272 304	2 845 983	9 823 974
Segment liabilities						
Insurance contract liabilities	1 727 729	233 022	4 697 341	183 216	–	6 841 308
Other liabilities	560 824	83 943	828 010	116 831	(90 093)	1 499 515
Total segment liabilities	2 288 553	316 965	5 525 351	300 047	(90 093)	8 340 823
Total segment equity and liabilities	5 961 128	954 989	7 920 439	572 351	2 755 890	18 164 797

4. Segment information *continued*

4.2 Geographical segmentation *continued*

	Southern Africa		Australasia			
	OUTsurance R'000	OUTsurance Life R'000	Youi Australia R'000	Youi New Zealand R'000	Unallocated and consolidation adjustments R'000	Group Total R'000
Segment Balance sheet information						
Year ended 30 June 2016						
Segment assets						
Property and equipment	99 165	–	46 831	31 145	492 231	669 372
Financial assets	5 037 423	678 570	7 273 867	579 030	(991 534)	12 577 356
Cash and cash equivalents	189 827	14 478	199 308	37 828	36 415	477 856
Other assets	155 043	97 040	998 141	113 461	(371 774)	991 912
Total segment assets	5 481 458	790 088	8 518 147	761 464	(834 662)	14 716 495
Segment Equity						
Share capital	25 000	435 002	1 353 927	576 240	(2 157 733)	232 436
Retained earnings	3 193 954	91 828	333 944	(259 293)	1 533 021	4 893 454
Other reserves	80 887	(112)	443 379	50 245	196 088	770 487
Total segment equity	3 299 841	526 718	2 131 250	367 192	(428 624)	5 896 377
Segment liabilities						
Insurance contract liabilities	1 567 056	195 721	5 052 812	252 318	–	7 067 907
Other liabilities	614 561	67 649	1 334 085	141 954	(406 038)	1 752 211
Total segment liabilities	2 181 617	263 370	6 386 897	394 272	(406 038)	8 820 118
Total segment equity and liabilities	5 481 458	790 088	8 518 147	761 464	(834 662)	14 716 495

5. Gross insurance premium written

	2017 R'000	2016 R'000
Short-term insurance	14 467 323	14 362 395
Premium written	14 334 235	14 223 116
Policyholder fees written	133 088	139 279
Long-term insurance	440 374	391 521
Premium received	425 839	377 811
Policyholder fees received	14 535	13 710
	14 907 697	14 753 916

6. Other income

During the current financial year, the Group qualified for a job-creation incentive associated with call centre activities of the Youi Holdings Group's off-shored to South Africa. The incentive is accounted for based on the actual incentive qualified for during the year under review.

	2017 R'000	2016 R'000
Government grant received	3 898	8 920
	3 898	8 920

7. Investment income

	2017 R'000	2016 R'000
Cash and cash equivalents		
Interest received	445 477	399 059
Available-for-sale financial assets		
Interest – unlisted debt instruments	32 446	37 994
Dividends – listed equities	49 345	50 918
	527 268	487 971

8. Net gains / (losses) from fair value adjustments on financial assets

	Available-for-sale R'000	Fair value designated through profit or loss R'000	Impairments R'000	Total R'000
2017				
Net realised gain on financial assets	–	3 457	–	3 457
Net unrealised fair value (losses) / gains	(21 889)	10 698	–	(11 191)
Available-for-sale reserve released to profit or loss	12 608	–	(12 608)	–
	(9 281)	14 155	(12 608)	(7 734)
2016				
Net realised losses on financial assets	–	(19 812)	–	(19 812)
Net unrealised fair value (losses) / gains	(2 776)	33 484	–	30 708
Available-for-sale reserve released to profit or loss	3 804	–	(3 804)	–
	1 028	13 672	(3 804)	10 896

Other than unlisted redeemable preference shares, fair value gains or losses on available-for-sale assets and designated fair value financial assets are determined with reference to quoted market prices at reporting date. Refer to note 3.3.1 for the valuation methodology of the unlisted redeemable preference shares.

9. Policyholder benefits on insurance contracts net of reinsurance

	2017			2016		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Short-term insurance						
	(7 908 459)	790 346	(7 118 113)	(7 342 697)	136 150	(7 206 547)
Claim paid net of recoveries	(7 281 670)	350 688	(6 930 982)	(7 209 105)	544 126	(6 664 979)
Change in claims reserves	(242 311)	439 658	197 347	228 803	(407 976)	(179 173)
Non-claims bonuses on insurance contracts	(384 478)	–	(384 478)	(362 395)	–	(362 395)
Long-term insurance						
Claims paid	(71 511)	21 450	(50 061)	(68 930)	24 557	(44 373)
Life claims	(59 159)	18 599	(40 560)	(51 547)	16 427	(35 120)
Disability claims	(2 417)	482	(1 935)	(6 442)	3 841	(2 601)
Retrenchment claims	(2 129)	211	(1 918)	(3 845)	383	(3 462)
Critical illness claims	(7 806)	2 158	(5 648)	(7 096)	3 906	(3 190)
Non-claims bonuses on insurance contracts	(14 981)	–	(14 981)	–	–	–
Total claims incurred	(7 994 951)	811 796	(7 183 155)	(7 411 627)	160 707	(7 250 920)

10. Acquisition expenses

Acquisition expenses relate to payments for intermediary sourced business.

	2017 R'000	2016 R'000
Acquisition expenses incurred	(24 985)	(29 204)
	(24 985)	(29 204)

11. Marketing and administration expenses

The following expenses have been included in the statement of profit or loss and other comprehensive income under marketing and administration expenses:

	2017 R'000	2016 R'000
Depreciation		
Buildings	24 825	25 382
Computer equipment and software	97 593	85 840
Furniture and fittings	8 027	5 933
Motor vehicles	676	700
Total depreciation	131 121	117 855
Employee benefits		
Salaries excluding retirement funding	1 695 494	1 590 571
Medical aid contributions	74 180	71 552
Retirement funding	160 346	155 331
Service cost relating to employee benefits	85 648	73 193
Share-based payments	44 151	128 604
Total employee benefits	2 059 819	2 019 251
Other disclosable items		
Audit fees	9 966	8 633
External audit fees	6 516	6 077
Other fees / services	3 450	2 556
Operating lease expenses	107 204	105 973
Operating lease expenses – onerous contract	20 985	–
Loss / (profit) on sale of property, plant and equipment	573	(1 571)
Consulting and legal fees for professional services	42 597	35 433
Investment fees paid	7 311	7 003
Foreign exchange profit	(456)	(476)
Marketing and management expenses	1 336 383	1 299 361
Total other disclosable expenses	1 524 563	1 454 356
Total marketing and administration expenses	3 715 503	3 591 462

12. Finance charges

	2017 R'000	2016 R'000
Interest paid – operational financing	586	160
	586	160

Notes to the consolidated financial statements *continued*

13. Taxation

	2017 R'000	2016 R'000
Normal taxation		
Current tax	(911 538)	(882 575)
Current year	(914 879)	(884 015)
Utilisation of assessed loss	–	389
Prior year over provision	3 341	1 051
Deferred tax	(164 006)	(18 264)
Current year	(164 755)	(19 366)
Prior year over provision	749	1 102
Total normal taxation	(1 075 544)	(900 839)
Witholding taxation incurred	(3 103)	(3 224)
Total taxation charge	(1 078 647)	(904 063)
Tax rate reconciliation		
Normal tax on companies	1 212 742	815 630
Non-temporary differences	(148 369)	61 892
Fair value adjustment	1 871	(9 163)
Capital gains tax	577	7 528
Foreign tax rate differential	19 546	13 895
Exempt dividends	(30 694)	(31 827)
Gain on derivative associated with acquisition of associate	(218 111)	–
Fair value adjustment to financial liabilities	55 598	57 218
Non-allowable expenses	22 844	24 241
Prior year (over) provision	(4 090)	(2 153)
Witholding taxation incurred	10	–
Deferred tax asset not recognised	18 354	28 694
Amount calculated at effective rate	1 078 647	904 063

14. Earnings per share

In terms of IAS 33, the Group has elected to disclose earnings per share.

14.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares held by the Group as treasury shares.

	2017	2016
Earnings attributable to ordinary shareholders (R'000)	3 212 292	1 982 956
Weighted average number of shares in issue ('000)	3 762 173	3 483 476
Basic earnings per share (cents)	85,38	56,92

14.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The options that have been issued to key personnel that have not yet vested or have not yet been exercised by the holders of those options have a potential dilutive effect on the earnings per share for the Group. Earnings dilution results from the Group's share incentive schemes as disclosed in note 28.

	2017	2016
Earnings attributable to ordinary shareholders (R'000)	3 212 292	1 982 956
Diluted earnings attributable to Youi Group (R'000)	(58 256)	(43 538)
Total earnings attributable to ordinary shareholders (R'000)	3 154 036	1 939 418
Diluted weighted average number of shares in issue ('000)	3 818 466	3 547 329
Weighted average number of shares in issue ('000)	3 762 173	3 483 476
Dilution impact of share incentive scheme ('000)	56 293	63 853
Diluted earnings per share (cents)	82,60	54,67

15. Headline earnings per share

Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Headline earnings reconciliation:

	2017 R'000	2016 R'000
Earnings attributable to ordinary shareholders	3 212 292	1 982 956
Adjusted for:		
Impairment of available-for sale instruments	12 608	3 804
Loss / (profit) on sale of property and equipment	573	(1 571)
Tax effect of adjustments	(2 861)	(446)
Headline earnings attributable to ordinary shareholders	3 222 612	1 984 743
Weighted average number of shares in issue ('000)	3 762 173	3 483 476
Headline earnings per share – basic (cents)	85,66	56,98
Headline earnings attributable to ordinary shareholders	3 222 612	1 984 743
Diluted headline earnings attributable to Youi Group	(58 256)	(43 538)
Diluted headline earnings attributable to ordinary shareholders	3 164 356	1 941 205
Diluted weighted average number of shares in issue ('000)	3 818 466	3 547 328
Headline earnings per share – diluted (cents)	82,87	54,72

16. Dividend per share

	2017 R'000	2016 R'000
Total dividends paid during the year (R'000)	1 290 593	1 134 446
Total dividends declared	1 478 031	1 266 539
Total dividends declared – interim (R'000)	615 679	580 497
Total dividends declared – final (R'000)	862 352	686 042
Number of ordinary shares in issue ('000)	3 798 908	3 518 163
Opening number of ordinary shares in issue ('000)	3 518 163	3 518 163
Issue of ordinary shares ('000)	280 745	–
Dividends declared per share (cents)	40.20	36,00
Dividend paid per share (cents)	36,68	32,25

17. Property and equipment

	Land and buildings R'000	Computer equipment R'000	Computer software R'000	Furniture, Fittings and office equipment R'000	Motor vehicles R'000	Property under development R'000	Total R'000
Year ended 30 June 2017							
Opening net book amount	514 397	95 656	36 309	21 382	1 628	–	669 372
Additions	341	80 939	61 963	9 956	1 225	326 750	481 174
Disposals	(552)	(1 026)	–	(1 035)	(107)	–	(2 720)
Transfer of property under development	(206 011)	–	–	–	–	206 011	–
Foreign exchange adjustments	(2 210)	(1 554)	(1 201)	(1 347)	(17)	(18 189)	(24 518)
Depreciation charge	(24 825)	(61 610)	(35 983)	(8 027)	(676)	–	(131 121)
Closing net book amount	281 140	112 405	61 088	20 929	2 053	514 572	992 187
At 30 June 2017							
Cost	399 167	499 847	206 468	98 757	3 286	514 572	1 722 097
Accumulated depreciation	(118 027)	(387 442)	(145 380)	(77 828)	(1 233)	–	(729 910)
Net book amount	281 140	112 405	61 088	20 929	2 053	514 572	992 187
Year ended 30 June 2016							
Opening net book amount	346 423	129 688	21 697	21 843	991	–	520 642
Additions	462	36 530	22 480	1 973	1 549	–	62 994
Property under development	199 835	–	–	–	–	–	199 835
Disposals	(16 347)	(214)	(77)	(121)	(251)	–	(17 010)
Reallocation of computer software	–	(14 801)	14 801	–	–	–	–
Foreign exchange adjustments	9 406	4 268	3 433	3 620	39	–	20 766
Depreciation charge	(25 382)	(59 815)	(26 025)	(5 933)	(700)	–	(117 855)
Closing net book amount	514 397	95 656	36 309	21 382	1 628	–	669 372
At 30 June 2016							
Cost	610 461	450 647	149 314	95 683	2 469	–	1 308 574
Accumulated depreciation	(96 064)	(354 991)	(113 005)	(74 301)	(841)	–	(639 202)
Net book amount	514 397	95 656	36 309	21 382	1 628	–	669 372

Land and buildings assets are utilised by the Group in the normal course of operations to provide services. The South African head office is situated in Centurion, Gauteng. This property is owner-occupied. The Group is in the process of establishing a new head office for the Youi Group on the Sunshine Coast in Australia. Building will be completed by the end of 2017. The property will be owned by the Group.

Information regarding land and buildings is kept at the Group's registered offices. This information will be open for inspection in terms of section 20 of the Companies Act.

Refer to note 34 for the current and non-current analysis of property and equipment.

Notes to the consolidated financial statements *continued*

18. Subsidiaries

The Company had the following subsidiaries at 30 June 2017:

Subsidiary	Nature of business	Country of Incorporation	Issued ordinary capital (R'000) 2017	Issued ordinary capital (R'000) 2016	Effective Holdings 2017	Effective Holdings 2016
OUTsurance Insurance Company Ltd	Short-term insurer	South Africa	25 000	25 000	100%	100%
OUTsurance Life Insurance Company Ltd	Long-term insurer	South Africa	435 002	435 002	100%	100%
Youi (Pty) Ltd (South Africa)	Administration company	South Africa	15 000	15 000	100%	100%
OUTsurance International Holdings (Pty) Ltd	Holdings company	South Africa	1 169 086	1 169 086	100%	100%
OUTsurance Shared Services (Pty) Ltd	Administration company	South Africa	100	100	100%	100%
OUTvest Nominees RF (Pty) Ltd	Nominee	South Africa	1	–	100%	–
OUTvest (Pty) Ltd	Online digital advice and administration services	South Africa	30 000	–	100%	–
Youi NZ Pty Ltd	Short-term insurer	New Zealand	575 086	575 086	93.0%	93.0%
Youi Holdings Pty Ltd	Holdings company	Australia	1 312 067	1 312 067	93.0%	93.0%
Youi Pty Ltd (Australia)	Short-term insurer	Australia	1 188 792	1 188 792	93.0%	93.0%
Youi Properties Pty Ltd	Property company	Australia	10	10	93.0%	93.0%
OUTsurance Properties (Pty) Ltd	Property company	South Africa	38 105	38 105	100%	100%

All subsidiaries are included in the consolidation. The proportion of voting rights in subsidiaries does not differ from the proportion of ordinary shares held.

The total non-controlling interest for the financial year is R143.6 million (2016: 130.1 million) which is attributable to the minority shareholders of Youi Holdings Pty Ltd.

