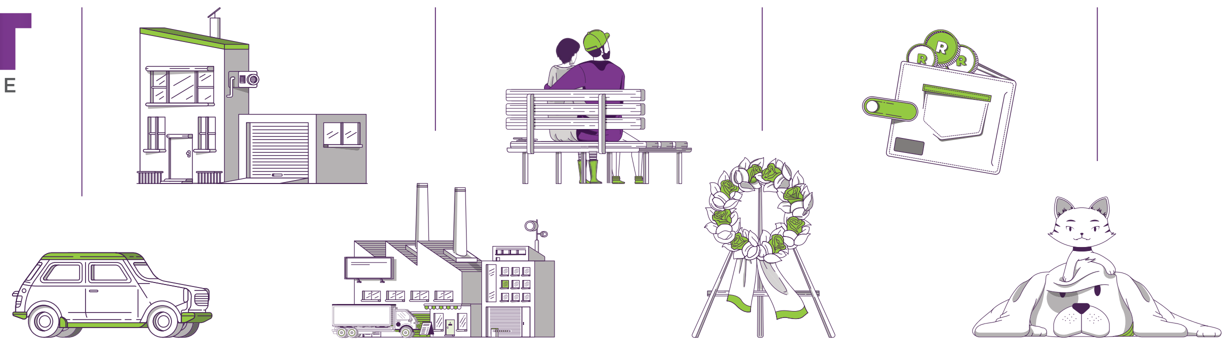
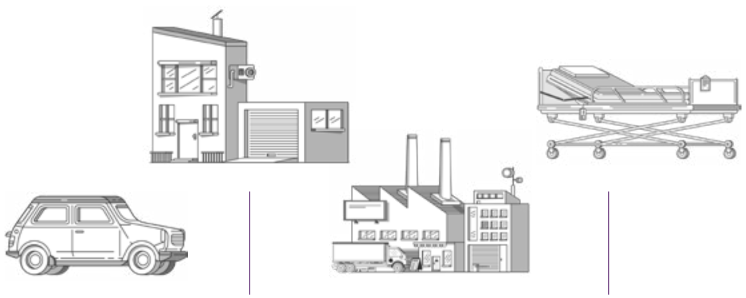
Car • Home • Business • Life • Funeral • Invest • Pet

OUT SURANCE



TRUST THAT YOU ALWAYS GET SOMETHING OUT



youi

Car • Home • Business • CTP

OUT SURANCE

You always get something out.

OUTsurance Holdings Limited

ANNUAL REPORT 2021

Contents

NAVIGATING OUR REPORT

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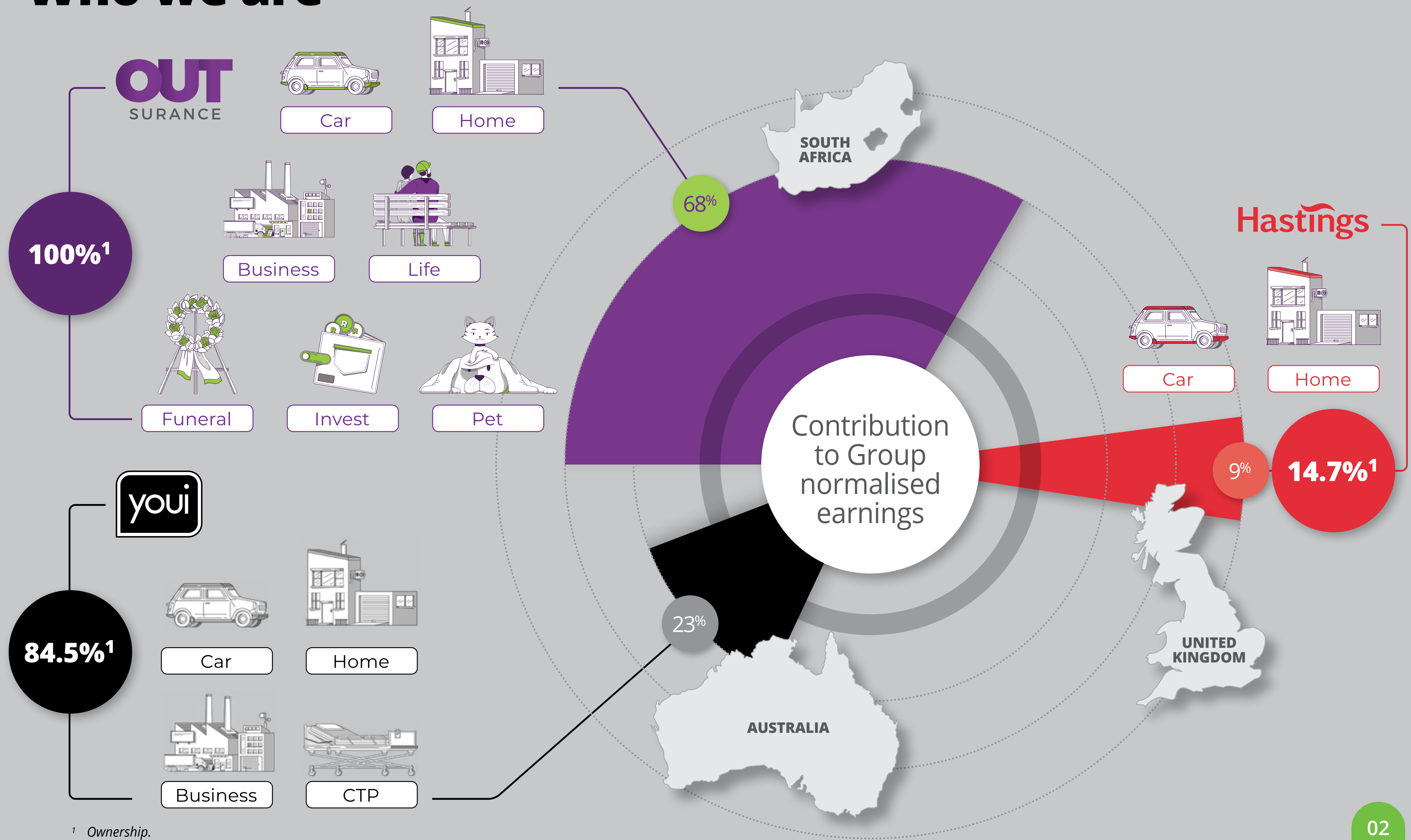
Further information can be found in this report.

Who we are



[1] *Ownership.*

OUT VALUES

- AWESOME SERVICE
- PASSIONATE
- HONEST
- HUMAN
- DYNAMIC
- RECOGNITION

How we performed in 2021

NORMALISED EARNINGS

R2 779 million

Up by 15.3%

OPERATING PROFIT

R3 317 million

Up by 2.6%

ORDINARY DIVIDEND PER SHARE

59.0 cents

Up by 9.9%

25.6%

Normalised ROE

ANNUALISED NEW PREMIUM WRITTEN

R5 756 million

Up by 35.8%

GROSS WRITTEN PREMIUM

R20 570 million

Up by 17.8%

NET EARNED PREMIUM

R18 051 million

Up by 11.6%

DILUTED NORMALISED EARNINGS PER SHARE

73.8 cents

Up by 14.2%

TOTAL SOUTH AFRICAN ACI %

72.6%

OUTBONUS PAYMENTS IN 2003 – 2021

R4.6 billion

ENTERPRISE AND SUPPLIER DEVELOPMENT 2018 – 2022

R80 million

COMMITTED FUNDS

BEE LEVEL

Level 2

(2020: Level 3)

CARBON EMISSIONS (TCO_2e)

Reduction in total TCO_2e

6.6%

Reduction in TCO_2e per employee

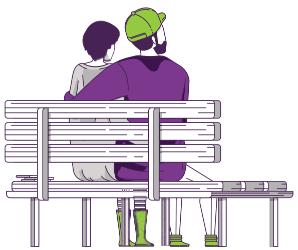
15.6%

NEW DIRECT EMPLOYMENT OPPORTUNITIES CREATED OVER THE LAST 12 MONTHS

574

Executive review

The Group's operating entities delivered a resilient operating and financial performance during the continued pandemic-related headwinds.