Reconciliation of non-controlling interest:

	2017 R'000	2016 R'000
Opening balance of non-controlling interest	130 137	136 344
Profit attributable to non-controlling interest	40 280	25 947
Foreign currency translation reserve attributable to non-controlling interest	(13 969)	21 167
Equity transactions with non-controlling interests	(12 813)	(53 321)
Closing balance of non-controlling interest	143 635	130 137

Involvement with unconsolidated structured entities

One of the Group's subsidiaries, OUTvest (Pty) Ltd (OUTvest), offers an online advice and investment platform which works exclusively with designed investment portfolios which include four collective investment schemes run by Coreshares Index Tracker Managers (Coreshares). OUTsurance Insurance Company Limited (OUTsurance) invested R100 million in total directly into the four collective investment schemes during the year under review. Refer to note 20 for further detail.

19. Investment in associates

	2017 R'000	2016 R'000
Investment in associates		
Main Street 1353 (Pty) Limited	3 792 922	–
OUTsurance Insurance Company of Namibia Limited	49 269	38 626
	3 842 191	38 626
Reconciliation of investment in associate		
Opening balance	38 626	32 775
Ordinary shares purchased in associate	3 033 049	–
Equity accounted earnings	28 697	14 671
Gain on derivative related to acquisition of investment in associate	750 269	–
Share of associate available-for-sale	370	–
Dividends received from associates	(8 820)	(8 820)
Closing balance	3 842 191	38 626

The Group effectively owns a 49% share in the ordinary shares of OUTsurance Insurance Company of Namibia Limited, a company incorporated and domiciled in Namibia.

During the year, the Group acquired a 49% interest in Main Street 1353 (Pty) Ltd (Main Street) which owns a 29.9% interest in Hastings Group Holdings PLC. This gain represents the movement in the fair value of Main Street from 1 March 2017, the contractual date, up to 1 June 2017 when the contract became effective. The gain is linked to the significant appreciation in the share price of Hastings Group Holdings PLC between these dates. IFRS deemed the period between 1 March 2017 and 1 June 2017 to be a derivative contract and therefore the gain that arises is considered a derivative gain. The purchase consideration of R3 033 049 318 was settled as follows:

- R678 045 988 in cash; and
- R2 355 003 330 through the placement of ordinary shares.

On 1 June 2017, the fair value of the 49% stake in Main Street was R3 783 318 657. The difference between the fair value and the consideration paid has been included as the gain on derivative contract.

There are no contingent liabilities relating to the Group's investment in associates.

19. Investment in associates *continued*

The table below provides a summary of the financial information of the associates held within the Group:

	OUTsurance Namibia		Main Street
	2017 R'000	2016 R'000	2017 R'000
Statement of financial position			
Current assets	166 705	163 189	7 661
Non-current assets	4 179	2 913	8 901 424
Current liabilities	(16 593)	(16 080)	(2 571 197)
Insurance contract provisions	(52 529)	(70 535)	–
Equity	100 762	79 487	6 337 888
Statement of profit or loss and other comprehensive income			
Revenue	204 681	215 316	211 411
After tax profit or loss attributable to the Group	19 093	14 671	9 604
After tax total comprehensive income attributable to the Group	19 245	14 788	9 604
Cash Flow statement			
Cash inflow from operating activities	29 611	35 492	45 406
Cash inflow / (outflow) from investing activities	3 707	(7 355)	(8 555 274)
Cash outflow from financing activities	(23 003)	(21 413)	8 517 529
Increase in cash and cash equivalents	10 315	7 661	7 661
Opening balance of cash and cash equivalents	58 265	51 541	–
Closing balance of cash and cash equivalents	68 580	58 265	7 661

Reconciliation to carrying value:

	2017 R'000	2016 R'000
Opening net assets – 1 July	79 487	67 306
Profit for the period	38 965	29 942
Other comprehensive income	310	239
Dividend	(18 000)	(18 000)
Closing net assets	100 762	79 487
Interest in associates (49%)	49 373	38 948
Available-for-sale and preference shares	(104)	(322)
Carrying value	49 269	38 626

Refer to note 34 for the current and non-current analysis of investments in associates.

20. Financial assets – equity and debt securities

The Group financial assets are summarised below:

	2017 R'000	2016 R'000
Fair value designated through profit and loss		
Debt securities		
Zero-coupon deposits	207 545	82 987
Term deposits	4 428 701	5 218 801
Government, municipal and public utility securities	456 941	431 145
Money market securities <1year	1 464 959	1 959 974
Money market securities >1 year	1 064 921	676 584
Equity securities		
Collective investment schemes	98 804	–
Available-for-sale		
Equity securities		
Listed perpetual preference shares	377 131	393 298
Exchange traded funds	619 046	411 766
Debt securities		
Unlisted redeemable preference shares	105 077	647 465
Total financial assets	8 823 125	9 822 020

The table below provides a breakdown of the movement in the equity and debt securities:

	Fair value designated through profit and loss R'000	Available-for-sale R'000	Total R'000
Group 2017			
Movement Analysis			
Balance at 1 July 2016	8 369 491	1 452 529	9 822 020
Additions (purchases and issuings)	8 733 187	193 007	8 926 194
Disposals (sales and redemptions)	(8 930 871)	(535 001)	(9 465 872)
Unrealised fair value adjustments	10 698	(9 281)	1 417
Foreign exchange difference	(460 634)	–	(460 634)
Balance at 30 June 2017	7 721 871	1 101 254	8 823 125
Group 2016			
Movement analysis			
Balance at 1 July 2015	6 296 372	1 305 922	7 602 294
Additions (purchases and issuings)	5 438 268	259 476	5 697 744
Disposals (sales and redemptions)	(3 398 621)	(113 897)	(3 512 518)
Unrealised fair value adjustments	33 472	1 028	34 500
Balance at 30 June 2016	8 369 491	1 452 529	9 822 020

A register of investments is available for inspection at the registered office of the Group.

Refer to note 3.3.1 for information relating to the fair value of investment securities. Refer to note 34 for the current and non-current analysis of investment securities.

21. Loans and receivables

	2017 R'000	2016 R'000
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	2 270 471	2 509 788
Due from reinsurers	103 375	31 765
Other receivables		
Receivable from associate	9 800	–
Other receivables and prepayments	150 243	213 783
Total receivables	2 533 889	2 755 336

Insurance receivables are recognised and carried at the contractual amount less any allowance for uncollectible amounts. Non-insurance receivables are carried at amortised cost using the effective interest method. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

At 30 June 2017, none of the receivables listed above are considered to be past due or impaired.

Included in loans and receivables are amounts due by related parties. Refer to note 35 for further details thereof.

Since loans and receivables have short-term maturities, the carrying amount approximates the fair value. Refer to note 34 for the current and non-current analysis of loans and receivables.

22. Deferred taxation

Deferred 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 taxes relates to the same fiscal authority.

	2017 R'000	2016 R'000	2015 R'000
Deferred tax assets			
Provision relating to staff costs	234 509	330 172	264 191
Fair value adjustments	11 842	10 938	8 431
Service costs on employee benefits	6 601	7 815	5 566
Operating lease charges	13	54	67
Unrealised foreign exchange loss	140	12	–
Difference between accounting and tax values of assets	3 540	3 534	2 217
Payment received in advance	411	1 233	1 712
Special transfer credit	21 041	–	2 806
Available-for-sale financial assets[1]	177	–	–
Assessed loss	271	1 321	35 637
Adjustment relating to offset	(125 805)	(134 437)	(120 968)
Total deferred tax assets	152 740	220 642	199 659
Deferred tax liabilities			
Operating lease charges	–	–	(75)
Fair value adjustment	(93)	–	–
Unrealised foreign exchange gain	–	(22)	–
Available-for-sale financial assets[1]	(21 415)	(23 349)	(19 239)
Deferred expenditure immediately deductable for tax purposes	(7 433)	(9 152)	(6 454)
Deferred acquisition costs	(144 376)	(109 522)	(99 729)
Special transfer credit	–	(18 540)	(4 859)
Prepayments	(5 147)	(772)	(1 976)
Adjustment relating to offset	125 805	134 437	120 968
Total deferred tax liabilities	(52 659)	(26 920)	(11 364)

22. Deferred taxation *continued*

	2017 R'000	2016 R'000	2015 R'000
Reconciliation of movement in deferred tax asset			
Opening balance of deferred tax assets	220 642	199 659	351 762
Transfer of intellectual property	–	–	(2)
Foreign exchange difference	(22 111)	42 268	(18 763)
Transfer to share-based payment reserve	79 836	3 738	1 543
Prior year adjustment	749	1 102	2 086
Available-for-sale financial assets	145	–	–
Deferred tax charge for the year	(135 153)	(12 656)	(15 999)
Adjustment relating to offset	8 632	(13 469)	(120 968)
Closing balance of deferred tax assets	152 740	220 642	199 659
Reconciliation of movement in deferred tax liabilities			
Opening balance of deferred tax liabilities	(26 920)	(11 364)	(131 496)
Foreign exchange difference	10 561	(18 429)	7 463
Transfer of intellectual property	–	191	–
Available-for-sale financial assets[1]	1 934	(4 077)	(3 087)
Deferred tax charge for the year	(29 602)	(6 710)	(5 212)
Adjustment relating to offset	(8 632)	13 469	120 968
Closing balance of deferred tax liability	52 659	(26 920)	(11 364)

1 *These amounts have been charged directly to other comprehensive income.*

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

A deferred tax asset relating to the startup loss incurred by Youi New Zealand has not been recognised due to the short trading history of the business. The deferred tax asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred tax asset for the financial year that has not been recognised is R82 million (2016: R83.4 million). A deferred tax asset amounting to R195 million (2016: R198.9 million) which relates to the individual policyholder fund in OUTsurance Life Insurance Company Limited has not been recognised.

Refer to note 34 for the current and non-current analysis of deferred taxation.

23. Cash and cash equivalents

	2017 R'000	2016 R'000
Cash at bank and on hand	673 238	463 920
Money market investments	48 222	13 936
	721 460	477 856

Included in money market investments are deposits with a term of maturity of less than three months. The carrying value of cash and cash equivalents approximates the fair value.

Notes to the consolidated financial statements *continued*

24. Share capital

Upon consolidation, shares owned by the OUTsurance Holdings Limited Share Trust are accounted for as treasury shares and are eliminated against share capital and share premium. The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting.

	2017 R	2016 R
Authorised share capital		
3 999 998 000 (2016: 3 999 999 000) ordinary shares at R0.01 each	39 999 980	39 999 990
1 000 "A" variable rate, cumulative, redeemable preference shares with no par or nominal value	–	–
1 000 "A" variable rate non cumulative non redeemable preference shares of R0.01 each	10	10
Issued ordinary share capital		
Opening balance of ordinary shares in issue: 3 518 163 100 at R0.01 each	35 181 631	35 181 631
280 745 208 ordinary shares issued during the year of R8.39 each	2 807 452	–
Treasury shares held by the OUTsurance Holdings Share Trust 34 023 892 (2016: 40 184 922)	(340 239)	(401 849)
Closing balance of ordinary shares in issue: 3 798 908 308 at R0.01 each	37 648 844	34 779 782

	2017 R'000	2016 R'000
Share premium		
Ordinary shares		
Issued share premium	265 110	265 110
Share premium raised on issue of shares	2 352 196	–
Treasury shares held by the OUTsurance Holdings Share Trust	(18 268)	(67 454)
	2 599 038	197 656

Shares were issued on the acquisition of the Group's interest in Main Street 1353 (Pty) Ltd.

During the current year the Group converted 1 000 authorised ordinary shares to 1 000 authorised "A" preference shares having no par value or nominal value.

25. Insurance contract liabilities

The table below provides an overview of the Group's liability which arises from insurance contracts:

	2017			2016		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Short-term insurance contracts						
Claims provisions	2 178 690	(519 947)	1 658 743	2 058 049	(94 757)	1 963 292
Unearned premium provision	3 990 132	(54 072)	3 936 060	4 396 180	(73 404)	4 322 776
Insurance contract non-claims bonuses provision	439 464	–	439 464	417 957	–	417 957
Long-term insurance contracts						
Policyholder liabilities	233 022	(97 995)	135 027	195 721	(89 163)	106 558
	6 841 308	(672 014)	6 169 294	7 067 907	(257 324)	6 810 583

Notes to the consolidated financial statements *continued*

25. Insurance contract liabilities *continued*

25.1 Analysis of movement in short-term insurance contract liabilities

	2017			2016		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Analysis of movement in claims provision						
Opening balance						
Outstanding claims provision	1 452 564	(43 517)	1 409 047	1 490 556	(303 071)	1 187 485
Claims incurred but not reported	605 485	(51 240)	554 245	562 217	(141 889)	420 328
Total	2 058 049	(94 757)	1 963 292	2 052 773	(444 960)	1 607 813
Current year						
Claims incurred	7 635 510	(659 702)	6 975 808	7 064 207	(309 198)	6 755 009
Claims paid	(6 120 522)	298 658	(5 821 864)	(5 798 845)	180 083	(5 618 762)
Prior year						
Claims incurred	(90 676)	16 374	(74 302)	(112 007)	47 941	(64 066)
Claims paid	(1 161 147)	52 030	(1 109 117)	(1 410 260)	364 043	(1 046 217)
Movement in incurred but not reported claims	(1 262)	(116 507)	(117 769)	46 584	90 649	137 233
Change in risk margin	(8 579)	(30 510)	(39 089)	(23 680)	34 458	10 778
Change in claims handling expenses	(11 013)	–	(11 013)	5 198	–	5 198
Foreign exchange movement	(121 670)	14 467	(107 203)	234 079	(57 773)	176 306
Closing balance						
Outstanding claims provision	1 575 437	(352 200)	1 223 237	1 452 564	(43 517)	1 409 047
Claims incurred but not reported	603 253	(167 747)	435 506	605 485	(51 240)	554 245
Total	2 178 690	(519 947)	1 658 743	2 058 049	(94 757)	1 963 292

	2017			2016		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Analysis of movement in unearned premium provision (UPP)						
Opening balance	4 396 180	(73 404)	4 322 776	3 344 431	(41 428)	3 303 003
UPP raised	7 503 402	(709 702)	6 793 700	7 783 272	(717 536)	7 065 736
UPP earned	(7 560 920)	729 034	(6 831 886)	(7 279 004)	685 560	(6 593 444)
Foreign exchange difference	(348 530)	–	(348 530)	547 481	–	547 481
Closing balance	3 990 132	(54 072)	3 936 060	4 396 180	(73 404)	4 322 776
Analysis of movement in insurance contract non-claims bonuses						
Opening balance	417 957	–	417 957	402 059	–	402 059
Charge to statement of profit or loss	384 478	–	384 478	362 395	–	362 395
Non-claims bonuses paid during the year	(362 971)	–	(362 971)	(346 497)	–	(346 497)
Closing balance	439 464	–	439 464	417 957	–	417 957

Notes to the consolidated financial statements *continued*

25. Insurance contract liabilities *continued*

25.2 Analysis of movement in deferred acquisition costs

	2017 R'000	2016 R'000
Analysis of movement in deferred acquisition costs (DAC)		
Opening balance	365 074	332 434
DAC raised	857 283	911 629
DAC charged to profit or loss	(851 534)	(936 387)
Foreign exchange difference	(32 345)	57 398
Closing balance	338 478	365 074

Based on the results of the liability adequacy test performed for Youi New Zealand at 30 June 2017, acquisition costs in the amount of R37.9 million (2016: R51.3 million) did not qualify for deferral.

25.3 Critical accounting estimates and judgements relating to short-term insurance

Claims reserves

Each reported claim is assessed separately on a case by case basis, by either a computer algorithm based on past experience or a claims assessor with the relevant experience, taking into account information available from the insured. The estimates are updated as and when new information becomes available.

The estimate for claims incurred but not reported (IBNR) is calculated as a percentage of historic net written premium. The required IBNR percentage is calculated with reference to the run-off period of incurred claims. The overall IBNR percentage represents the weighted average of the required IBNR per business class, weighted by the net written premium generated by each business class.

The claims reserve is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution. The difference between this 75th percentile and the best estimate is considered to be an appropriate risk margin. Claims is considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed.

	South African short-term operations R'000	Australasian short-term operations AUD $'000
70th Percentile	714 255	90 289
75th Percentile	728 352	91 666
80th Percentile	744 049	93 198

Liability for non-claims bonuses on insurance contracts

The provision for non-claims cash bonuses is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience. The risk margin is calibrated to ensure that the provision is at least sufficient at the 75th percentile of the ultimate cost distribution.

25. Insurance contract liabilities *continued*

25.4 Analysis of movement in long-term insurance contract liabilities

The policyholder liability represents the present value of the expected cash outflow to existing policyholders at measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

	Gross policy-holder liability R'000	Reinsurers' share of policy-holder liability R'000	Net policy-holder liability R'000	Deferral of acquisition costs R'000	Net policy-holder liability incl deferral of acquisition costs R'000
2017					
Analysis of change in policyholder liabilities					
Opening balance	327 402	(89 163)	238 239	(131 681)	106 558
Policyholder Liability	295 915	(79 887)	216 028	(131 681)	84 347
Incurred but not reported	6 770	–	6 770	–	6 770
Outstanding claims	24 717	(9 276)	15 441	–	15 441
Transfer to policyholder liabilities under insurance contract	58 626	(8 832)	49 794	(21 325)	28 469
Unwind of discount rate	104 535	(17 123)	87 412	–	87 412
Experience variance	(1 439)	2 385	946	–	946
Change in non-economic assumptions	(33 145)	4 120	(29 025)	–	(29 025)
Change in economic assumptions	(27 406)	7 009	(20 397)	–	(20 397)
New business	943	(514)	429	–	429
Incurred but not reported claims	(704)	–	(704)	–	(704)
Change in outstanding claims reserve	15 842	(4 709)	11 133	–	11 133
Deferral of acquisition costs	–	–	–	(21 325)	(21 325)
Closing balance	386 028	(97 995)	288 033	(153 006)	135 027
Policyholder Liability	339 403	(84 010)	255 393	(153 006)	102 387
Incurred but not reported	6 066	–	6 066	–	6 066
Outstanding claims	40 559	(13 985)	26 574	–	26 574

25. Insurance contract liabilities *continued*

25.4 Analysis of movement in long-term insurance contract liabilities *continued*

	Gross policy-holder liability R'000	Reinsurers' share of policy-holder liability R'000	Net policy-holder liability R'000	Deferral of acquisition costs R'000	Net policy-holder liability incl deferral of acquisition costs R'000
2016					
Analysis of change in policyholder liabilities					
Opening balance	256 131	(82 457)	173 674	(118 649)	55 025
Policyholder Liability	223 236	(71 231)	152 005	(118 649)	33 356
Incurred but not reported	5 738	–	5 738	–	5 738
Outstanding claims	27 157	(11 226)	15 931	–	15 931
Transfer to policyholder liabilities under insurance contract	71 271	(6 706)	64 565	(13 032)	51 533
Unwind of discount rate	87 842	(19 489)	68 353	–	68 353
Experience variance	4 332	(297)	4 035	–	4 035
Modelling methodology changes	(9 930)	1 235	(8 695)	–	(8 695)
Change in non-economic assumptions	(993)	2 680	1 687	–	1 687
Change in economic assumptions	(17 386)	12 453	(4 933)	–	(4 933)
New business	8 814	(5 238)	3 576	–	3 576
Incurred but not reported claims	1 032	–	1 032	–	1 032
Change in outstanding claims reserve	(2 440)	1 950	(490)	–	(490)
Deferral of acquisition costs	–	–	–	(13 032)	(13 032)
Closing balance	327 402	(89 163)	238 239	(131 681)	106 558
Policyholder Liability	295 915	(79 887)	216 028	(131 681)	84 347
Incurred but not reported	6 770	–	6 770	–	6 770
Outstanding claims	24 717	(9 276)	15 441	–	15 441

25.5 Critical accounting estimates and judgements relating to long-term insurance

Policyholder liabilities

The following compulsory margins were applied in the valuation of the policyholder liability at 30 June 2017:

Assumption	Margin
Investment return	0.25% increase / decrease[1]
Mortality	7.5% increase
Morbidity	10% increase
Disability	10% increase
Retrenchment	15% increase
Expenses	10% increase
Expense inflation	10% increase of estimated escalation rate
Lapses	25% increase / decrease[1] on best estimate

1 Depending on which change increases the liability.

25. Insurance contract liabilities *continued*

25.5 Critical accounting estimates and judgements relating to long-term insurance *continued*

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative reserves after taking into account the release of negative reserves to offset the deferral of acquisition costs. The mortality and morbidity assumptions mentioned above, both have a discretionary margin of 10%.

For the purposes of determining the value of the policyholder liability for prudential regulatory purposes, the deferral of acquisition costs is ignored in the Statutory Valuation Method (SVM) calculation.

Demographic assumptions

The best estimate assumptions in respect of dread disease & disability, mortality and retrenchment rates were set equal to those used in the most recent pricing basis as developed by the reinsurer and approved by the statutory actuary. Provision has been made for the expected increase in the occurrence of AIDS- related claims.

Economic assumptions

Investment return

The Group calculates its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the appropriate duration at the valuation date is 11.8% (2016: 11.2%).

Inflation

The Group calculates its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the appropriate duration at the valuation date is 9.1% (2016: 9.4%).

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to Section 29A of the Income Tax Act at the reporting date. The OUTsurance Life's current tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

Claims reserves

In addition to the discounted cash flow liability, both an IBNR and an OCR reserve was held. The IBNR was set using a claims runoff model based on recent experience and best estimates. The OCR was set using the actual estimate of outstanding claims as at year-end.

Refer to note 34 for the current and non-current analysis of insurance contract liabilities.

25.6 Sensitivity analysis of policyholder liability

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin
Lapses	10% increase / decrease
Investment return	1% increase / decrease
Mortality / Morbidity / Disability	5%-10% increase / decrease
Retrenchment	5%-10% increase / decrease
Expenses	10% increase / decrease

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities and the impact is reflected as the change in policyholder liabilities.

Each sensitivity is applied in isolation with all other assumptions left unchanged.

The sensitivities shown in the table below are based on the assumption that negative reserves, amounting to R630.7 million, are not eliminated in order to derive sensitivity stresses which are more closely aligned with economic reality.

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Notes to the consolidated financial statements *continued*

25. Insurance contract liabilities *continued*

25.6 Sensitivity analysis of policyholder liability *continued*

No elimination of negative rand reserves	Change in variable	Increase / (decrease) in policyholder liabilities R'000	Increase / (decrease) in policyholder liabilities %
At 30 June 2017			
Lapses	+10%	(10 381)	(3%)
	-10%	14 992	4%
Investment return	+1%	(38 879)	(10%)
	-1%	52 946	14%
Mortality / Morbidity / Disability / Retrenchment	+10%	122 690	33%
	-10%	(124 878)	(33%)
Mortality / Morbidity / Disability / Retrenchment	+5%	61 611	16%
	-5%	(62 158)	(17%)
Expenses	+10%	34 486	9%
	-10%	(34 486)	(9%)
At 30 June 2016			
Lapses	+10%	(33 639)	(11%)
	-10%	42 166	14%
Investment return	+1%	(35 989)	(12%)
	-1%	51 648	17%
Mortality / Morbidity / Disability / Retrenchment	+10%	111 200	38%
	-10%	(113 310)	(38%)
Mortality / Morbidity / Disability / Retrenchment	+5%	55 856	19%
	-5%	(56 384)	(19%)
Expenses	+10%	37 951	13%
	-10%	(37 951)	(13%)

26. Insurance and other payables

	2017 R'000	2016 R'000
Insurance related payables		
Due to intermediaries	1 490	2 937
Due to reinsurers	116 298	110 745
Other payables	9 250	20 193
Non-insurance related payables		
Trade creditors	127 008	44 274
Other payables	259 145	390 320
Indirect tax on debtors	366 632	404 341
Provision for onerous contract	20 684	–
Indirect tax liability	37 814	47 903
Total payables	938 321	1 020 713

The carrying amount of payables approximates the fair value. Refer to note 34 for the current and non-current analysis of payables.

27. Employee benefits

Uncertainty exists relating to the timing and extent of cash flows from the leave pay provision. The outstanding balance represents the current value of leave due to employees currently in the employ of companies within the Group.

The intellectual property bonuses are recognised as current service costs over a range of retention periods from six months to two years. The balance of the intellectual property bonuses are recognised as an employee benefit asset.

	2017 R'000	2016 R'000
Leave pay liability	131 454	120 902
Non-discretionary bonus liability	30 815	32 528
Total liability	162 269	153 430
Intellectual property bonuses asset	88 713	110 245
Total asset	88 713	110 245
Reconciliation of leave pay liability		
Opening balance	120 902	103 549
Charge for the year	33 199	21 864
Liability settled	(15 722)	(15 210)
Foreign translation difference	(6 925)	10 699
Closing balance	131 454	120 902
Reconciliation of non-discretionary bonus liability		
Opening balance	32 528	34 738
Charge for the year	54 279	55 733
Liability utilised	(55 280)	(59 589)
Foreign translation difference	(712)	1 646
Closing balance	30 815	32 528
Reconciliation of intellectual property bonuses asset		
Opening balance	110 245	64 100
Additions	66 462	115 561
Settlements	(165)	(416)
Service cost for the year	(85 648)	(73 193)
Foreign translation difference	(2 181)	4 193
Closing balance	88 713	110 245

Refer to note 34 for the current and non-current analysis of employee benefits.

28. Share-based payments

	2017 R'000	2016 R'000
Cash settled share-based payment liability	115 208	202 105
Total liability	115 208	202 105
Reconciliation of cash settled share-based payment liability		
Opening balance	202 105	147 151
Charge to profit or loss for the year	38 137	123 561
Liability settled	(125 034)	(68 607)
Closing balance	115 208	202 105

The charge to profit or loss for share-based payments is as follows:

	2017 R'000	2016 R'000
Youi Holdings equity-settled scheme	6 015	4 939
OUTsurance Holdings cash-settled scheme	38 137	123 561
Charge to profit or loss	44 152	128 500

The various Group share schemes are as follows:

- OUTsurance Holdings cash-settled share scheme
- Youi Holdings equity-settled share scheme

The purpose of these schemes is to attract, incentivise and retain managers within the Group by providing them with an option to acquire shares.

Description and valuation methodology of the schemes

OUTsurance Holdings cash-settled share scheme

In terms of the current trust deed, 12% of the issued share capital of the company is available to employees under the scheme. The OUTsurance Holdings Share Trust and employees currently hold 7.5% (2016: 10.1%) of the shares in OUTsurance Holdings Limited.

Under the cash-settled scheme, participants receive notional shares which have a value equal to the market value of an OUTsurance Holdings Limited ordinary share. Participants will receive the after-tax gain in the market value over the vesting period as a cash payment. Participants of this scheme have the option to purchase one ordinary share for each vested notional share from the OUTsurance Holdings Share Trust at the ruling market price on the date of purchase.

Valuation methodology

The cash-settled scheme issues are valued using a Black Scholes option pricing model with all notional shares (share appreciation rights) vesting in one tranche at the end of year three. The scheme is cash-settled and will thus be re-priced at each reporting date.

Market data consists of the following:

- Since OUTsurance Holdings is not listed, 'expected volatility' is derived with reference to the volatility of Rand Merchant Investment Holdings Limited, the listed parent company of the Group. The volatility reflects an historic period matching the duration of the option.
- The 'risk-free interest rate' input is derived from government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- The dividend growth assumption is based on the historic annual dividend paid on OUTsurance Holdings Limited ordinary shares.

Employee statistic assumptions:

- The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

28. Share-based payments *continued*

Youi Holdings equity-settled share scheme

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the company is available under the plan for the granting of options to employees. Options issued before 1 July 2011 were fully expensed in prior years in terms of IFRS 2. These options vest immediately and expire on 30 June 2018. Share options are settled by the delivery of Youi Holdings Pty Limited shares.

Valuation methodology

The fair value of share options is determined at grant date and expensed over the vesting period. The share options granted are classified as European call options and the fair value is determined by the use of the Black-Scholes share option pricing model.

A share-based payment expense is only recognised if the options issued have a positive intrinsic value, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

The 'option duration' is the number of years before the options expire, adjusted for a historical rate of early exercise.

Market data consists of the following:

- Since Youi Holdings is not listed, 'expected volatility' is derived with reference to the volatility of Rand Merchant Investment Holdings Limited, the listed parent company of the Group. The volatility reflects an historic period matching the duration of the option.
- The 'risk-free interest rate' input is derived from government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

- 'Dividend growth' is based on the best estimate of expected future dividends.

Employee statistic assumptions:

- The average 'annual employee turnover' estimates the number of participants in the option schemes that will leave before the options have vested.