OUTsurance and Youi displayed measurable progress in achieving strategic objectives by broadening our insurance product offerings and extending our reach through an omni-channel distribution approach. The Group's investment in new business initiatives which include OUTsurance Brokers (tied-agency channel), Youi's underwriting partnership with Blue Zebra Insurance (Youi BZI) and the establishment of Youi's Compulsory Third Party (CTP) product, have driven an increased cadence in our growth profile. In 2021, new business premium written grew by 35.8%, a record outcome for the Group.

The Group's gross written premium increased by 17.8% to R20.6 billion. Normalised earnings and operating profit increased by 15.3% and 2.6% respectively. While underwriting profits for our core businesses of OUTsurance Personal and Youi Personal grew in line with net earned premium growth, the growth in Group operating profit was lower because of the investment in new ventures (Youi BZI and Youi CTP) and the lower yield environment causing a reduction in investment income earned on technical reserves. Normalised earnings benefitted from an improved Hastings earnings result coupled with large fair value gains on equity investments over the financial year.

An initial feature of the pandemic was the reduced motor claims frequencies resulting from hard lockdowns in South Africa and to a lesser extent Australia. As restrictions were lifted and the economies opened up, motor claims frequencies trended towards historic levels which resulted in a higher claims ratio than 2020. Contributing to the higher claims ratio was also the impact of downward premium adjustments to reflect changed customer driving patterns as a result of work-from-home arrangements as well as the impact of loadshedding on property insurance claims.

The Australian economy showed an impressive economic recovery over the year. Although there were fewer large catastrophe events in 2021, the combined impact of increased reinsurance premiums and reduced protection from the natural perils aggregate reinsurance treaty, resulted in a claims ratio that was in line with the prior year.

The Group's investment in new business initiatives is led by OUTsurance Brokers. This channel continued to show rapid expansion in distribution capacity over the course of the 2021 financial year. Following a period of new business disruption during the initial lockdown, this channel delivered strong new business growth, particularly in the second half of the financial year.

Youi's partnership with BZI, established in March 2020, contributed to Youi's strong gross written premium growth. This channel provides a wider distribution footprint for both Personal and Commercial Insurance. Commercial Insurance and higher end Personal Insurance continue to be broker led in Australia and this is a strong and complementary growth opportunity for Youi over the medium term. During the year the underwriting partnership with BZI was extended from five to ten years. In addition thereto, Youi has the option to acquire an equity stake in BZI over the next twelve months.

Youi entered the New South Wales CTP insurance market in December 2020 with an encouraging performance over the short trading period. The CTP market is historically profitable and allows Youi to offer a wider product set, enhance customer lifetime value and improve risk diversification. The cost-to-income ratios for the Group, OUTsurance and Youi reflect the investments made into these expansionary strategies and the higher cost dynamics of particularly the OUTsurance Brokers expansion. The cost-to-income ratio of the core OUTsurance Personal operation continued its downward trajectory following improved premium growth and cost containment despite elevated operational costs imposed by the pandemic.

OUTsurance Life was subjected to the impact of the second and third waves of the pandemic. Mortality provisions were strengthened after the more severe impact of the second and third waves.

Despite the disruptive impact of the pandemic, OUTsurance Life has delivered a strong new business performance on the back of the organic growth in the Funeral segment. During July 2021, OUTsurance Life introduced a new distribution channel, OUTsurance Financial Advisors, armed with an innovative product solution which is the first step in building a face-to-face distribution capacity. In future this strategy will extend to Independent Financial Advisors and will be a joint focus for OUTvest and OUTsurance Life to improve market penetration.

The Group is undertaking a large core systems transformation project with the development of a new insurance platform which will modernise the Group's bespoke systems and extract the benefit of modern architecture and cloud-computing. The systems transformation is a multi-year project structured as incremental deployments which is expected to be substantially complete by the end of the 2023 financial year. We have continued to extend our digital customer propositions with a growing self-service feature list which optimises customer experience and reduces call time.

Hastings delivered a pleasing financial performance for the first half of their financial year with post tax profits growing by 26.6%. The management team applied customary underwriting discipline through a period where trading dynamics were impacted by lower new business pricing as industry players discounted motor claims frequency savings into new business pricing. This resulted in a lower gross premium outcome for Hastings and limited unit growth over the six-month period. As lockdown restrictions are lifted in the United Kingdom, motor claims frequencies are reverting to historic levels which are expected to be reflected in new business pricing. The privatisation of Hastings in partnership with the Sampo Oyj group was completed in November 2020. Hastings will benefit from this privatisation with more latitude to focus on long-term value optimisation and diversification opportunities. Together with RMI Holdings, the Group has the option to increase its indirect interest in Hastings from 14.7% to 19.6% by May 2022.

Youi has concluded its reinsurance programme for the 2022 financial year within expectations. Going forward the new treaty terms result in a higher catastrophe event retention. The programme does however offer enhanced natural perils aggregate cover and reduced reinsurance premiums to offset this increased retention. The net outcome of the higher retention is expected to have a limited economic impact over the long-term, but earnings volatility will be higher over shorter reporting intervals, particularly interim results.

Our world-class service proposition is enabled by the dedication of our employees, a business culture that strives for operational excellence with a pivotal focus on treating customers fairly. Customer complaint ratios continue to decline across all our service interactions. OUTsurance again delivered the lowest Insurance Ombudsman complaint and overturned ratios of all the major insurers, a position held over the last six years.

Following a foundational year in 2021, OUTsurance and Youi are well positioned to deliver on our growth ambitions which are expected to deliver a strong growth cadence with improved profitability over the medium-term.

At the core of the Group's strategy is the incremental improvement of our operational performance to deliver pricing discipline, our relentless focus on brand trust and awesome service outcomes. Our systems transformation journey will ensure our agility to grow our competitive positioning and respond actively to changing market dynamics.

During a challenging year for South Africa, the Group is delighted to confirm that 574 new employment opportunities were created of which 503 are local.

While OUTsurance has been able to navigate the pandemic well under the circumstances, we were not able to escape the sad loss of life with many people losing friends and family members. We were especially saddened by the loss of seven dear colleagues since the start of the pandemic. Fortunately, the vaccination programmes deployed locally and globally offer a viable path out of the pandemic conditions.

The macro economic outlook and risk of political instability following the recent unrest are expected to create a difficult macro overhang for South African businesses over the next financial year. We are a passionate corporate citizen and strongly believe in the long-term potential of South Africa and its people. We will continue to invest in local growth and opportunities to deliver a world class insurance service to the communities we serve.

M. G. Visser.	
Marthinus Visser	**Herman Bosman**
Chief Executive Officer	Chairman
31 August 2021	31 August 2021

Financial review

Group key performance indicators

The primary results and accompanying commentary are presented on a normalised basis which most appropriately reflects the economic performance of the Group and its operating units. Normalised earnings are specifically adjusted for non-operating items related to the Group's indirect investment in Hastings Group Holdings plc. The profit related to the disposal of the Youi New Zealand insurance book in the prior year was excluded from headline and normalised earnings and was treated as a discontinued operation for IFRS reporting purposes.

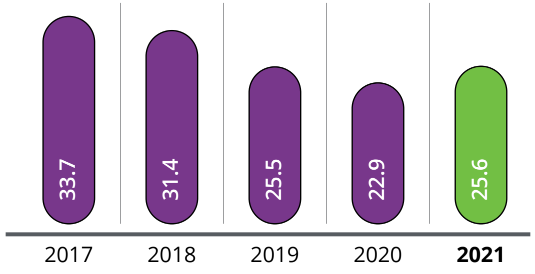
The transaction fees related to the privatisation of Hastings are also excluded from normalised earnings. These adjustments account for both the costs incurred by Hastings and Main Street 1353 (MS 1353).