Notes to the consolidated financial statements *continued*

28. Share-based payments *continued*

Share options

	2017 OUTsurance Holdings cash-settled scheme	2017 Youi Holdings equity-settled scheme
Number of options in force at the beginning of the year	63 852 697	292 800 750
Range of strike prices of opening balances	3,33 to 7,15	$0,10 to $0,49
Number of options granted during the year	19 270 000	7 400 000
Stike price of options granted during the year (cents)	8,48	$0,53
Number of options delivered during the year	(24 320 000)	(71 189 833)
Range of strike prices on date of delivery	3,33 to 3,70	$0,10
Number of options cancelled / forfeited during the year	(2 510 000)	–
Range of strike prices of forfeited options	5,57 to 8,48	–
Number of options in force at the end of the year	56 292 697	229 010 917
Range of strike prices of closing balance	5,57 to 8,48	$0,10 to $0,53
Price per ordinary share[1]	8,72	$0,42
Number of scheme participants	127	45
Weighted average remaining vesting period (years)	1,02	0,08

	2016 OUTsurance Holdings cash-settled scheme	2016 Youi Holdings equity-settled scheme
Number of options in force at the beginning of the year	58 547 091	294 098 750
Range of strike prices of opening balance	2,80 to 5,57	$0,10 to $0,486
Number of options granted during the year	21 370 000	1 750 000
Strike price of options granted during the year	7,15	$0,49
Number of options delivered during the year	(15 750 000)	(3 048 000)
Range of strike prices on date of delivery	2,80 to 3,70	$0,10
Number of options cancelled / forfeited during the year	(314 394)	–
Range of strike prices of forteited options	5,57 to 7,15	–
Number of options in force at the end of the year	63 852 697	292 800 750
Range of strike prices of closing balance	3,33 to 7,15	$0,10 to $0,49
Price per ordinary share[1]	8,08	$0,55
Number of scheme participants	134	41
Weighted average remaining vesting period (years)	0,96	0,07

1 *The price of ordinary shares resets six monthly on the 1st of July and 1st of January each year.*

28. Share-based payments *continued*

OUTsurance Holdings Share Trust

OUTsurance Holdings Limited shares are issued to the Trust on the share option grant date. The Trust's investment in OUTsurance Holdings Limited for the year ending 30 June was as follows:

	2017 R'000	2016 R'000
Number of treasury shares and market value		
Number of shares in portfolio at the beginning of the year	40 185	33 874
Number of shares purchased during the year	18 329	17 989
Number of shares released during the year	(24 490)	(11 678)
Number of shares held in portfolio at the end of the year	34 024	40 185
Market value per share held in portfolio at year-end (Rand)[1]	8.72	8.08
Market value of portfolio at year-end	296 689	324 694
Cost price of treasury shares		
Cost price of shares held in portfolio at the beginning of the year	67 856	15 526
Cost price of shares purchased during the year	157 714	135 970
Cost price of shares released during the year	(206 961)	(83 640)
Cost price of shares held in portfolio at the end of the year	18 609	67 856
Loans to the share trust		
Value of loans made to the trust at the beginning of the year	67 856	15 526
Value of loans made to the trust at the end of the year	18 609	67 856

1 *The market value of ordinary shares resets six monthly on the 1st of July and 1st of January each year.*

Share scheme expenditure

The following assumptions were applied in determining the cash-settled share-based payment liability:

	Outsurance Holdings cash-settled scheme	
	2017	2016
Share price	R9,30	R8,48
Exercise price	5,57 to 8,48	3,33 to 7,15
Remaining duration	0 to 3 years	0 to 3 years
Expected volatility	22,00%	22,00%
Risk free interest rate	7,81%	8,10%
Dividend yield	4,00%	4,00%
Annual employee turnover	4%	4%

28. Share-based payments *continued*

Share scheme expenditure *continued*

The inputs to the share option pricing model to determine the fair value of equity settled grants were as follows:

	Youi Holdings equity-settled scheme	
	2017	2016
Share price	$0,5300	$0,4860
Exercise price	$0,5300	$0,4860
Option duration	3	3
Expected volatility	22%	22%
Risk free interest rate	1.52%	1.88%
Dividend yield	0%	0%
Annual employee turnover	0%	0%

29. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance Insurance Company Limited to FirstRand Limited for the profit sharing arrangements. Profits arising from these arrangements are distributed by way of biannual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in profit or loss as a fair value adjustment to the liability. The portion of the unpaid preference dividend at 30 June is recognised as a financial liability at fair value through profit or loss.

	2017 R'000	2016 R'000
Shareholders for preference dividends on profit shares	110 372	104 461
	110 372	104 461

Refer to note 34 for the current and non-current analysis of shareholders for preference dividends.

Notes to the consolidated financial statements *continued*

30. Reconciliation of cash generated by operations

	2017 R'000	2016 R'000
Comprehensive income for the year before tax	4 061 099	3 278 438
Adjusted for:		
Depreciation	131 121	117 855
Equity accounted earnings from associates	(28 697)	(14 671)
Derivative gain on purchase of investment in associate	(750 269)	–
Share-based payments – equity settled schemes	(263 405)	2 282
Net fair value adjustments on financial assets	7 734	(14 688)
Profit on disposal of fixed assets	573	(1 571)
Fair value adjustment on financial liabilities	198 563	204 351
Provision for non-claims bonuses on insurance contracts for the year	384 478	362 395
Non-claims bonuses on insurance contracts paid	(362 971)	(346 497)
Finance charges	586	160
Interest received	(477 923)	(437 053)
Dividends received	(49 345)	(50 918)
Change in unearned premium provision	(38 186)	472 292
Change on deferred acquisition costs	26 596	(32 640)
Change in claims reserves	(197 348)	179 172
Change in policyholder liability under long-term insurance contracts	28 469	51 533
Employee benefit service cost	85 648	73 193
Cash generated by operations before working capital changes	2 756 723	3 843 633
Change in working capital	(5 300)	(589 136)
Decrease / (Increase) in receivables	221 447	(799 722)
(Decrease) / Increase in payables	(82 392)	255 634
(Decrease) / Increase in share-based payment liability	(86 897)	54 954
Intellectual property payments	(66 462)	(115 561)
Intellectual property settlements	165	416
Increase in employee benefits	8 839	15 143
Cash generated by operations	2 751 423	3 254 497

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Notes to the consolidated financial statements *continued*

31. Taxation paid

	2017 R'000	2016 R'000
Taxation payable – opening balance	(244 582)	(41 490)
Charge to profit or loss	(1 078 647)	(904 063)
Adjustment for deferred tax charge	164 006	14 335
Taxation payable – closing balance	120 686	244 582
Taxation paid	(1 038 537)	(686 636)

32. Preference dividends paid

	2017 R'000	2016 R'000
Preference dividends unpaid at the beginning of the year	(104 461)	(107 063)
Preference dividend charged to the statement of profit or loss in respect of profit share arrangements	(198 563)	(204 351)
Preference dividend unpaid at the end of the year	110 372	104 461
Preference dividend paid	(192 652)	(206 953)

33. Commitments

	2017 R'000	2016 R'000
South Africa		
Up to 1 year	990	1 868
Between 1 and 5 years	910	1 899
Total operating lease commitments[1]	1 900	3 767
Australiasia		
Up to 1 year	32 879	49 604
Between 1 and 5 years	62 758	98 416
Between 5 and 10 years	24 383	54 939
Total operating lease commitments for Youi Group[2]	120 020	202 959

1 *The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.*
2 *Youi Pty Ltd leases its office building under a non-cancellable operating lease expiring within a maximum of five years. The leases are renewable for further periods of up to four years.*

34. Current / non-current split of amounts recognised on the statement of financial position

The analysis shows the current / non-current split of assets and liabilities based on the expected contractual maturities thereof. Items classified as current have expected or contractual maturities within the next twelve months. Non-current items are expected or will legally mature in longer than twelve months. Equity instruments are considered to have no contractual maturity.

	Carrying Amount R'000	Current R'000	Non-current R'000	No contractual maturity R'000
30 June 2017				
ASSETS				
Investment in associates	3 842 191	–	3 842 191	–
Property and equipment	992 187	–	992 187	–
Employee benefits	88 713	65 251	23 462	–
Reinsurers' share of insurance contract provisions	672 014	569 205	102 809	–
Deferred acquisition costs	338 478	338 478	–	–
Financial assets				
Fair value through profit or loss	7 721 871	6 042 958	1 580 109	98 804
Available-for-sale	1 101 254	105 077	–	996 177
Loans and receivables	2 533 889	2 529 447	4 442	–
Deferred income tax	152 740	57 764	94 976	–
Cash and cash equivalents	721 460	721 460	–	–
TOTAL ASSETS	18 164 797	10 429 640	6 640 176	1 094 981
LIABILITIES AND EQUITY				
Total shareholders' equity	9 680 339	–	–	9 680 339
Non-controlling interest	143 635	–	–	143 635
Insurance contract liabilities	6 841 308	6 293 722	547 586	–
Share-based payment liability	115 208	68 785	46 423	–
Employee benefits	162 269	159 743	2 526	–
Financial liabilities at fair value through profit or loss	110 372	110 372	–	–
Deferred income tax	52 659	43 197	9 462	–
Tax liabilities	120 686	120 686	–	–
Insurance and other payables	938 321	917 353	20 968	–
TOTAL EQUITY AND LIABILITIES	18 164 797	7 713 858	626 965	9 823 974

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Notes to the consolidated financial statements *continued*

34. Current / non-current split of amounts recognised on the statement of financial position *continued*

	Carrying Amount R'000	Current R'000	Non-current R'000	No contractual maturity R'000
30 June 2016				
ASSETS				
Investment in associates	38 626	–	38 626	–
Property and equipment	669 372	–	669 372	–
Employee benefits	110 245	77 652	32 593	–
Reinsurers' share of insurance contract provisions	257 324	163 577	93 747	–
Deferred acquisition costs	365 074	365 074	–	–
Financial assets				
Fair value through profit or loss	8 369 491	7 315 341	1 054 150	–
Available-for-sale	1 452 529	568 213	79 252	805 064
Loans and receivables	2 755 336	2 755 336	–	–
Deferred income tax	220 642	82	220 560	–
Cash and cash equivalents	477 856	477 856	–	–
TOTAL ASSETS	14 716 495	11 723 131	2 188 300	805 064
LIABILITIES AND EQUITY				
Total shareholders' equity	5 766 240	–	–	5 766 240
Non-controlling interest	130 137	–	–	130 137
Insurance contract liabilities	7 067 907	5 986 669	1 081 238	–
Share-based payment liability	202 105	186 701	15 404	–
Employee benefits	153 430	94 715	58 715	–
Financial liabilities at fair value through profit or loss	104 461	104 461	–	–
Deferred income tax	26 920	19 368	7 552	
Tax liabilities	244 582	244 582	–	–
Insurance and other payables	1 020 713	1 010 989	9 724	–
TOTAL EQUITY AND LIABILITIES	14 716 495	7 647 485	1 172 633	5 896 377

Notes to the consolidated financial statements *continued*

35. Related party transactions

The Group defines related parties as:

- The parent company, Rand Merchant Investment Holdings Limited (RMI Holdings). RMI Holdings owns its investment in OUTsurance Holdings Limited through wholly owned subsidiaries Firness International (Pty) Limited and RMI Asset Company (Pty) Ltd.
- Associate companies of the parent company which include Discovery Holdings Limited, MMI Holdings Limited and the Hastings Group Holdings PLC, through Main Street 1353 (Pty) Ltd and Coreshares Index Tracker Managers (RF) (Pty) Ltd. RMI Holdings' shareholding in RMB Structured Insurance Holdings Limited was sold on 1 January 2017.
- Key management personnel such as the OUTsurance Holdings Limited Board of directors and the OUTsurance Holdings executive committee as well as the Youi Holdings Pty Limited Board and executive committee.

Principal shareholders

The Group is ultimately controlled by RMI Holdings. At the reporting date, RMI Holdings owned 80.3% (2016: 83.6%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 0.9% (2016: 1.1%), OUTsurance Investment Trust owning 3.9% (2016: 6.4%), OUTsurance Equity Trust 0.9% (2016: 0%), RMI Asset Company 7.4% (2016: 0%) and management 6.6% (2016: 8.9%) of the issued share capital.

Subsidiaries

Details of investment in subsidiaries are disclosed in note 18.

Transactions between OUTsurance Holdings Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Associates

Details of investment in associates are disclosed in note 19.

OUT SURANCE

Notes to the consolidated financial statements *continued*

35. Related party transactions *continued*

For the year under review, the OUTsurance Holdings Group entered into transactions with related parties resulting in the following expenses / (income):

	2017 R'000	2016 R'000
Transactions with related parties		
Momentum Asset Management		
Asset management fee paid	–	2 543
Discovery Health		
Medical aid premiums paid	65 218	63 519
MMI Holdings Limited		
Medical aid premiums paid	8 664	7 789
Pension fund contribution	80 392	78 311
Group life premiums paid	7 215	6 869
Firness International (Pty) Limited		
Ordinary dividends paid	1 159 374	1 020 290
RMI Asset Company (Pty) Ltd (for acquisition of 49% in Main Street, 1353 (Pty) Limited)		
Ordinary share replacement	2 355 003	–
Cash settlement	678 046	–
Investment income (received):		
Discovery Holdings Limited	(2 571)	(4 694)
Year end balances with related parties		
Discovery Holdings Limited		
Preference share investment	48 500	50 000
Main Street 1353 (Pty) Limited		
Receivable	9 800	–
Coreshares Index Tracker Managers (RF) (Pty) Ltd		
Collective investment scheme	98 804	–
Key management personnel		
Remuneration		
Salaries and bonuses	120 606	73 213
Non-executive directors fees	7 416	4 717
Other short-term employee benefits	2 533	–
Share-based payments	25 215	40 914
Total compensation of management personnel	155 769	118 844
Insurance related transactions		
Premiums received	2 402	1 115
Claims paid	(483)	(191)

The preference share investment in Discovery Holdings Limited consists of non-cumulative, non-redeemable preference shares listed on the JSE. The dividend rate is 100% of the ruling prime interest rate.

Insurance transactions are conducted at arm's length.

35. Related party transactions *continued*

Remuneration

Prescribed officers' and directors' emoluments for the year ended 30 June is as follows:

	Services as directors R'000	Cash package R'000	Performance related bonus[1] R'000	Other benefits R'000	Total R'000
2017					
Non-executive directors					
H Aron[6]	40	–	–	–	40
P Cooper	557[2]	–	–	–	557
LL Dippenaar	712[5]	–	–	–	712
AW Hedding	206	–	–	–	206
F Knoetze	138[4]	–	–	–	138
J Madavo	158	–	–	–	158
G Marx	206	–	–	–	206
NL Nightingale	324	–	–	–	324
K Pillay	199	–	–	–	199
PR Pretorius	178	–	–	–	178
H Bosman	178[4]	6 731[3]	–	917[3]	7 826
Executive directors and prescribed officers					
Executive directors					
WT Roos	–	3 761	3 761	–	7 522
H Aron[6]	–	5 816	4 079	–	9 895
MC Visser	–	3 486	3 486	–	6 972
Prescribed officers					
E Gouws[7]	–	823	–	–	823
JH Hofmeyr	–	2 581	2 581	–	5 162
Total	2 896	23 198	13 907	917	40 918

35. Related party transactions *continued*

Remuneration *continued*

	Services as directors R'000	Cash package R'000	Performance related bonus[1] R'000	Other benefits R'000	Total R'000
2016					
Non-executive directors					
P Cooper	466[2]	–	–	–	466
LL Dippenaar	512[5]	–	–	–	512
AW Hedding	209	–	–	–	209
F Knoetze	146[4]	–	–	–	146
J Madavo	146	–	–	–	146
G Marx	209	–	–	–	209
NL Nightingale	272	–	–	–	272
K Pillay	156	–	–	–	156
PR Pretorius	146	–	–	–	146
HL Bosman	110[4]	6 648[3]	1 500[3]	531[3]	8 789
Executive directors and prescribed officers					
Executive directors					
WT Roos	–	3 508	–	–	3 508
H Aron	–	8 729	–	–	8 729
MC Visser	–	3 237	–	–	3 237
Prescribed officers					
E Gouws	–	3 056	–	–	3 056
JH Hofmeyr	–	2 300	–	–	2 300
Total	2 372	27 478	1 500	531	31 881

1 *Performance related bonuses are paid on a two-year cycle.*
2 *Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2017: R335 285) (2016: 289 233).*
3 *Paid by Rand Merchant Investment Holdings for services as an executive director of Rand Merchant Investment Holdings.*
4 *Directors fees are paid to representative companies.*
5 *Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2017: R335 285) (2016: 282 333).*
6 *Retired from executive position with effect 1 February 2017.*
7 *Resigned as CEO of OUTsurance Insurance Company Ltd and OUTsurance Life Insurance Company Ltd with effect 1 October 2016.*