ROE

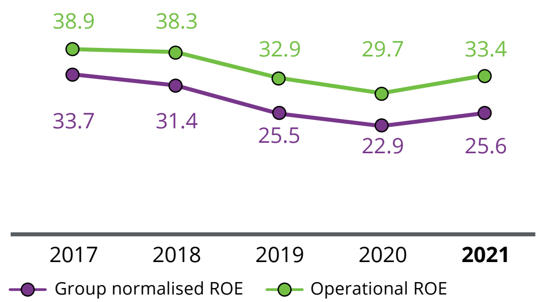
The Group achieved a normalised ROE of 25.6% for the financial year ending 30 June 2021. The higher ROE is associated with the growth in Group normalised earnings of 15.3%. The Group targets an operational ROE of between 25% and 35% and a Group normalised ROE of between 20% and 30%. The ROE is the primary measure of shareholder value execution.

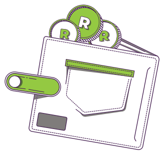
The Group's investment in Hastings in 2017 was largely equity funded. This funding approach contributes to the lower Group ROE profile in recent years.

Normalised ROE (%)



ROE performance (%)

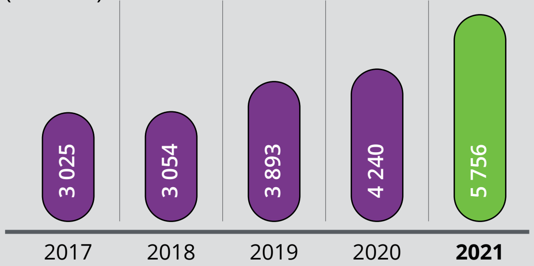


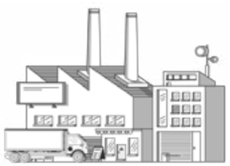


Annualised new business premium

Annualised new business premium increased by 35.8%. The record new business premium outcome growth was enabled by a good performance from the core Personal Lines books of OUTsurance and Youi and the contribution of new initiatives which include OUTsurance Brokers, OUTsurance Life, Youi BZI and Youi CTP.

Annualised new busines premium written (R'million)

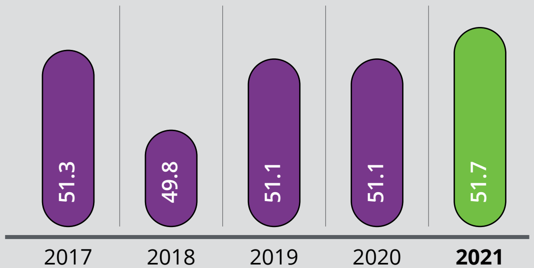


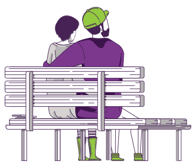


Claims ratio (short-term insurance operations)

The claims ratio is the key driver of profitability in the Group's short-term insurance operations. For the year under review, the Group achieved a claims ratio of 51.7%, a pleasing outcome considering the impact of expansionary strategies. Motor claims frequencies recovered to be close to historic norms after the restrictive lockdown periods imposed during the previous financial year. The benefit of these lower frequencies was offset by premium adjustments reflecting changed working patterns and higher non-motor claims related to load-shedding and wetter weather conditions.

Claims ratio (%)

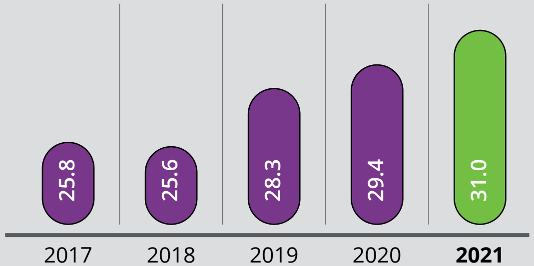


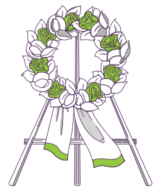


Cost-to-income ratio

The cost-to-income ratio is the primary measure of the Group's operational efficiency. The largest contributors to the Group's cost base are acquisition and call centre related costs. We deem acquisition costs as largely discretionary with spend varying based on the opportunity and cost of writing new business during insurance cycles. The increasing cost-to-income profile of the Group is linked to Youi's ever higher contribution to the overall cost base of the Group. Youi inherently operates at a higher cost-to-income ratio due to the higher operational input costs compared to average premium levels. Also contributing to the higher cost-to-income ratio are the major investments made in our expansionary strategies and the commission payable to Youi BZI. As these ventures scale over the medium-term the cost-ratio for the Group is expected to improve.

Cost-to-income ratio (%)



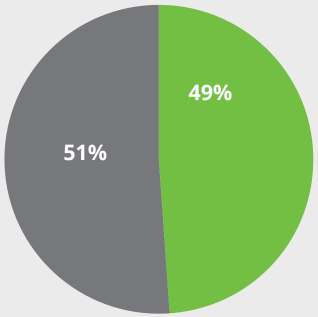


New venture investment

The operating loss of new ventures (products and channels) decreased from R508 million to R485 million over the last year. The prior year result was impacted by the business interruption claims in the OUTsurance Broker channel. In the current year, the establishment of Youi CTP and the Youi BZI partnership contributed to the new venture loss. The operational loss related to new ventures is expected to have peaked in 2021 and represents 13% of the operating profit generated by profitable segments. The largest contributor to this loss is OUTsurance Brokers where monthly profitability is forecast for the 2023 calendar year.

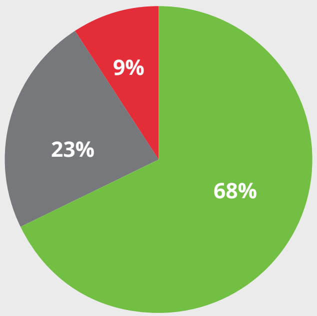
Diversification of premium revenue and earnings

Gross written premium



- South Africa (2020: 54%)
- Australasia (2020: 46%)

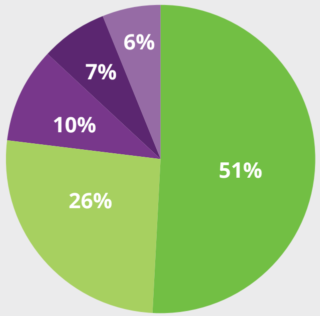
Normalised earnings



- South Africa (2020: 64%)
- Australasia (2020: 28%)
- United Kingdom (2020: 8%)

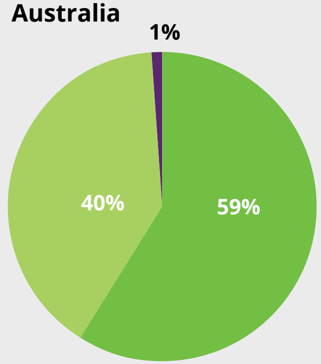
Diversification of premium revenue by product

South Africa



- Personal – motor (2020: 52%)
- Personal – property (2020: 28%)
- Commercial – motor (2020: 10%)
- Commercial – property (2020: 5%)
- Life & OUTvest (2020: 5%)

Australia



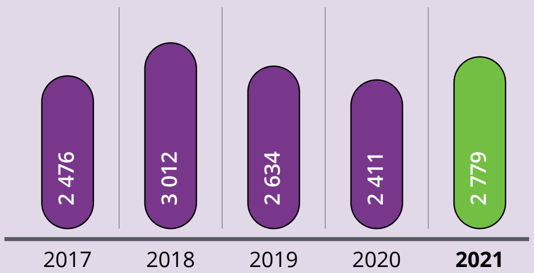
- Personal – motor (2020: 63%)
- Personal – property (2020: 36%)
- Commercial (2020: 1%)

Overview of results

The Group's operating profit improved by 2.6% for the year under review driven by the improved operational profitability achieved by OUTsurance and Youi. Lower investment yields earned on policyholder liabilities dampened the positive impact of improved premium growth on operating performance. The weaker AUD / ZAR average exchange rate contributed to the higher consolidated impact of Youi's operating profit.