35. Related party transactions *continued*

Directors' and prescribed officers' participation in group share incentive schemes

OUTsurance Holdings share incentive schemes

	Strike price Rands	Vesting date[1] From	Vesting date[1] To	Settlement type	Opening balance July 2016 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2017 '000**	Benefit derived R'000
WT Roos	3,33	13 / 07 / 01	16 / 07 / 01	Cash	750	–	750	–	**–**	3 863
	5,57	14 / 07 / 01	17 / 07 / 01	Cash	500	–	–	–	**500**	–
	7,15	15 / 07 / 01	18 / 07 / 01	Cash	600	–	–	–	**600**	–
	8,48	16 / 07 / 01	19 / 07 / 01	Cash	–	–	–	600	**600**	–
H Aron	3,33	13 / 07 / 01	16 / 07 / 01	Cash	750	–	750	–	**–**	3 863
	5,57	14 / 07 / 01	17 / 07 / 01	Cash	500	–	–	–	**500**	–
	7,15	15 / 07 / 01	18 / 07 / 01	Cash	600	–	–	–	**600**	–
	8,48	16 / 07 / 01	19 / 07 / 01	Cash	–	–	–	–	**–**	–
MC Visser	3,33	13 / 07 / 01	16 / 07 / 01	Cash	750	–	750	–	**–**	3 863
	5,57	14 / 07 / 01	17 / 07 / 01	Cash	500	–	–	–	**500**	–
	7,15	15 / 07 / 01	18 / 07 / 01	Cash	600	–	–	–	**600**	–
	8,48	16 / 07 / 01	19 / 07 / 01	Cash	–	–	–	600	**600**	–
JH Hofmeyr	3,33	13 / 07 / 01	16 / 07 / 01	Cash	700	–	700	–	**–**	3 605
	5,57	14 / 07 / 01	17 / 07 / 01	Cash	500	–	–	–	**500**	–
	7,15	15 / 07 / 01	18 / 07 / 01	Cash	600	–	–	–	**600**	–
	8,48	16 / 07 / 01	19 / 07 / 01	Cash	–	–	–	600	**600**	–
E Gouws	3,33	13 / 07 / 01	16 / 07 / 01	Cash	750	–	750	–	**–**	3 863
	5,57	14 / 07 / 01	17 / 07 / 01	Cash	500	–	–	–	**500**	–
	7,15	15 / 07 / 01	18 / 07 / 01	Cash	600	–	–	–	**600**	–
	8,48	16 / 07 / 01	19 / 07 / 01	Cash	–	–	–	300	**300**	–

1 YY / MM / DD.

35. Related party transactions *continued*

Directors' and prescribed officers' participation in group share incentive schemes *continued*

Youi Holdings equity share incentive scheme

	Strike price Aus $	Vesting date[1] From	Vesting date[1] To	Opening balance July 2016 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2017 '000**	Benefit derived Aus $
H Aron	0,10	10 / 08 / 31	18 / 06 / 30	109 375	–	–	–	**109 375**	–

1 YY / MM / DD.

RMI Holdings share appreciation rights scheme

	Strike price Rands	Exercise date[1]	Opening balance 1 July 2016 '000	Forfeited this year '000	Taken up this year '000	Granted in current year '000	**Closing balance 30 June 2017 '000**	Benefit derived R'000
HL Bosman	28,74	17 / 04 / 02	631	–	631	–	**–**	–
	28,74	18 / 04 / 02	631	–	–	–	**631**	–
	28,74	19 / 04 / 02	631	–	–	–	**631**	–
	41,25	18 / 09 / 14	27	–	–	–	**27**	–
	41,25	19 / 09 / 14	27	–	–	–	**27**	–
	41,25	20 / 09 / 14	27	–	–	–	**27**	–
	43,41	19 / 09 / 14	–	–	–	167	**167**	–
	43,41	20 / 09 / 14	–	–	–	167	**167**	–
	43,41	21 / 09 / 14	–	–	–	167	**167**	–

1 YY / MM / DD.

36. Reclassification of comparatives

	Amount as previously reported R'000	Amount as reclassified R'000	Difference R'000	Explanation
30 June 2016				
Statement of financial position				
Assets				
Deferred income tax	193 722	220 642	(26 920)	Reclassification of deferred tax assets and deferred tax liabilities
Liabilities				
Deferred income tax	–	(26 920)	26 920	Reclassification of deferred tax assets and deferred tax liabilities
Total	193 722	193 722	–	
Statement of cash flows				
Operating activities				
Cash generated by operations	3 866 433	3 254 497	611 936	Reclassification of interest and dividends received to statement of cash flows, from cash generated by operations
Interest received	–	437 053	(437 053)	Reclassification of interest and dividends received to statement of cash flows, from cash generated by operations
Dividends received	–	59 738	(59 738)	Reclassification of interest and dividends received to statement of cash flows, from cash generated by operations
Investing activities				
Intellectual property payments	(115 561)	–	(115 561)	Reclassification of intellectual property payments and settlements to cash generated by operations
Intellectual property settlements	416	–	416	Reclassification of intellectual property payments and settlements to cash generated by operations
Total	3 751 288	3 751 288	–	

36. Reclassification of comparatives *continued*

	Amount as previously reported R'000	Amount as reclassified R'000	Difference R'000	Explanation
Statement of profit or loss and other comprehensive income				
Policyholder benefits on insurance contract claims	(6 888 525)	(7 250 920)	362 395	
Gross policyholder benefits under insurance contracts	(7 049 232)	(7 411 627)	362 395	Reclassification of non-claims bonuses into gross policyholder benefits
Reinsurers share of insurance contract claims	160 707	160 707	–	
Non-claims bonuses on insurance contracts	(362 395)	–	(362 395)	Reclassification of non-claims bonuses into gross policyholder benefits
Other comprehensive income				
Fair value gains on available-for-sale financial instruments	1 028	(2 776)	3 804	Reclassification of impairment of available-for-sale financial instrument from statement in changes in equity to comprehensive income
Impairment of available-for-sale financial instruments	–	3 804	(3 804)	Reclassification of impairment of available-for-sale financial instrument from statement in changes in equity to comprehensive income
Total	(7 249 892)	(7 249 892)	–	
Taxation				
Tax rate reconciliation				
Fair value adjustment to financial liability	–	57 218	(57 218)	Reclassification of fair value adjustment to financial liabilities from non-allowable expenses to fair value adjustment to financial liabilities
Non-allowable expenses	81 459	24 241	57 218	Reclassification of fair value adjustment to financial liabilities from non-allowable expenses to fair value adjustment to financial liabilities
Total	81 459	81 459	–	

As part of the IAS 1 disclosure initiative, items on the statement of financial position have been reordered to reflect least liquid to most liquid assets and liabilities.

37. Events after the reporting period

No matters which are material to the financial affairs of the Group occurred between the reporting date and date of the approval of the financial statements.

38. Summary of significant accounting policies

The accounting policies were consistent with that of the prior year, unless where stated under the relevant accounting policy.

38.1 Consolidated financial statements

The consolidated financial statements include the assets and liabilities of the holding company and all of its subsidiary companies. The results of the OUTsurance Holdings Share Trust are also fully consolidated.

38.1.1 Subsidiary companies

Subsidiaries are all entities (including structured entities) 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 the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

38.1.2 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

38.1.3 Non-controlling interest

Non-controlling interest can be measured at either:

- the proportionate share in the fair value of the identifiable net assets of the subsidiary at acquisition date; or
- fair value at acquisition date.

This measurement choice is applied at acquisition date per business combination transaction.

Non-controlling interests are treated as equity participants of the subsidiary company. Therefore, all transactions of the Group with non-controlling interests in their capacity as owners, where there is no change in control, are treated as transactions within equity. In such transactions, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group. Gains and losses on disposals to non-controlling interests are also recorded in equity.

38.1.4 Separate financial statements

Interests in subsidiary companies in the company financial statements are shown at cost less any required impairment. Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment.

38.1.5 Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. The Group assesses at each reporting period whether there is objective evidence that an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

The Group's share of its associates' earnings is recognised in profit or loss and its share of post-acquisition movements is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments were made to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

Interests in associates are accounted for at cost less any impairment in the company financial statements. The carrying amounts are reviewed annually for impairment.

38.2 Classification of insurance contracts

Contracts issued by the Group are governed by the relevant insurance legislation of the country in which the Group operates. Contracts under which the Group accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

38.3 Recognition and measurement of insurance contracts

38.3.1 Short-term insurance

Short-term insurance provides benefits under short-term policies, typically one year or less, under which the Group accepts significant insurance risks from the policyholder if the policyholder incurs losses relating to uncertain future events such as mechanical breakdown

38. Summary of significant accounting policies *continued*

38.3 Recognition and measurement of insurance contracts *continued*

38.3.1 Short-term insurance *continued*

of equipment, theft, fire, weather-related events, fraud, third party claims etc.

Premiums

Gross premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed. The earned portion of premiums received is recognised as revenue. Premiums relating to a future accounting period are included in unearned premium provision and are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Gross premium includes insurance related fee income which relates to policy fees, collection fees and take-on fees charged in the ordinary course of the underwriting of short-term insurance policies.

Unearned premium provision

All short-term insurance contracts have even risk profiles. The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

Insurance contract claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and includes an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries. Salvage proceeds are generated upon the successful salvage of damaged insured items after the settlement of the underlying claim. Recoveries are settlements from third parties as a result of involvement in a claim incident for which the third party is responsible. Recoveries are disclosed net of liabilities where the Group settles a third-party claim on behalf of the client, where the client is responsible for causing a loss to a third party. Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately.

Outstanding insurance contract claims

Provision is made for the estimated final costs of:

- claims notified but not settled at year end, using the best information available at that time; and
- claims incurred at year end but not reported until after that date (IBNR), using historical experience and the best information available at the time.

Estimates provide for inflation, claim handling expenses as well as a risk margin to allow for the uncertainty in the development of such claims estimates.

Claims handling expenses include all costs directly attributable to the administration of an insurance claim and includes the cost of claims assessments.

Reinsurance

The Group cedes reinsurance in the normal course of business to limit its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the impact of the event on the amounts that the Group will receive from the reinsurer can be measured.

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

Liabilities adequacy test for unexpired risk liabilities

At the end of the reporting period, the adequacy of the unearned premium liabilities is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (liability adequacy test). If the unearned premium liabilities, less deferred acquisition costs, are deficient, then the resulting deficiency is recognised immediately in profit or loss. Reinsurance is taken into account, where appropriate.

Notes to the consolidated financial statements *continued*

38. Summary of significant accounting policies *continued*

38.3 Recognition and measurement of insurance contracts *continued*

The deficiency is recognised first by writing off any deferred acquisition costs and thereafter any excess is recognised as unexpired risk liabilities in the statement of financial position.

Non-claims bonuses on insurance contracts

The Group provides for its contractual obligation per the contract of insurance to pay a non-claims bonus to a client in the event that the client remains claim free for a specified period of time. To derive the best estimate of the expected future cash flows, the non-claims bonus percentage per the contract of insurance is adjusted for the following factors:

- The bonus percentage is reduced to allow for the probability that the client may claim (and hence forfeit eligibility for the OUTbonus) over the OUTbonus cycle.
- The bonus percentage is reduced to allow for the probability that the client will cancel during the OUTbonus cycle.
- A risk margin is added to allow for the uncertainty relating to the above claims and lapse assumptions.
- Where the impact of discounting is considered to be material, the expected future obligation is discounted to the present value using an appropriate discount rate reflecting the time value of money.

38.3.2 Long-term insurance

Benefits are provided under long-term policies for life protector and underwritten life. Benefits are recorded as an expense when they are incurred.

Policyholder liabilities

Long-term insurance contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as detailed in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (ASSA).

The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums and investment income. The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as prescribed by SAP 104. In addition to the compulsory margins, discretionary margins may be added to protect against possible future adverse experience.

Discretionary margins are specifically allowed for to zerorise negative reserves which may arise from the FSV calculation. Such a margin is allowed for after allowing for the acquisition costs as described in 38.3.3.

The zerorisation of negative reserves ensures that profit and risk margins allowed for in premium income are not recognised before it is probable that future economic benefits will flow to the entity.

The compulsory and discretionary margins allowed for in the measurement of the liability are contained in note 25.

Refer to note 25 for the calculation basis and the specific assumptions used to calculate the policyholder liabilities.

Premiums

Gross premiums comprise the premiums as received on insurance contracts during the year. Premiums are disclosed before the deduction of commission.

Gross premium includes insurance related fee income which relates to policy fees and take-on fees charged in the ordinary course of the underwriting of long-term insurance policies.

Reinsurance

The Group cedes reinsurance in the normal course of business to limit its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the impact of the event on the amounts that the Group will receive from the reinsurer can be measured.

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

Insurance contract claims incurred

Claims payments on long-term insurance contracts, which include death, disability, critical illness and retrenchment, are charged to profit or loss on notification of a claim. The estimated liability for compensation owed to policyholders is based on the sum assured. Claims which have been reported but which are outstanding at the reporting date are recognised in insurance contract liabilities. Reinsurance recoveries are accounted for in the same period as the related claim.

Incurred but not reported claims

Provision is made in the policyholders' liabilities under insurance contracts, on the statement of financial position, for the estimated cost at the end of the year for claims incurred but not reported at that date. These liabilities are not discounted due to the short-term nature of the outstanding claims.

Liability adequacy test

At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of its insurance liabilities (as measured under the FSV basis) net of any related intangible present value of acquired in-force business (PVIF) assets is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in SAP 104 as well as any additional discretionary margins), the deficiency is recognised immediately in profit or loss.

Notes to the consolidated financial statements *continued*

38. Summary of significant accounting policies *continued*

38.3 Recognition and measurement of insurance contracts *continued*

Non-claims bonuses on insurance contracts

The expected non-claims cash bonuses to be paid in the future to policyholders on fulfilment of certain claims-related conditions are taken into account in the FSV per SAP 104.

38.3.3 Deferred acquisition costs

Short-term insurance contracts

Directly attributable acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. These acquisition costs are deferred as a deferred acquisition cost (DAC) asset and are amortised systematically over the contractual term of the policy.

Acquisition cost which is deferred is recognised as an asset. The amount of the asset is limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date. Where a shortfall exists, the DAC asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

Acquisition costs on policies with an effective contractual term of one month or less are expensed as incurred.

Long-term insurance contracts

Acquisition costs represent all costs directly attributable to the underwriting and acquiring of long-term insurance contracts. These costs are expensed as incurred. The FSV method for valuing insurance contracts allows for the implicit deferral of acquisition costs by valuing future policy changes / premiums levied for recouping these costs and recognising day one profits up to the amount of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the statement of financial position for these contracts. The level of day one profits is determined with reference to directly attributable acquisition costs.

The level of acquisition costs deferred is compared to the negative reserve (excluding directly attributable acquisition costs) available on each individual policy. Where the implicit DAC, the day one gains arising on the deferral of the directly attributable acquisition costs, is greater than the negative reserve available on the policy, the deferral of directly attributable acquisition costs is limited to the negative reserve. Where the DAC is less than the negative reserve, the deferral is limited to the amount of DAC.