The Group's normalised earnings increased by 15.3% to R2 779 million. The significant unrealised gains on equity investments coupled with an improved performance from Hastings were major contributors to the higher normalised earnings result.

Normalised earnings (R'million)



Group key financial ratios

The key financial outcomes of the Group are presented below:

R'million	2021	2020	% change
Gross written premium[3]	**20 570**	17 455	17.8%
Gross written premium (before COVID-19 premium discounts)[4]	**20 646**	17 512	17.9%
Net earned premium[5]	**18 051**	16 178	11.6%
Annualised new business premium written	**5 756**	4 240	35.8%
Operating profit[6]	**3 317**	3 234	2.6%
Headline earnings	**2 598**	2 341	11.0%
Normalised earnings	**2 779**	2 411	15.3%
Normalised ROE (%)[1]	**25.6%**	22.9%	
Normalised earnings per share (cents)	**74.7**	64.6	15.6%
Diluted normalised earnings per share (cents)	**73.8**	64.6	14.2%
Dividend declared per share (cents)	**59.0**	53.7	9.9%
Claims ratio (including non-claims bonuses) (%)	**51.7%**	51.1%	
Cost-to-income ratio (%)	**31.0%**	29.4%	
Combined ratio (%)[2]	**82.3%**	81.6%	

1 *Attributable to ordinary shareholders.*
2 *After profit share distributions paid to FirstRand Limited.*
3 *Includes gross written premium related to the New Zealand discontinued operations of R106 million in the 2020 financial year.*
4 *Excluding Youi New Zealand and before COVID-19 related premium discounts. This disclosure is illustrative and does not impact normalised earnings.*
5 *Includes net earned premium from the New Zealand discontinued operations of R25 million in the previous financial year.*
6 *Includes operating profit from the New Zealand discontinued operations of R2 million in the previous financial year.*

Sources of operating profit and normalised earnings

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

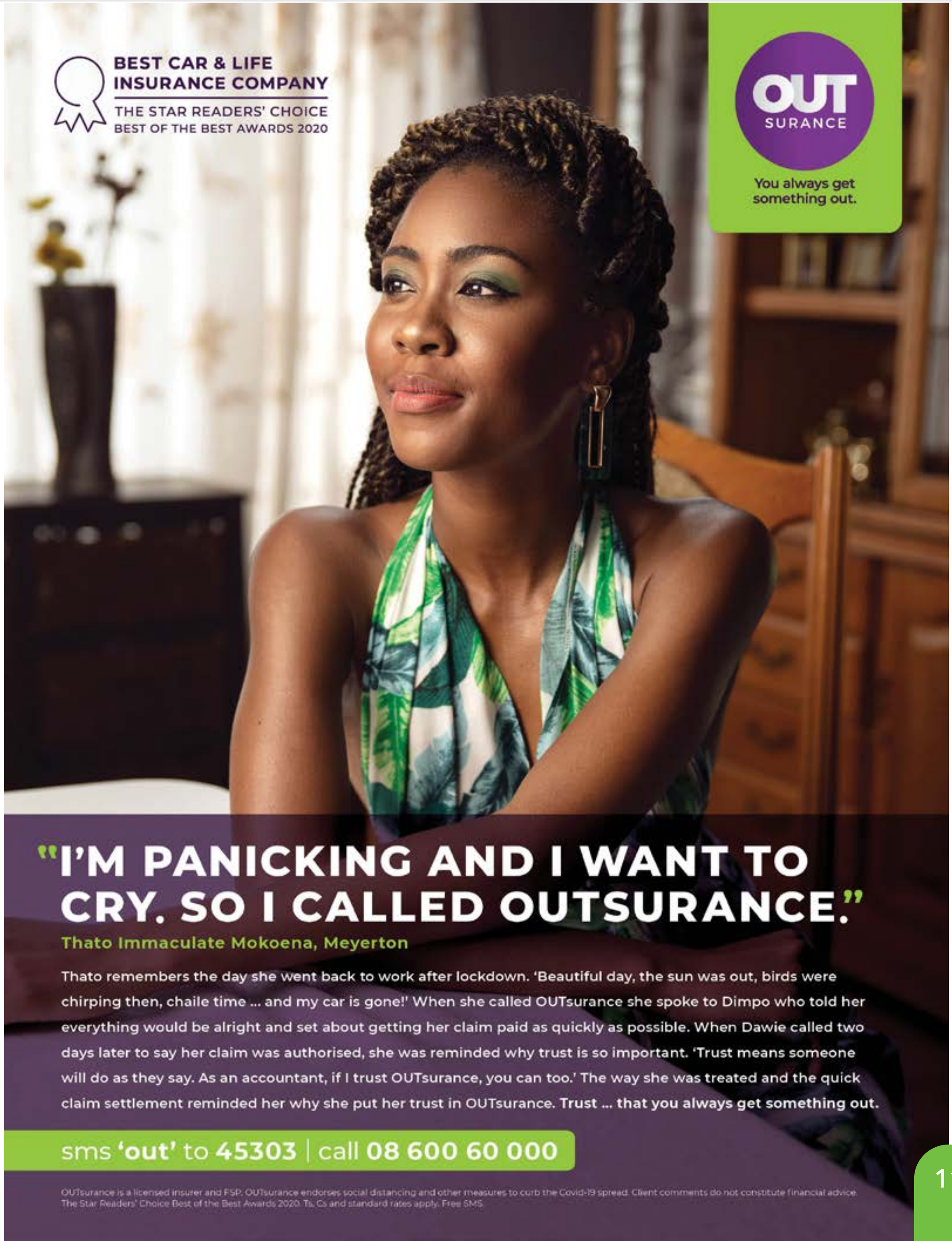
	Operating profit		
R'million	**2021**	2020	% change
OUTsurance[1]	**2 295**	2 275	0.9%
OUTsurance Life	**(25)**	6	(>100%)
Youi Group	**1 062**	970	9.5%
Central and new business development	**(15)**	(17)	(14.3%)
Operating profit	**3 317**	3 234	2.6%

[1] *This includes OUTsurance Personal, OUTsurance Business and OUTsurance Central costs.*

The various operating entities contributed to the Group normalised earnings as follows:

	Normalised earnings		
R'million	**2021**	2020	% change
OUTsurance	**1 936**	1 669	16.0%
OUTsurance Life	**20**	14	42.9%
Youi Group	**747**	678	10.2%
Central and new business development[1]	**(63)**	(45)	(93.1%)
Minority interest	**(112)**	(107)	(4.7%)
Earnings from associates	**251**	202	24.4%
MS 1353 (Hastings)	**244**	196	24.3%
OUTsurance Namibia and other	**7**	6	16.6%
Normalised earnings	**2 779**	2 411	15.3%

[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.*



Business unit performance

OUTsurance

The operational and financial results delivered by OUTsurance were pleasing considering the difficult local economic conditions. OUTsurance continued to expand its unit count in the core OUTsurance Personal book and achieved a significant growth recovery in OUTsurance Business owing to the expansion of OUTsurance Brokers.

Investment income was impacted by lower interest rates. This outcome was however more than offset by a major change in fair value of the equity portfolio.

Operating profit increased by 0.9% to R2 295 million on account of the marginal increase in the claims ratio and a 41% decrease in investment return on insurance reserves attributed to the lower interest rate environment. Headline earnings grew by 16% to R1 936 million benefitting from the strong equity market returns.