38.4 Accounting for profit sharing arrangements

A profit sharing arrangement has been entered into between OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit sharing arrangement, ninety percent of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a biannual preference dividend. Operating losses incurred are for OUTsurance Insurance Company Limited's account. OUTsurance Insurance Company Limited however, retains the right to offset such losses against future profits generated in the determination of any preference dividends to be paid to the preference shareholder.

These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit attributable to the preference shareholder is the fair value movement and the payment of a dividend is treated as a partial settlement of the liability.

The profitability of the profit sharing business is reviewed on a monthly basis to ensure that the Group is not exposed to uneconomical risks over which it has no day-to-day management control.

The policy for the recognition and measurement of insurance contracts applied to the profit sharing arrangements is similar to the policy under 38.3 above.

38.5 Segment reporting

The Group's products and services are managed by various business units along geographical lines and product categories. The segment information is presented by each distinct revenue-generating area representing groups of similar products, consistent with the way the Group manages the business. Given the nature of operations, there are no major single customers within any of the segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers when making operating decisions and for allocating resources and assessing performance. Certain reporting adjustments are provided separately to reconcile to IFRS reported earnings.

38.6 Foreign Currency

38.6.1 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 the entity operates (the functional currency). The consolidated financial statements are presented in South African Rand (R), which is the functional and presentation currency of OUTsurance Holdings Limited.

None of the Group entities operate in a hyper-inflationary environment.

38.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. 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 profit or loss.

38. Summary of significant accounting policies *continued*

38.6 Foreign Currency *continued*

38.6.3 Group companies

The results and financial position of the Group entities, that have a functional currency different from the presentation currency, are translated into South African Rand as follows:

- assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at the average exchange rate for the year. If this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, the income and expenses are translated at the transaction date rate; and
- all resulting exchange differences are recognised as a separate component of other comprehensive income (foreign currency translation reserve).

When a foreign operation is partially disposed of or sold, and control is lost, the Group's portion of the cumulative amount of the exchange differences that were recorded in other comprehensive income are reclassified to profit or loss when the gain or loss on disposal is recognised. For partial disposals where control is retained, the Group re-attributes the proportionate share of the cumulative exchange differences, recognised in other comprehensive income to the non-controlling interest of the foreign operation.

38.7 Assets, liabilities and provisions

Assets are recognised when the Group obtains control of a resource as a result of past events, from which it is probable that future economic benefits will flow to the Group and which can be measured reliably.

Liabilities are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions, excluding provisions under short-term and long-term insurance contracts, are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

38.8 Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Gains or losses on disposals are determined by comparing sales proceeds with the carrying amount of the asset, and are included in profit or loss. Repairs and renewals are charged to profit or loss when the expenditure is incurred.

Depreciation

Depreciation is calculated using the straight-line method to allocate historical cost to the residual values over the estimated useful lives, as follows:

Building fixtures and owner-occupied property	between 20 and 50 years
Computer equipment and software	2 to 5 years
Furniture, fittings and office equipment	5 to 6 years
Motor vehicles	5 years

Land is not depreciated

Annual reviews of the residual values and useful lives of the assets are conducted in order to evaluate the continued appropriateness of the above policy. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is immediately written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

Owner-occupied properties

Owner-occupied properties are held by the Group for use in the supply of services or, for its own administration purposes.

38.9 Impairment review – Non financial assets

A periodic review of the carrying amount of the Group's assets is conducted and, where there are indications that the value of an asset may be impaired, an impairment loss is recognised. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The difference between the carrying amount and the recoverable amount is charged to profit or loss for the year in which the impairment is identified, to reduce the carrying amount of such impaired asset to its estimated recoverable amount. Should an event occur after the recognition of an impairment, which increases the recoverable amount of the previously impaired asset, the impairment of the asset, or a portion thereof, is reversed through profit or loss. The adjusted carrying value may not exceed what the carrying value would have been had the impairment not have been recognised before.

38.10 Financial instruments

38.10.1 General

The Group recognises a financial asset or a financial liability on its statement of financial position when and only when, it becomes a party to the contractual provisions of the instrument.

38. Summary of significant accounting policies *continued*

38.10 Financial instruments *continued*

38.10.1 General ***continued***

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition. Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss. Financial instruments carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit for the year as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss as investment income when the entity's right to receive payment is established.

The fair values of financial assets quoted in active markets are based on current market prices. The fair values of financial liabilities quoted in active markets are based on current ask / offer prices. Alternatively, fair values are derived from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The Group recognises purchases and sales of financial instruments that required delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date.

38.10.2 Financial instruments at fair value through profit or loss

This category has two sub categories: financial instruments held for trading, and those designated at fair value through profit or loss at initial inception.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as fair value through profit or loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and / or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and / or liabilities is provided internally to the entity's key management personnel; or
- is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

Financial assets designated at fair value through profit or loss at initial recognition comprise various investments in money market instruments.

Financial liabilities designated at fair value through profit or loss comprise preference shares held in terms of a profit-sharing arrangement where the dividends are accrued monthly and paid six monthly.

These financial assets and liabilities were designated at fair value through profit or loss due to the fact that the investments are managed, reported on and the performance thereof, is evaluated on a fair value basis in accordance with an investment strategy.

The Group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life.

38.10.3 Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets classified as available-for-sale comprise:

- Listed preference shares;
- Unlisted preference shares;
- Listed ordinary shares; and
- Listed debt instruments.

38. Summary of significant accounting policies *continued*

38.10 Financial instruments *continued*

38.10.3 Available-for-sale financial assets *continued*

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets in other comprehensive income. It recognises interest income on these assets as part of interest income based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

37.10.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables comprise loans advanced by the Group and trade and other receivables. Loans advanced by the Group are measured at amortised cost using the effective interest method.

Trade and other receivables originated by the Group are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Where there is objective evidence of an impairment, a provision is made for doubtful receivables based on a review of all outstanding amounts at year end.

37.10.5 Financial liabilities at amortised cost

Financial liabilities are measured at amortised cost and interest is recognised over the period of the contract using the effective interest method.

38.10.6 Derecognition

The Group derecognises a financial asset when:

- the contractual rights to the asset expires; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset; or
- the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual cash flows to another party and consequently transfers substantially all the risks and benefits associated with the asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

37.10.7 Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Financial assets carried at amortised cost

The carrying amounts of the Group's financial assets are reviewed periodically to determine whether there is any indication of impairment. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group, including:
  - Adverse changes in the payment status of issuers of debtors in the group; or
  - National or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in the profit for the year. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit for the year. Impairment losses on equity instruments recognised in profit or loss are not reversed through the profit or loss for the year.

38.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits held with banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

38. Summary of significant accounting policies *continued*

38.11 Cash and cash equivalents *continued*

Short-term deposits with banks are considered to be instruments which are highly liquid and have maturity dates of not more than three months from the reporting date. Short-term deposits which cannot be accessed within this period are classified as financial assets.

38.12 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Ordinary shares and non-redeemable non-cumulative preference shares together with share premium are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of taxation.

Treasury shares

Where the OUTsurance Holdings Share Trust purchases the Group's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are reissued or cancelled.

On consolidation, the cost of the shares acquired is deducted from equity. Subsequently, any proceeds on the re-issue or cancellation of these shares is recognised directly in shareholder's equity.

Any net income in relation to treasury shares is eliminated in the Group's results. Dividends paid in respect of treasury shares are similarly eliminated in the Group's results.

Dividends paid

Dividends payable on ordinary shares are recognised in equity in the period in which there is unconditional certainty that the dividend will become payable, which would include approval of the dividend declaration by the Group's Board of directors, regardless of whether the formalities of the payment thereof have been finalised. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

38.13 Current and deferred Income tax

The income tax expense for the period comprises current and deferred tax. Current tax comprises tax payable as calculated on the basis of the expected taxable income for the year, using tax rates substantively enacted at the reporting date. Adjustments to provisions made for tax payable in previous years as a result of a change in the estimated amount payable, or to the extent that actual assessments differ from the provision created in prior years, are charged or credited to the current year profit or loss.

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Where a different tax rate will be applicable to the tax year in which such assets or liabilities are realised, those tax rates are used to determine deferred income tax. Deferred tax is charged or credited to the profit for the year, except where the underlying transaction is accounted for in other comprehensive income, in which case the attributable deferred tax is charged or credited to other comprehensive income or directly to equity.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group 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 taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The deduction of short-term insurance provisions is limited for the purposes of calculating taxable income in that assessable losses cannot be created through those deductions. These provisions are however recognised in full for accounting purposes and, to the extent that accounting losses arise, deferred tax assets are created as these will be reversed upon the release of such short-term insurance provisions.

Deferred tax assets relating to the carry-forward of unused tax losses are recognised in profit or loss to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Taxation in respect of South African life insurance operations is determined using the five fund method applicable to life insurance companies. The taxation of life insurers in South Africa was amended to introduce a separate tax fund for risk products sold in tax periods beginning on or after 1 January 2016. From 1 July 2016, OUTsurance Life has allocated all risk products to the risk fund.

Indirect taxes comprise Value Added Tax. All transactions are accounted for net of the relevant Value Added Tax component.

Tax is recognised in in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or changes in equity.

38.14 Employee benefits

Short-term employee benefits

The undiscounted cost of all short-term employee benefits is recognised during the period in which the employee renders the related service

38. Summary of significant accounting policies *continued*

38.14 Employee benefits *continued*

Short-term employee benefits *continued*

The provision for employee entitlements to salaries and annual leave represents the amount which the Group has as a present obligation to pay, resulting from employees' services provided up to the reporting date. The provision is calculated at undiscounted amounts based on current salary rates. A provision for employee benefits in respect of their annual leave entitlement from past service is recognised in full.

Employees may elect to adopt a remuneration structure to allow for a non-discretionary bonus. Non-discretionary bonuses are provided for at reporting date.

Post-employment benefits

The Group's employees contribute to the OUTsurance Insurance Company Limited defined pension and provident contribution funds.

Under defined contribution plans, the legal or constructive obligation of the Group is limited to the contributions made to the plan, thus benefits received by the employee is determined by the contributions made to the plan together with investment returns arising from the contributions. The pension plans are funded by payments from employees taking into account the recommendations of independent qualified actuaries. The amount paid in respect of defined pension and provident contribution fund plans during the year is charged to profit or loss and is included in employment cost. The Group has no further payment obligations once contributions have been made.

Intellectual property bonuses

In terms of the intellectual property bonus plan, employees were paid intellectual property bonuses based on management's discretion. The beneficiaries under the plan, which included executive directors, executive management, senior and middle management employed on a full-time basis, were subject to retention periods and amounts would need to be repaid should the employee be in breach of the retention period. The intellectual property bonuses are recognised as current service costs over retention periods ranging from six months to two years and are straight lined over the period of the contract.

38.15 Share-based payments

The Group operates both equity and cash-settled share incentive schemes.

Equity-settled share-based payment transactions

The Group operates an equity-settled share-based compensation plan for employees of the Youi Holdings Group.

The Group expenses the fair value of the employee services received in exchange for the granting of the options, over the vesting period of the options, as employee costs, with a corresponding credit to equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled share-based payment transactions

The Group operates a cash-settled share-based compensation plan for employees of OUTsurance and OUTsurance Life for notional shares (share appreciation rights) issued after 1 July 2010.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit for the year.

38.16 Share trust

The OUTsurance Holdings share incentive scheme is operated through a Share Trust. The Share Trust is considered to be a structured entity of the Group and therefore consolidated. All shares issued to the Share Trust are issued against the Share Trust loan which is measured at fair value. Cash payments and receipts relating to Share Trust transactions are debited and credited directly to the Share Trust loan.

38.17 Accounts payable

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 carried at amortised cost.

38.18 Operating leases

Leases where 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 (net of any incentive received from the lessor) are charged to profit or loss 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.

38.19 Revenue and investment income recognition

Interest

Interest income is recognised in profit or loss as investment income for instruments measured at amortised cost using the effective interest method. Interest on cash and cash equivalents is recognised as earned.

38. Summary of significant accounting policies *continued*

38.19 Revenue and investment income recognition *continued*

Dividends

Dividends are recognised in investment income when the right to receive payment is legally established. This is on the 'last day to trade' for listed shares and on the 'date of declaration' for unlisted shares. In the case of certain cumulative prime rate linked preference share investments, dividends are accrued for using the effective interest method regardless of the status of their declaration. This accounting treatment is consistent with the provisions of the agreements governing such investments.

Commission and insurance related fee income

Commission and insurance related fee income is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the contractual conditions for the rendering of the related service have been met. Insurance related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums.

This income is recognised when these actions have been fulfilled in the course of providing and administering insurance products. Commission income relates to commission earned on the placement of reinsurance treaties.

38.20 Government grants

Grants from the Government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are recognised in profit and over the period necessary to match them with the costs they are intended to compensate.

38.21 Amendments to published standards effective in the current year

During the year new accounting standards, interpretations and amendments were adopted by the Group for the first time, including:

Number	Effective date	Executive summary and impact on the Group
Amendments to IAS 1: *Presentation of financial statements*	1 January 2016	In December 2014, the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. *Please refer to the Basis of presentation for an explanation of the impact on the Group.*
Amendments to IFRS 10: *Consolidated Financial Statements* and IAS 28: *Investments in associates and joint ventures* on applying the consolidation exemption	1 January 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. *This amendment has no impact on the Group.*
Amendments to IFRS 11: *Joint arrangements*	1 January 2016	This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. *This amendment has no impact on the Group.*
IFRS 14: *Regulatory deferral accounts*	1 January 2016	The IASB has issued IFRS 14, *Regulatory deferral accounts* specific to first time adopters (IFRS 14), an interim standard on the accounting for certain balances that arise from rate-regulated activities ('regulatory deferral accounts'). *This standard does not have an impact on the Group.*
Amendments to IAS 16: *Property, plant and equipment* and IAS 38: *Intangible assets*	1 January 2016	In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. *This amendment has no impact on the Group.*

Notes to the consolidated financial statements *continued*

38. Summary of significant accounting policies *continued*

38.21 Amendments to published standards effective in the current year *continued*

Number	Effective date	Executive summary and impact on the Group
Amendment to IAS 16: *Property, plant and equipment* and IAS 41: *Agriculture*	1 January 2016	In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant, included examples of non-bearer plants and removed current examples of bearer plants from IAS 41. *This amendment has no impact on the Group.*
Amendment to IAS 27: *Separate financial statements*	1 January 2016	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. *This amendment does not have a material impact on the Group.*
Annual Improvements 2012-14 cycle	1 January 2016	IFRS 5: *Non-current assets held for sale and discontinued operations* When an asset (or disposal group) is reclassified from "held for sale" to "held for distribution" or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such. *This amendment does not have a material impact on the Group.* IFRS 7: *Financial Instruments: Disclosures.* The additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34. *This amendment does not have a material impact on the Group.* IFRS 7: *Financial Instruments: Disclosures.* Specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute "continuing involvement" and, therefore, whether the asset qualifies for derecognition. *This amendment does not have a material impact on the Group.* IAS 19: *Employee benefits* When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise. *This amendment does not have an impact on the Group.* IAS 34: *Interim financial reporting* The amendment includes what is meant by the reference in the standard to "information disclosed elsewhere in the interim financial report". Entities taking advantage of the relief must provide a cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements. *This amendment does not have a material impact on the Group.*

Notes to the consolidated financial statements *continued*

38. Summary of significant accounting policies *continued*

38.22 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted by the Group

The following new standards and interpretations to the existing standards are not yet effective for the current financial year. The Group has not early adopted them and unless otherwise stated, it is not expected that they will have any material impact on the Group's results but may result in additional disclosures in the annual financial statements.