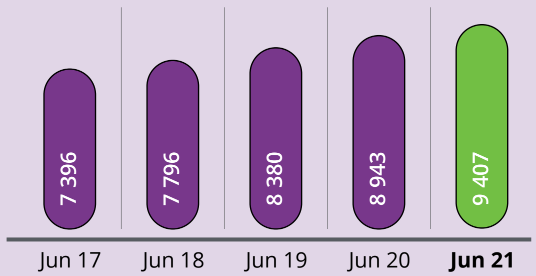
The claims ratio increased from 49.2% to 49.9%. Factors impacting the claims ratio in the current year include the impact that the work-from-home patterns had on average premiums as well as an increase in the property claims ratio resulting from power surge and dip claims, and increased geyser replacements related to colder weather conditions.

In the prior year the impact of lower motor claims frequencies was exacerbated due to more restrictive lockdown conditions. The prior year also allowed for provisioning of R198 million business interruption (Tourist Attraction Loss) claims which are now fully settled.

The increase in the cost-to-income ratio is attributed to the rapid expansion in the OUTsurance Broker footprint as OUTsurance Personal continued to deliver a reducing cost-to-income ratio.

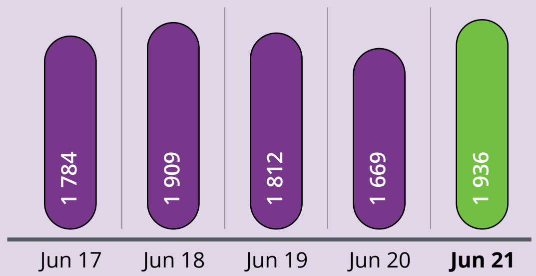
The operating segments contributing to the OUTsurance operating result are OUTsurance Personal and OUTsurance Business. OUTsurance Personal includes the results of the FirstRand Homeowners book (HOC). The results of these segments are analysed in the OUTsurance Personal and OUTsurance Business sections below.

Gross written premium (R'million)

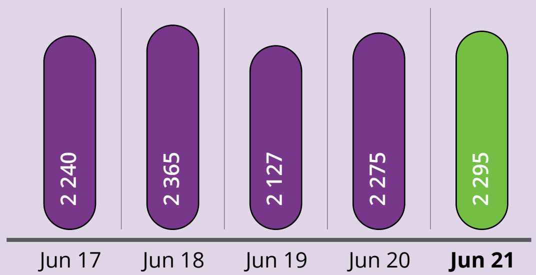


Before COVID-19 premium discounts.

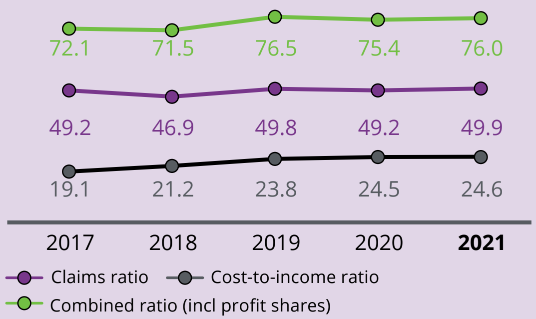
Headline earnings (R'million)



Operating Profit (R'million)



Key ratios (%)



	Year ended 30 June		
R'million	**2021**	2020	% change
Gross written premium	**9 407**	8 856	6.2%
Gross written premium (before COVID-19 discounts)	**9 407**	8 943	5.2%
Net earned premium	**9 259**	8 723	6.1%
Operating profit	**2 295**	2 275	0.9%
OUTsurance Personal	**2 329**	2 296	1.4%
OUTsurance Business	**97**	35	>100%
Central	**(131)**	(56)	>(100%)
Headline earnings	**1 936**	1 669	16.0%
Claims ratio (including bonuses) (%)	**49.9%**	49.2%	
Accident year claims ratio (%)	**52.9%**	52.1%	
Prior year development (%)	**(3.0%)**	(2.9%)	
Cost-to-income ratio (%)	**24.6%**	24.5%	
Combined ratio (%)[1]	**76.0%**	75.4%	

[1] *After profit share distributions paid to FirstRand Limited.*

OUTsurance Personal

With effect from 1 January 2021, the new business relationship between OUTsurance and FirstRand on HOC cover was suspended resulting in an expected run-off of the in-force book over a period of at least ten years. During the run-off period the historic profit share mechanism will remain in-force. The HOC arrangement contributed less than 3% to OUTsurance Personal operating profit in the 2021 financial year.

The key performance indicators for OUTsurance Personal are presented below:

	Year ended 30 June		
R'million	**2021**	2020	% change
Gross written premium	**7 694**	7 343	4.8%
Gross written premium (before COVID-19 discounts)	**7 694**	7 416	3.7%
Net earned premium	**7 586**	7 238	4.8%
Operating profit	**2 329**	2 296	1.4%
Claims ratio (including bonuses) (%)	**48.3%**	46.4%	
Cost-to-income ratio (%)	**20.0%**	21.3%	
Combined ratio (%)[1]	**68.8%**	70.0%	

[1] *After profit share distributions paid to FirstRand Limited.*

The premium income generated from the HOC arrangement was R681 million in 2021 and is 0.3% lower than the 2020 financial year.

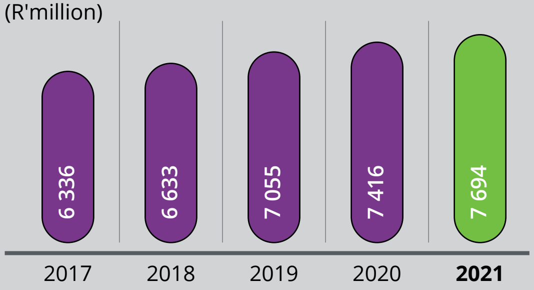
Ignoring the HOC premiums, OUTsurance Personal grew premium income by 5.3% to R7 013 million. When normalising for the pandemic related discounts in the prior year, growth equated to 4.2%. The positive growth outcome was supported by increased unit growth as premium inflation remained depressed on account of pandemic related driving patterns and the ageing insured motor fleet. Property premiums have continued its positive inflation trajectory.

The claims ratio increased from 46.4% to 48.3% due to the continued normalisation of reduced motor accident frequencies in the 2021 financial year.

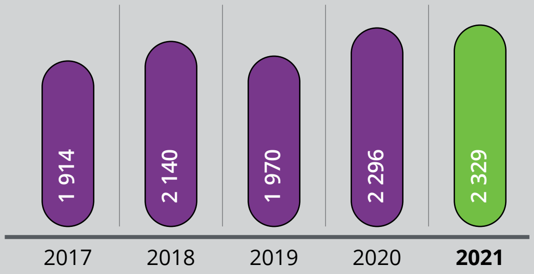
The cost-to-income ratio decreased from 21.3% to 20.0% on account of cost containment measures and improved premium growth. The future direction of the cost-to-income ratio will be influenced by the level of motor premium inflation and the opportunity to profitably write new business. Remuneration inflation will resume from the 2022 financial year which may result in a near-term increase in the cost-to-income ratio for this segment.

OUTsurance Personal generated an operating profit of R2 329 million which is 1.4% higher than the 2020 result.

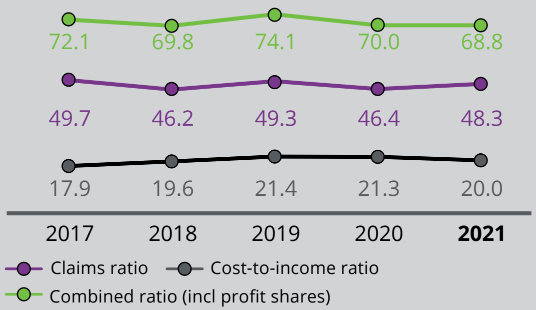
OUTsurance Personal – gross written premium (R'million)



OUTsurance Personal – operating profit (R'million)



Key Ratios (%) – Personal



OUTsurance Business

The key performance indicators of OUTsurance Business are presented below:

R'million	Year ended 30 June 2021	2020	% change
Gross written premium	**1 713**	1 513	13.2%
Gross written premium (before COVID-19 discounts)	**1 713**	1 527	12.2%
Net earned premium	**1 673**	1 485	12.7%
Operating profit	**97**	35	>100%
Claims ratio (including bonuses) (%)	**57.4%**	63.1%	
Cost-to-income ratio (%)	**37.8%**	36.2%	
Combined ratio (%)	**95.2%**	99.3%	

Following the period of lockdown related new business disruption in 2020, the premium growth of OUTsurance Business has recovered well. Gross written premium increased by 13.2%.

The OUTsurance Broker channel grew gross written premiums by 62.9% to R607 million in 2021. New business activity accelerated in the second half of the year in line with the growing headcount of OUTsurance Brokers.

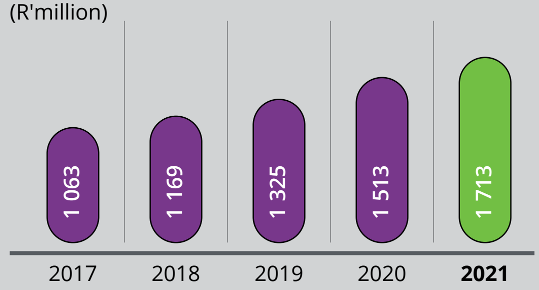
The Direct channel experienced a 3% decrease in premiums to R1 104 million as the small and medium business sectors continued to suffer the effects of the lockdown. Despite the lower premium result, the policy count was stable in this channel.

The reduction in the claims ratio is associated with the business interruption (tourist attraction loss) claims incurred in the 2020 financial year. The claims ratio for the direct channel was negatively impacted by a higher property related claims ratio and is expected to show improvement in the near term.

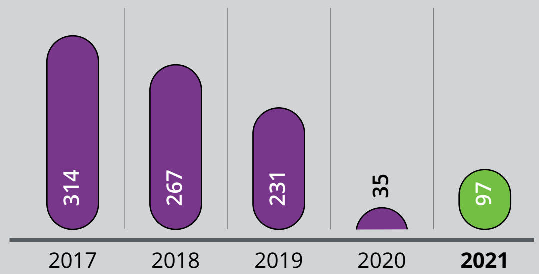
The increased cost-to-income ratio is reflective of the ramp-up in the size of the OUTsurance Broker distribution force over the course of the financial year.

OUTsurance Business generated an operating profit of R97 million for the year. The loss incurred in the OUTsurance Brokers channel equated to R267 million compared to R364 million in the prior year.

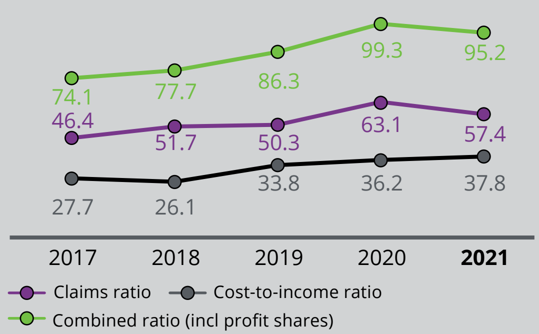
OUTsurance Business – gross written premium (R'million)



OUTsurance Business – operating profit (R'million)



Key Ratios (%) – Business



Youi

Youi delivered a strong set of operational and financial results as premium growth accelerated and the claims ratio remained below the historic average. The table below sets out the key performance indicators for Youi Australia in Rand and Australian Dollars respectively.

The key performance indicators of Youi Australia are presented below:

R'million	Year ended 30 June 2021	2020	% change
Rand (R'million)			
Gross written premium	**10 513**	7 942	32.4%
Gross written premium (before COVID-19 premium adjustments)	**10 589**	8 018	32.1%
Net earned premium	**8 207**	6 926	18.5%
Operating profit	**1 059**	949	11.6%
Headline earnings	**742**	647	14.7%
Australian Dollars ($'million)			
Gross written premium	**919**	754	21.9%
Gross written premium (before COVID-19 premium adjustments)	**926**	761	21.7%
Net earned premium	**717**	657	9.1%
Operating profit	**93**	90	3.3%
Headline earnings	**65**	61	6.6%
Ratios			
Claims ratio (%)	**53.9%**	53.8%	
Accident year claims ratio (%)	**57.2%**	55.8%	
Prior year development (%)	**(3.3%)**	(2.0%)	
Cost-to-income ratio (%)	**33.7%**	33.6%	
Combined ratio (%)	**87.7%**	87.4%	
AUD / ZAR exchange rate			
– Closing	**10.70**	11.96	(10.6%)
– Average	**11.44**	10.54	8.6%

The table below reconciles the operating and headlines earnings of Youi Australia shown above with that of the Youi Group.

R'million	Operating profit 2021	Operating profit 2020	Headline earnings 2021	Headline earnings 2020
Youi Australia	**1 059**	949	**742**	647
Youi New Zealand and Central	**3**	21	**5**	31
Youi Group	**1 062**	970	**747**	678

Gross written premium for Youi Australia accelerated by 32.4% and 21.9% in Rand and Australian Dollar terms respectively. The stronger growth is attributed to good organic growth in the direct Personal Lines operation coupled with the positive contributions from Youi CTP and Youi BZI.

Net earned premium lagged gross written premium growth as a result of the growth acceleration over the year coupled with the significant increase in reinsurance premiums in 2021 following the large catastrophe events in 2019 and 2020. Gross written premium represents the annual premium receivable on insurance contracts whereas net earned premiums are earned incrementally over the coverage period. This feature results in disparity between the gross written premium and net earned premium lines when there are changes in new business cadence such as the accelerating growth experienced in 2021.

Premium inflation accelerated over the course of the financial year as premiums reflected the impact of higher reinsurance costs and catastrophe events of the prior year.

The claims ratio was in line with prior year performance. Although Youi experienced reduced natural catastrophe exposure in 2021 there was less reinsurance cover available for natural event losses in aggregate. In addition, the increased reinsurance costs also weighed on the claims ratio due to the lag between increased reinsurance cost and customer premium adjustments. Youi retained A$30 million in net catastrophe losses in 2021 compared to $61 million in 2020. After the benefit of the natural perils aggregate treaty in 2020, the retained losses from natural events were A$30 million in 2021 compared to A$33 million in 2020.

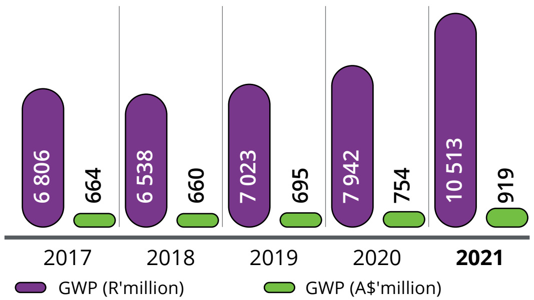
The cost-to-income ratio increased to 33.7%. The positive effect of premium growth on the cost ratio was offset by increased costs related to systems modernisation, increased regulatory and compliance costs and the start-up cost associated with Youi CTP and Youi BZI.

Youi's operating profit was also negatively impacted by the lower investment yield. Youi achieved 11.6% and 3.3% operating profit growth in Rand and Australian Dollar terms respectively. This operating profit is net of the attributed operating loss of new ventures of A$13 million.

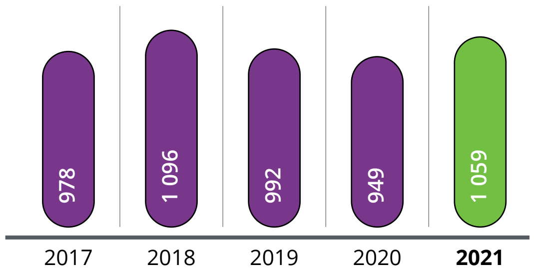
The average exchange rate was higher by 10.6% for the year resulting in translation benefits in the Group's consolidated results.