Number	Effective date	Executive summary
Amendment to IAS 12: *Income taxes* Recognition of deferred tax assets for unrealised losses.	1 January 2017 (published Feb 2016)	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets. *This amendment is not expected to have a material impact on the Group.*
Amendment to IAS 7: *Statement of Cash Flows* Statement of cash flows on disclosure initiative.	1 January 2017 (published Feb 2016)	The amendment introduces additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. *This amendment is not expected to have a material impact on the Group.*
Amendments to IFRS 2: *Share-based payments* Clarifying how to account for certain types of share-based payment transactions.	1 January 2018 (published June 2016)	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. *This amendment is not expected to have a material impact on the Group.*
IFRS 15: *Revenue from contracts with customers*	1 January 2018 (published May 2014)	This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. *The impact of the standard on the Group is currently under assessment however it is not expected to have a material impact on the results of the Group.*
Amendment to IFRS 15: *Revenue from contracts with customers*	1 January 2018 (published April 2016)	The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself.
IFRS 9: *Financial Instruments*	1 January 2018 (published July 2014)	This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. *An assessment of the impact is currently underway to ensure that Group is fully prepared for implementation on the effective date.*
IFRS 16: *Leases*	1 January 2019 – earlier application permitted if IFRS 15 is also applied. (published January 2016)	The new standard requires lessees to recognise assets and liabilities arising from all leases in the statement of financial position. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities, including costs directly related to entering into the lease. Lease assets will be amortised in a similar way to other assets such as property, plant, and equipment. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture). IFRS 16 supersedes IAS 17: *Leases*, IFRIC 4: *Determining whether an Arrangement contains a Lease*, SIC 15: *Operating Leases – Incentives* and SIC 27: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* *An assessment of the impact is currently underway to ensure that Group is fully prepared for implementation on the effective date.*

Notes to the consolidated financial statements *continued*

38. Summary of significant accounting policies *continued*

38.22 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted by the Group *continued*

Number	Effective date	Executive summary
IFRS 4: *Insurance Contracts* Regarding the implementation of IFRS 9, *Financial instruments*	1 January 2018 (published September 2016)	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: • Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and • Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39. *An assessment of the approaches is currently underway to determine the most effective approach for the Group.*
IAS 40: *Investment Property* Transfers of investment property	1 January 2018 (published December 2016)	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. *This amendment has no impact on the Group.*
IFRIC 22: *Foreign currency transactions and advance consideration*	1 January 2018 (published December 2016)	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment / receipt is made as well as for situations where multiple payment / receipts are made. The guidance aims to reduce diversity in practice. *This interpretation is not expected to have a material impact on the group.*
Annual improvements 2014 – 2016	Annual periods beginning on or after 1 January 2017 and 2018 (published December 2016)	These amendments impact 3 standards: • IFRS 1: *First-time adoption of IFRS*, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018. *This amendment has no impact on the Group.* • IFRS 12: *Disclosure of interests in other entities* regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. *An assessment of the impact of the amendment is currently underway to ensure that Group is fully prepared for implementation on the effective date.* • IAS 28: *Investments in associates and joint ventures* regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018. *The amendment has no impact on the Group.*

OUTSURANCE

Notes to the consolidated financial statements *continued*

38. Summary of significant accounting policies *continued*

38.22 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted by the Group *continued*

Number	Effective date	Executive summary
IFRS 17: *Insurance Contracts*	1 January 2021 (published May 2017) Earlier application is permitted if both IFRS 15: *Revenue from Contracts with Customers* and IFRS 9: *Financial Instruments* have also been applied.	IFRS 17: *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 supersedes IFRS 4: *Insurance Contracts.* *The standard will have an impact on the Group's current reported financial position and future revenue recognition. An assessment of the impact is currently underway to ensure that Group is fully prepared for implementation on the effective date.*
Amendments to IFRS 10: *Consolidated financial statements* and IAS 28: *Investments in associates and joint ventures* on sale or contribution of assets.	Effective date postponed (initially 1 January 2016)	The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10: *Consolidated Financial Statements* and IAS 28: *Investments in Associates and Joint Ventures.* Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. *The amendments are not expected to have a material impact on the Group.*

Company financial statements

for the year ended 30 June 2017

The reports and statements set out below comprise the company financial statements presented to the shareholders:

Statement of profit or loss and other comprehensive income

for the year ended 30 June

	Notes	**2017 R'000**	2016 R'000
Investment income	4	1 419 278	1 226 662
Gain on derivative related to acquisition of investment in associate	10	750 269	–
Fair value adjustment on financial assets	5	40	–
Income		2 169 587	1 226 662
Marketing and administration expenses	6	(3 024)	(1 336)
Result of operating activities		2 166 563	1 225 326
Finance charges	7	–	(1)
Profit before taxation		2 166 563	1 225 325
Taxation	8	(1 216)	(524)
Total profit for the year		2 165 347	1 224 801

During the current and previous years, there were no items that affected other comprehensive income and therefore the reconciliation of other comprehensive income has not been disclosed.

Statement of financial position

as at 30 June

	Notes	2017 R'000	2016 R'000
ASSETS			
Investment in subsidiaries	9	1 835 751	1 805 751
Investment in associates	10	3 788 218	4 900
Loans and receivables	11	28 682	67 856
Deferred taxation	12	–	12
Cash and cash equivalents	13	47 139	2 421
TOTAL ASSETS		5 699 790	1 880 940
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	14	37 989	35 182
Share premium	14	2 617 306	265 110
Retained earnings		2 444 274	1 580 647
TOTAL EQUITY		5 099 569	1 880 939
LIABILITIES			
Tax liabilities		146	1
Long-term liability	15	600 000	–
Other payables	16	75	–
TOTAL LIABILITIES		600 221	1
TOTAL EQUITY AND LIABILITIES		5 699 790	1 880 940

Statement of changes in equity

for the year ended 30 June

	Share capital R'000	Share premium R'000	Retained earnings R'000	Total R'000
Balance as at 30 June 2015	35 182	265 110	1 499 249	1 799 541
Total profit for the year	–	–	1 224 801	1 224 801
Ordinary dividend paid	–	–	(1 143 403)	(1 143 403)
Balance as at 30 June 2016	35 182	265 110	1 580 647	1 880 939
Total profit for the year	–	–	2 165 347	2 165 347
Issue of share capital	2 807	2 352 196	–	2 355 003
Ordinary dividend paid	–	–	(1 301 720)	(1 301 720)
Balance as at 30 June 2017	37 989	2 617 306	2 444 274	5 099 569

Statement of cash flows

for the year ended 30 June

	Notes	2017 R'000	2016 R'000
OPERATING ACTIVITIES			
Cash generated by operations	17	1 406 296	1 225 463
Taxation paid	18	(1 059)	(570)
Ordinary dividend paid		(1 301 720)	(1 143 403)
Cash inflow from operating activities		103 517	81 490
INVESTING ACTIVITIES			
Acquisition of investment in subsidiary		(30 000)	(50 000)
Acquisition of investment in associate		(678 046)	–
Cash outflow from investing activities		(708 046)	(50 000)
FINANCING ACTIVITIES			
Purchase of treasury shares by share scheme participants		206 961	83 640
Purchase of treasury shares by share trust		(157 714)	(135 970)
Borrowings raised		600 000	–
Cash inflow / (outflow) from financing activities		649 247	(52 330)
Increase / (decrease) in cash and cash equivalents		44 718	(20 840)
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		2 421	23 261
Increase / (decrease) in cash and cash equivalents		44 718	(20 840)
Closing balance of cash and cash equivalents	13	47 139	2 421

Notes to the financial statements

1. General information

OUTsurance Holdings Limited (the Company) is an unlisted public company incorporated and domiciled in South Africa and a subsidiary of Rand Merchant Investment Holdings Limited.

The financial statements were authorised for issue by the directors on 29 August 2017.

2. Basis of presentation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

The financial statements are prepared in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting.

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements that affect the reported amounts in the statement of financial position and the statement of profit or loss and other comprehensive income. Where appropriate, details of estimates are presented in the accompanying notes to the financial statements. All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

3. Management of risk and capital

3.1 Risk management framework

The Company has developed an Enterprise Risk Management Framework to provide reasonable assurance that the Company's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on Corporate Governance and Risk Management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored.

Risk and governance oversight is provided by the OUTsurance Holdings Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Investment Committee, OUTsurance Reinsurance Committee and the OUTsurance Holdings Risk Committee, the latter three of which are internal management committees.

3.2 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

3.2.1 Market Risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in the market price. Investments valued at fair value are therefore subject to changes in value due to market fluctuations, which may impact on the net income during those financial years in which such fluctuations occur. Market risk comprises interest rate risk.

Interest rate risk

Interest rate risk is the risk that the value or the future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates.

Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million rand invested. These levels are approved annually by the Board of directors and the investment committee.

The Company's exposure to interest rate risk is R47.1 million (2016: R2.4 million), which consists entirely of variable rate instruments.

An increase or decrease of 1% in the market interest rate would result in the following changes in profit or loss before tax of the Company:

	2017 1% increase R'000	2017 1% decrease R'000	2016 1% increase R'000	2016 1% decrease R'000
Cash and cash equivalents	471	(471)	24	(24)
	471	(471)	24	(24)

3. Management of risk and capital *continued*

3.2 Financial risk management continued

3.2.2 Credit risk

Credit risk is the risk that a financial asset may not be realisable due to the inability or unwillingness of the issuer of such instrument to discharge its contractual obligations. The key areas where the Company is exposed to credit risk are:

- Cash and cash equivalents; and
- Amounts due from debtors.

The credit quality of the Company's counterparties as well as the exposure to credit risk is monitored by the investment committee against a set investment mandate. The credit exposure to any one counterparty is managed by the Board of directors.

The table below indicates the credit quality of the Company's assets:

	BB R'000	Not rated R'000	Total R'000
At 30 June 2017			
Loans and receivables	–	28 682	28 682
Cash and cash equivalents	47 139	–	47 139
Total	47 139	28 682	75 821

	BBB R'000	Not rated R'000	Total R'000
At 30 June 2016			
Loans and receivables	–	67 856	67 856
Cash and cash equivalents	2 421	–	2 421
Total	2 421	67 856	70 277

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the table above.

Where available, the Company utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is utilised.

In instances where the credit rating for the counterparty is not available, the Company utilises the credit rating provided by a service provider amended to take into account the credit risk appetite of the Company. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. This methodology has been approved by the Company's internal investment committee. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

The ratings are defined as follows:

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

BB Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

Impairment of financial assets

None of the Company's financial assets exposed to credit risk are past due or impaired.

3. Management of risk and capital *continued*

3.2 Financial risk management continued

3.2.3 Liquidity risk

Liquidity risk is the risk that the Company, although solvent, is not able to settle its obligations as they fall due because of insufficient liquid assets in the Company. To ensure that the Company is able to meet their liabilities when they fall due, the liquidity profile of the balance sheet is actively managed with a defined investment mandate. The table below provides a liquidity profile of the Company's financial assets. The liquidity profile assumes that instruments can be traded in the ordinary course of business and in markets with sufficient liquidity. The effects of discounting are considered to be immaterial.

	30 June 2017 R'000	%	30 June 2016 R'000	%
Liquid financial assets				
Realisable within 30 days				
Cash and cash equivalents	47 139	62%	2 421	3%
Realisable between one and twelve months				
Loans and receivables[1]	28 682	38%	67 856	97%
Total liquid financial assets	75 821		70 277	
Total financial assets held	75 821	100%	70 277	100%

1 This constitutes loans and receivables classified as financial assets.

Maturity profile of liabilities

The table below shows the expected liquidity profile of the Company's liabilities and shows the liquid asset coverage ratio which indicates how many times the liabilities are covered by liquid assets. This ratio is actively tracked in accordance with the investment and balance sheet management mandate of the Company. The effects of discounting are considered to be immaterial.

	0 – 12 months R'000	37- 60 months R'000	Total R'000
At 30 June 2017			
Contractual undiscounted cash flows			
Long-term liability	–	600 000	600 000
Other liabilities			
Other payables	75	–	75
Tax liabilities	146	–	146
Total liabilities	221	600 000	600 221
Liquid asset coverage ratio	>100		0.13
Financial assets coverage ratio			0.13
At 30 June 2016			
Other liabilities			
Tax liabilities	1	–	1
Total liabilities	1	–	1
Liquid asset coverage ratio	>100		>100
Financial assets coverage ratio			>100

Dividends from Main Street 1353 (Pty) Ltd and other Group entities will be utilised for the servicing and redemption of the R600 million long-term liability.

4. Investment income

	2017 R'000	2016 R'000
Cash and cash equivalents		
Interest received	4 332	1 885
Dividends from subsidiaries	1 414 946	1 224 777
	1 419 278	1 226 662

5. Fair value adjustments on financial assets

	2017 R'000	2016 R'000
Net realised gain on financial assets	40	–
	40	–

6. Marketing and administration expenses

The following expenses have been included in the statement of profit or loss and other comprehensive income under marketing and administration expenses:

	2017 R'000	2016 R'000
Consulting and legal fees for professional services	1 023	284
Marketing and management expenses	2 001	1 052
Total marketing and administration expenses	3 024	1 336

7. Finance charges

	2017 R'000	2016 R'000
Interest paid	–	1
	–	1

8. Taxation

	2017 R'000	2016 R'000
South African normal taxation		
Current tax	(1 204)	(524)
Deferred tax	(12)	–
Total taxation charge	(1 216)	(524)
Tax rate reconciliation		
Normal tax on companies	606 638	343 091
Non-temporary differences	(605 422)	(342 567)
Gain on derivative associated with acquisition in associate	(210 076)	–
Exempt dividends	(396 185)	(342 937)
Non allowable expenses	839	370
Amount calculated at effective rate	1 216	524

OUTSURANCE

Notes to the financial statements *continued*

9. Investment in subsidiaries

	2017 R'000	2016 R'000
OUTsurance Insurance Company Ltd		
Ordinary shares at cost	141 900	141 900
Capitalised share-based payments	6 340	6 340
	148 240	148 240
OUTsurance International Holdings (Pty) Ltd		
Ordinary shares at cost	1 169 086	1 169 086
	1 169 086	1 169 086
OUTsurance Life Insurance Company Ltd		
Ordinary shares at cost	435 002	385 002
Issue of ordinary shares	–	50 000
Capitalised share-based payments	218	218
	435 220	435 220
Outsurance Properties (Pty) Ltd (formerly Micawber 296 (Pty) Ltd)		
Ordinary shares at cost	38 105	38 105
	38 105	38 105
Youi (Pty) Ltd		
Ordinary shares at cost	15 000	15 000
	15 000	15 000
OUTsurance Shared Services (Pty) Ltd		
Ordinary shares at cost	100	–
Issue of ordinary shares	–	100
	100	100
OUTvest (Pty) Ltd		
Issue of ordinary shares	30 000	–
	30 000	–
Total investment in subsidiary companies	1 835 751	1 805 751

Subsidiary companies only distribute dividends if management is of the opinion that the target solvency and liquidity margin in the subsidiary will be maintained after the payment of such dividends.