Youi's catastrophe retention limits for the 2022 financial year have increased materially. On the assumption of four catastrophe events, Youi will retain an additional $50 million in event losses. Offsetting this outcome is a reduction in reinsurance premium and a lower attachment point for the natural perils aggregate treaty. The latter also offers wider protection compared to the 2021 treaty. It is expected that the overall economics of the reinsurance programme changes will be neutral, however earnings volatility will be much higher due to the concentrated timing of natural events, particularly in the first half of the financial year.

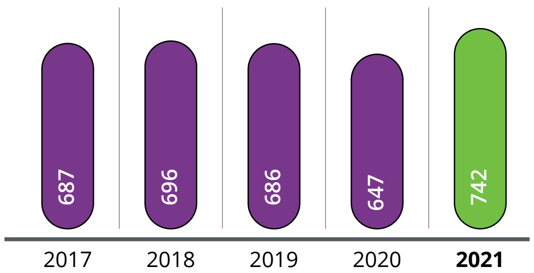
Youi Australia – gross written premium (R'million)



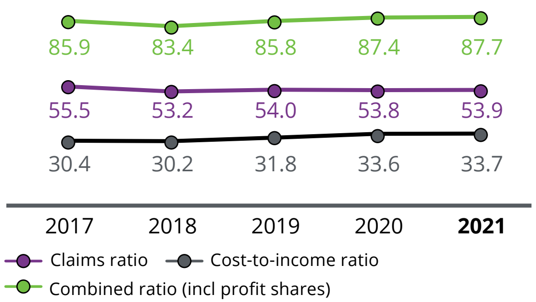
Youi Australia – operating profit (R'million)



Youi Australia – Headline earnings (R'million)



Youi Australia – key ratios (%)



OUTsurance Life

As the second and third waves of the pandemic resulted in increased mortality experience, the life insurance segment remained a challenging environment.

OUTsurance Life continued to raise provisions for pandemic related claims on a rolling twelve month basis. An additional R46 million in provisions were raised in 2021 compared to R36 million in the prior year with the year-end provision adequately allowing for the continued effects of the large third wave.

OUTsurance Life delivered strong premium growth as new business accelerated on the back of our growth in the Funeral segment supported by both the direct and Shoprite channels. The Shoprite partnership commenced trading in May 2020 and provides a significant opportunity to increase our participation in the Funeral segment.

The lower operating profit is reflective of the combined impact of increased pandemic mortality (including provisioning) and new business strain related to the accelerating growth of the business.

Yield volatility remains a central feature of the financial results. The asset-liability matching approach followed by OUTsurance Life has proven to be effective to offset the economic impact of significant yield movements over the year.

Normalised earnings were supported by favourable equity returns. The growth in the Embedded Value and the Value of New Business (VNB) margin improvement is reflective of the expansion in the in-force book and the mix change towards more profitable Funeral policies.

	Year ended 30 June		
R'million	**2021**	2020	% change
Gross written premium	**650**	551	18.0%
Operating profit	**(25)**	6	(>100%)
Headline earnings	**20**	14	42.9%
Embedded value	**1 309**	1 194	9.6%
VNB margin (before COVID-19 reserve adjustments)	**10.5%**	5.4%	
VNB margin (after COVID-19 reserve adjustments)	**8.6%**	2.2%	

OUTsurance Life will undergo a period of significant investment with the establishment of the OUTsurance Financial Advisors distribution force over the medium term.

OUTsurance Namibia

OUTsurance Namibia's headline earnings reduced by 27.6% on the back of an increase in the claims ratio following flooding events in Namibia. The reduction in the gross written premium reflects increased pricing discipline to ensure profitable new business acquisition. The negative impact of the increased claims ratio was offset by reduced acquisition costs.

R'million	2021	2020	% change
Gross written premium	**152**	164	(7.3%)
Net earned premium	**133**	160	(16.9%)
Headline earnings	**21**	29	(27.6%)
Claims ratio (%)	**54.9%**	48.7%	

Earnings from associates

The Group owns an indirect interest of 14.7% in Hastings Group Holdings plc (Hastings). The Group owns its interest in Hastings through a 49% interest in MS 1353, a subsidiary of RMI Holdings.

Hastings delivered a strong set of interim results (January 2021 to June 2021) with net profit after tax increasing by 26.6% to £69.4 million.

Gross written premiums amounted to GBP 481 million with the reduction reflecting a mix change towards lower risk market segments. Live customer policies are up 4.3% year-on-year with continued strong retention ratios and stable retail income. Home insurance policies increased by 27% to almost 300 000 in-force.

The claims ratio for the first half of the financial year was 63.4%. Reserving caution continues to be applied as a result of increased pandemic related uncertainty on bodily injury claims. Claims frequencies increased from the lows in 2020 but remain below 2019 levels as a result of the ongoing pandemic.

New products, new pricing models and new sources of data have been added during 2021, laying the foundations for continued profitable growth.

The table below sets out key performance indicators of Hastings for the first half of 2021.

£'million	6 months to 30 June 2021	6 months to 30 June 2020	% change
Gross written premiums	**480.9**	514.9	(6.6%)
Net revenue incl. retail income	**388.6**	392.7	(1.0%)
Operating profit	**93.1**	78.3	18.9%
Profit after tax	**69.4**	54.8	26.6%
Live customer policies / 000s	**3 083**	2 957	4.3%
Calendar year claims ratio	**63.4%**	75.6%	
Combined operating ratio	**80.1%**	83.1%	
Solvency coverage ratio	**1.7**	1.5	

The above table represents the financial performance of Hastings Group Holdings and excludes the impact of acquisition accounting triggered by the privatisation of Hastings in November 2020.

The table below provides a reconciliation of the Groups' normalised earnings from associates. The Group holds minority interests in CoreShares Holdings and AutoGuru Australia which are also accounted for as associates.

	Group normalised earnings from associates		
R'million	2021	2020	% change
MS 1353 (49%)	**63**	117	(46.2%)
Share of Hastings earnings (14.7%)[4]	**120**	175	(31.4%)
Share of Hastings headline earnings adjustment (14.7%)[4,5]	**2**	–	100%
Interest on debt funding	**(28)**	(72)	61.1%
Other income and expenses[3]	**(31)**	14	(>100%)
Normalised adjustments related to MS 1353	**181**	79	>100%
Amortisation of intangible assets	**71**	79	(10.4%)
Hastings transaction costs[2]	**110**	–	100%
MS 1353 normalised earnings from associate	**244**	196	24.5%
OUTsurance Namibia and other associate earnings	**7**	6	16.6%
Total normalised earnings from associates[1]	**251**	202	24.3%
GBP / ZAR average exchange rate	**20.79**	19.84	4.8%

1 *Refer to page 20 for the normalised earnings adjustments.*
2 *Transaction related expenses incurred by Hastings and Main Street in the privatisation transaction.*
3 *The increase is as a result of the fair value movement of the derivative structure in place.*
4 *Prior year share was 14.6%.*
5 *Loss on dilution of MS 1353 holdings in Hastings from prior to privatisation.*

Balance sheet management

The Group maintains a conservative investment approach to allow for an appropriate level of capital protection, liquidity and capital optimisation which is commensurate with the operations and risk profile of an insurance group. The Group's investment in equities is calibrated to take advantage of increased capital diversification benefits allowed for in the prudential regulatory standards. The Group actively seeks to diversify concentrated credit exposures.