9. Investment in subsidiaries *continued*

Summarised financial information on subsidiaries with non-controlling interests

	2017 R'000	2016 R'000
Statement of financial position		
Current assets	7 551 933	8 607 309
Non-current assets	600 786	316 487
Current liabilities	(1 351 268)	(1 568 609)
Technical provisions	(4 417 263)	(5 151 205)
Equity	2 384 188	2 203 982
Statement of profit or loss and other comprehensive income		
Gross written premium	7 071 205	7 342 579
After tax comprehensive income / (loss) attributable to the group	577 071	348 378
Cash flow statement		
Cash inflow from operating activities	72 286	923 998
Cash (outflow) from investing activities	(18 706)	(1 820 630)
Cash inflow from financing activities	–	214 708
Effect of exchange rates on cash and cash equivalents	(22 573)	674 990
Increase in cash and cash equivalents	31 007	(6 934)
Opening balance of cash and cash equivalents	240 444	247 378
Closing balance of cash and cash equivalents	271 451	240 444

The details of subsidiary companies are as follows:

			Effective Holding	
Subsidiary	Nature of business	Country of Incorporation	2017	2016
OUTsurance Insurance Company Ltd	Short-term insurer	South Africa	100%	100%
OUTsurance International Holdings (Pty) Ltd	Holding company	South Africa	100%	100%
OUTsurance Life Insurance Company Ltd	Long-term insurer	South Africa	100%	100%
OUTsurance Properties (Pty) Ltd (Formerly Micawber 296 (Pty) Ltd)	Property company	South Africa	100%	100%
Youi (Pty) Ltd (South Africa)	Administration company	South Africa	100%	100%
Youi Holdings Pty Ltd	Holding company	Australia	93%	93%
Youi Pty Ltd	Short-term insurer	Australia	93%	93%
OUTsurance Shared Services (Pty) Ltd	Service Company	South Africa	100%	100%
OUTvest (Pty) Ltd	Online digital advice and administrative services	South Africa	100%	100%
Youi NZ Pty Ltd	Short-term insurer	New Zealand	93%	93%
OUTvest Nominees RF (Pty) Ltd	Nominee	South Africa	100%	–
Youi Properties Pty Ltd	Property company	Australia	93%	93%

The OUTsurance Holdings Share Trust is controlled by OUTsurance Holdings Limited.

Refer to note 19 for the current and non-current analysis of investments in subsidiaries.

10. Investment in associates

The Group effectively owns a 49% share in the ordinary shares of OUTsurance Insurance Company of Namibia Limited, a company incorporated and domiciled in Namibia.

On 1 June 2017, the Group acquired a 49% share in the ordinary shares of Main Street 1353 (Pty) Limited for R3 033 049 318. The consideration was settled as follows:

- R678 045 988 in cash (for 110 shares); and
- R2 355 003 330 through the placement of ordinary shares (for 380 shares).

On 1 June 2017, the fair value of a 49% stake in Main Street was R3 783 318 657. The difference between the fair value and the consideration paid has been included as a gain on derivative on acquisition of investment in associate.

There are no contingent liabilities relating to the Group's investment in associates.

The table below provides a summary of the financial information of the associates held within the Group:

	2017 R'000	2016 R'000
OUTsurance Insurance Company of Namibia Limited	4 900	4 900
Main Street 1353 (Pty) Limited	3 783 318	–
	3 788 218	4 900

OUTsurance Insurance Company of Namibia Limited	2017 N$'000	2016 N$'000
Statement of financial position		
Current assets	165 706	163 189
Non-current assets	4 179	2 913
Current liabilities	(16 593)	(16 080)
Technical provisions	(52 529)	(70 535)
Equity	100 762	79 487
Statement of profit or loss and other comprehensive income		
Revenue	204 681	215 316
After tax profit or loss attributable to the Group	19 093	14 671
Cash Flow statement		
Cash inflow from operating activities	29 611	35 492
Cash inflow / (outflow) from investing activities	3 707	(7 355)
Cash outflow from financing activities	(23 003)	(21 413)
Increase in cash and cash equivalents	10 315	6 724
Opening balance of cash and cash equivalents	58 265	51 541
Closing balance of cash and cash equivalents	68 580	58 265

10. Investment in associates *continued*

Main Street (Pty) Ltd	**2017 R'000**
Statement of financial position	
Current assets	7 661
Non-current assets	8 901 424
Current liabilities	(2 571 197)
Technical provisions	–
Equity	6 337 888
Statement of profit or loss and other comprehensive income	
Revenue	211 411
After tax profit or loss attributable to the Group	9 604
Cash Flow statement	
Cash inflow from operating activities	45 406
Cash (outflow) from investing activities	(8 555 274)
Cash (outflow) from financing activities	8 517 529
Increase in cash and cash equivalents	7 661
Opening balance of cash and cash equivalents	–
Closing balance of cash and cash equivalents	7 661

Refer to note 19 for the current and non-current analysis of investments in associate.

11. Loans and receivables

	2017 R'000	2016 R'000
Other receivables		
Loan account with group companies	9 800	–
Loan to share trust	18 609	67 856
Other receivables and prepayments	273	–
Total receivables	28 682	67 856

Other receivables are carried at amortised cost using the effective interest method. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

At 30 June 2017, none of the receivables listed above is considered to be past due or impaired.

Included in loans and receivables are amounts due by related parties. Refer to note 20 further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 19 for the current and non-current analysis of loans and receivables.

Included in the loans and receivables is the loan advanced by the Company to the OUTsurance Holdings Share Trust to enable transactions relating to the remuneration scheme.

	2017 R'000	2016 R'000
Opening balance	67 856	15 526
Repayment of loan	(206 961)	(83 640)
Cash advanced to trust	157 714	135 970
Closing balance	18 609	67 856

12. Deferred taxation

	2017 R'000	2016 R'000
Deferred tax assets		
Unrealised loss on investment	–	12
Deferred tax assets	–	12
Reconciliation of movement in deferred tax asset		
Opening balance of deferred tax assets	12	12
Deferred tax charge for the year	(12)	–
Closing balance of deferred tax asset	–	12

13. Cash and cash equivalents

	2017 R'000	2016 R'000
Cash at bank and on hand	47 139	2 421
	47 139	2 421

The carrying value of cash and cash equivalents approximates the fair value. Refer to note 19 for the current and non-current analysis of cash and cash equivalents.

14. Share capital

	2017 R	2016 R
Authorised share capital		
3 999 998 000 (2016: 3 999 999 000) ordinary shares at R0.01 each	39 999 980	39 999 990
1000 variable rate non cumulative non-redeemable preference shares of R0.01 each	10	10
1000 "A" variable rate, cumulative, redeemable preference shares with no par or nominal value	–	–
Issued ordinary share capital		
Opening balance: 3 518 163 100 ordinary shares at R0.01 each	35 181 631	35 181 631
280 745 208 ordinary shares issued during the year of R8.39 each	2 807 452	–
Closing balance: 3 798 908 308 ordinary shares of R0.01 each	37 989 083	35 181 631
Issued preference share capital		
60 "A" cumulative, redeemable preference shares	–	–

	2017 R'000	2016 R'000
Ordinary share premium		
Opening balance	265 110	265 110
Share premium raised on issue of shares	2 352 196	–
	2 617 306	265 110

The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting. Refer to note 19 for the current and non-current analysis of share capital.

During the current year the Group converted 1 000 authorised ordinary shares to 1 000 authorised "A" preference shares having no par value or nominal value.

15. Long-term liability

	2017 R'000	2016 R'000
Long-term loan – Redeemable preference shares	600 000	–
	600 000	–

OUTsurance Holdings Limited raised funding to acquire its 49% interest in Main Street 1353 (Pty) Ltd, which owns a 29.9% investment in Hastings Group PLC. The funding was raised by the issue of 60 "A" cumulative, redeemable preference shares to OUTsurance Insurance Company Limited at R10 million per share.

Refer to note 19 for the current and non-current analysis of long-term liability.

16. Other payables

	2017 R'000	2016 R'000
Trade creditors	75	–
Total payables	75	–

Refer to note 19 for the current and non-current analysis of other payables.

17. Reconciliation of cash generated by operations

	2017 R'000	2016 R'000
Profit for the year before tax	2 166 563	1 225 325
Derivative gain on purchase of investment in associate	(750 269)	–
Cash generated by operations before working capital changes	1 416 294	1 225 325
Change in working capital	(9 998)	138
(Increase) / decrease in loans and receivables	(10 073)	138
Increase in payables	75	–
Cash generated by operations	1 406 296	1 225 463

18. Taxation paid

	2017 R'000	2016 R'000
Taxation payable – opening balance	(1)	(47)
Charge in statement of profit or loss	(1 216)	(524)
Adjustment for deferred tax charge	12	–
Taxation payable – closing balance	146	1
Taxation paid	(1 059)	(570)

19. Current / non-current split of amounts recognised on the statement of financial position

For the purposes of this table 'current' is defined as asset, liability and equity amounts which mature within the next twelve months. Balances classified as non-current mature in longer than twelve months.

	Carrying Amount R'000	Current R'000	Non-Current R'000	No contractual maturity R'000
30 June 2017				
ASSETS				
Investment in subsidiaries	1 835 751	–	1 835 751	–
Investment in associates	3 788 218	–	3 788 218	–
Loans and receivables	28 682	28 682	–	–
Cash and cash equivalents	47 139	47 139	–	–
TOTAL ASSETS	5 699 790	75 821	5 623 969	–
LIABILITIES AND EQUITY				
Total shareholders' equity	5 099 569	–	–	5 099 569
Tax liabilities	146	146	–	–
Long-term liability	600 000	–	600 000	–
Other payables	75	75	–	–
TOTAL EQUITY AND LIABILITIES	5 699 790	221	600 000	5 099 569
30 June 2016				
ASSETS				
Investment in subsidiaries	1 805 751	–	1 805 751	–
Investment in associate	4 900	–	4 900	–
Loans and receivables	67 856	67 856	–	–
Deferred taxation	12	12	–	–
Cash and cash equivalents	2 421	2 421	–	–
TOTAL ASSETS	1 880 940	70 289	1 810 651	–
LIABILITIES AND EQUITY				
Total shareholders' equity	18 880 939	–	–	1 880 939
Tax liabilities	1	1	–	–
TOTAL EQUITY AND LIABILITIES	18 880 940	1	–	1 880 939

20. Related party transactions

The Company defines related parties as:

- The parent company, Rand Merchant Investment Holdings Limited (RMI Holdings). RMI Holdings owns its investment in OUTsurance Holdings Limited through a wholly owned subsidiary Firness International (Pty) Ltd and RMI Asset Company (Pty) Ltd.
- Associate companies of the parent company which include Discovery Holdings Limited, MMI Holdings Limited and the Hastings Group Holdings PLC, through Main Street 1353 (Pty) Ltd. RMI Holdings' shareholdings in RMB Structured Insurance Holdings Limited was sold in 1 January 2017.
- Key management personnel such as the OUTsurance Holdings Limited Board of directors and the OUTsurance Holdings executive committee as well as the Youi Holdings Pty Ltd Board and executive committee.

Principal shareholders
The Company is ultimately controlled by RMI Holdings Limited. At the reporting date, RMI Holdings owned 87.7% (2016: 83.6%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 0.9% (2016: 1.1%), OUTsurance Investment Trust owning 3.9% (2016: 6.4%), OUTsurance Equity Trust owning 0.9% and management 6.6% (2016: 8.9%) of the issued share capital.

Subsidiaries
Details of investment in subsidiaries are disclosed in note 9.

Associates
Details of investment in associate are disclosed in note 10.

Key management personnel
Details of key management remuneration are disclosed in the OUTsurance Holdings Limited Group financial statements.

For the year under review, the Company entered into the following transactions with related parties:

	2017 R'000	2016 R'000
Transactions with related parties		
RMI Holdings Limited		
Ordinary dividends paid	(1 159 374)	(954 030)
RMI Asset Company (Pty) Ltd (for acquisition of 49% in Main Street (Pty) Ltd		
Ordinary share replacement	2 355 003	–
Cash Settlement	678 046	–
Year end balances with related parties		
OUTsurance Holdings Share Trust		
Loan to Share Trust	18 609	67 856
Main Street 1353 (Pty) Ltd		
Receivable	9 800	–
OUTsurance Insurance Company Ltd		
Preference shares	600 000	–

21. Events after the reporting period
No matters which are material to the financial affairs of the Company occurred between the reporting date and date of the approval of the financial statements.

22. Summary of significant accounting policies
The financial statements of OUTsurance Holdings Limited are prepared according to the same accounting policies used in preparing the consolidated financial statements of the OUTsurance Holdings Limited Group.

23. Reclassification of comparatives

30 June 2016	Amount as previously reported R'000	Amount as reclassified R'000	Difference R'000	Explanation
Investment in subsidiaries				
Summarised financial information on subsidiaries with non-controlling interests				
Cash flow statement				
Cash outflow from investing activities	(193 212)	(1 820 630)	1 627 418	Reclassification of term-deposits from cash and cash equivalents to investing activities on the statement of cash flows
Opening balance of cash and cash equivalents	3 838 761	247 378	3 591 383	Reclassification of term-deposits from cash and cash equivalents to investing activities on the statement of cash flows
Closing balance of cash and cash equivalents	(5 459 245)	(240 444)	(5 218 801)	Reclassification of term-deposits from cash and cash equivalents to investing activities on the statement of cash flows
Total	(1 813 696)	(1 813 696)	–	

Glossary

Annualised premium income	Annualised premium value of all new client policies incepted during the period under review. This measure excludes the renewal of existing client policies.
Capital adequacy ratio (CAR)	Eligible capital divided by the solvency capital requirement. Claims ratio Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure include policyholder liability transfers relating to long-term insurance business.
Combined ratio	Net incurred claims (including non-claims bonuses) plus total operating expenses plus profit share distributions dividend by net earned premium. This ratio provides a measure of the surplus generated from the Group's insurance activities.
Cost-to-income ratio	Total operating expenses dividend by net earned premium. Total operating expenses excludes profit share distributions to FirstRand Limited relating to the Homeowners Cover product.
Eligible capital	Total equity adjusted for asset inadmissibility and valuation differences per the local or group regulations.
Normalised earnings	Normalised earnings adjustments are applied where the Group believes that certain transactions creates a mismatch between the Group's accounting and economic performance. Normalised earnings is therefore considered to most accurately reflect the Group's economic performance.
Return on equity (ROE)	Headline earnings divided by average ordinary shareholders' equity.
Solvency capital requirement (SCR)	The amount of regulatory capital required as determined by the local regulatory authorities.

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"You always get something out."