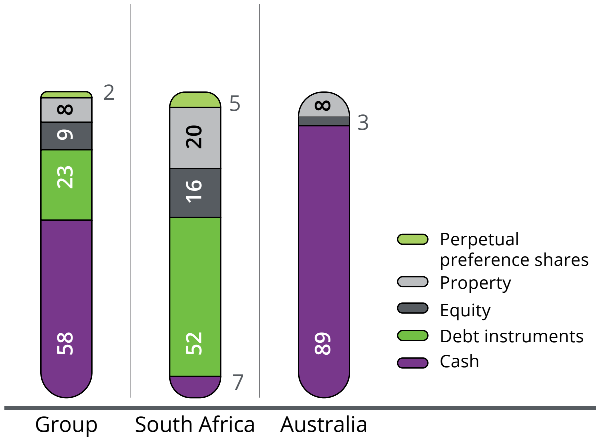
The Group's equity investments comprise of passive indices in the JSE Top 50 index as well as the ASX 300. Equity investments (excluding the Group's investment in Hastings) comprise 9% of the total investable assets of the Group.

The interest rate risk embedded in the policyholder liability of the life insurance operation is largely hedged through interest rate derivatives and zero-coupon deposit structures. This approach reduces the economic risk associated with the pricing approach for long-term policies, provides capital efficiency and reduces earnings volatility.

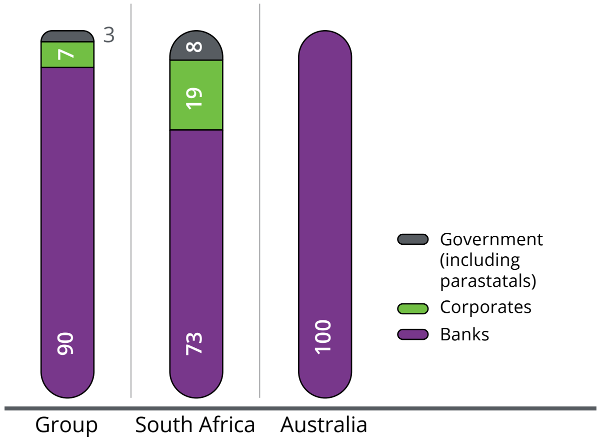
Composition of investable assets

The graphs below illustrate the composition of Group's investable assets and credit exposures.

Composition of investable assets (%)



Credit risk exposure (%)



Capital position

The Group's capital position has remained resilient throughout the pandemic. At 30 June 2021, the Group and its operating entities were trading from strong capital positions.

The Solvency Coverage Ratios for the Group and South African regulated entities are presented based on the Financial Soundness Standards for Insurers (FSI). The ratios for the Youi Group and OUTsurance Namibia are based on the local prudential regulatory requirements.

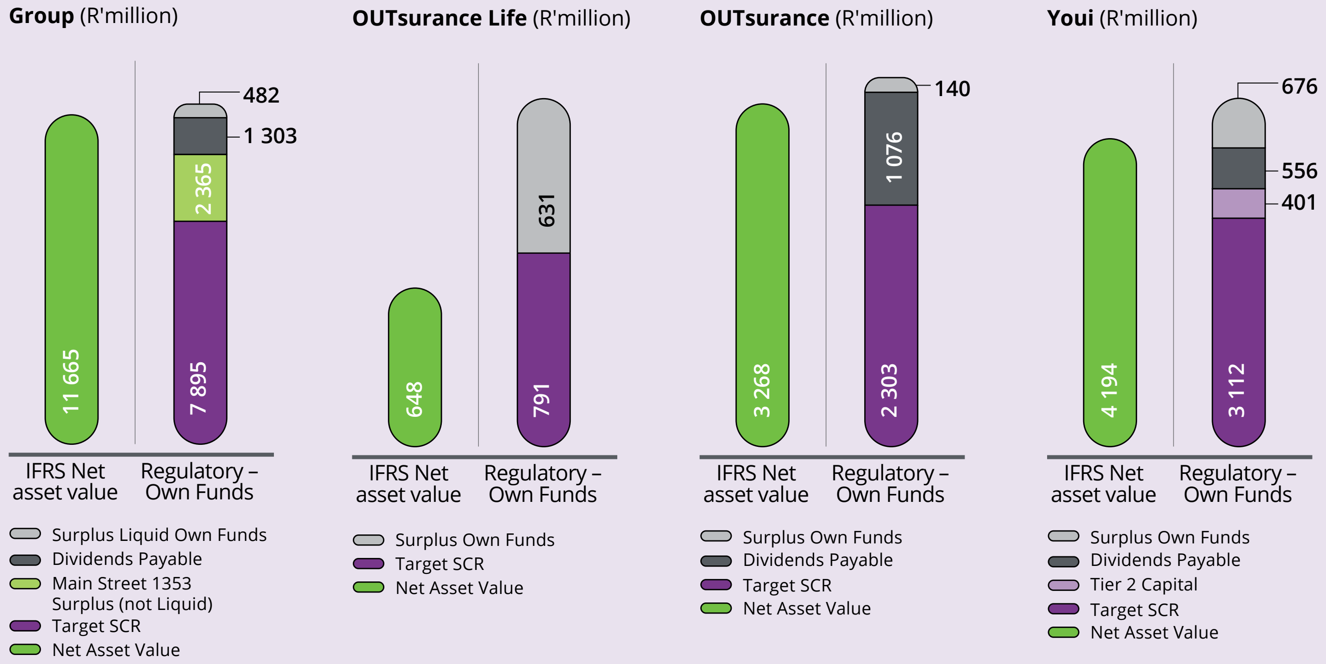
The table below shows the solvency position of the Group and its licensed operations at 30 June 2021 and recent reporting periods.

Solvency coverage ratio	Jun 2021	Target	Dec 2020	Jun 2020	Dec 2019
Group	**2.2**	1.4	2.3	2.5	2.5
Short-term insurance					
OUTsurance	**1.8**	1.2	1.8	1.9	2.2
OUTsurance Namibia	**2.3**	1.2	2.2	2.3	1.8
Youi Group	**3.0**	2.0	3.2	3.5	3.5
Long-term insurance					
OUTsurance Life	**2.7**	1.5	3.1	3.0	3.3

The Group accounts for its 14.7% interest in Hastings as an unlisted equity investment when consolidated in the Group regulatory own funds and solvency requirement. Since the privatisation of Hastings a more punitive unlisted equity capital charge is applied to this investment which explains the reduction in the Group's SCR ratio. Also contributing to the lower ratio is the stronger Rand which reduces the impact of Youi's surplus capital on the Group's reported own funds.

The reduction in the Youi Group's SCR ratio is explained by the impact of increased reinsurance retention applicable to the 2022 financial year.

The following graphs provide an illustration of the Group's surplus capital as well as that of its three licensed entities. The surplus capital positions are net of the upcoming final dividend distributions and exclude expected profits up to the dividend payment for October 2021.



By the end of October 2021, the Group will acquire an additional 5.1% interest in Youi Holdings from a minority shareholder and founder of the business. This transaction will reduce the surplus capital in the group by an estimated R650 million.

Dividends

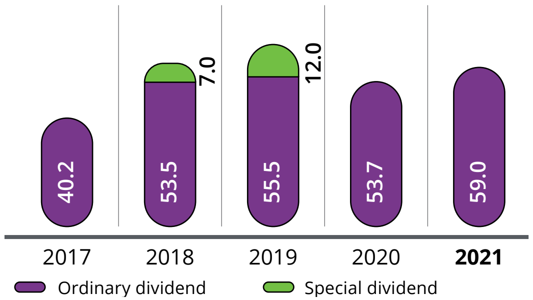
The Group declared a final dividend of 34.3 cents per ordinary share resulting in a full year ordinary dividend per share of 59 cents, or 9.9% higher than the 2020 dividend. This increase compares to the 2.6% growth in operating profit and 15.3% growth in normalised earnings. The Group's dividend payments are highly correlated to operating performance as normalised earnings are influenced by unrealised equity returns and the associate profit of Hastings.

Youi did not pay an interim dividend in 2021 due to the uncertainty related to the renewal terms of the reinsurance programme at the time. Youi has declared a final dividend which represents a full-year dividend following the successful completion of the renewal.

As part of the strategic alignment between RMI Holdings, OUTsurance and Sampo, the Hastings dividend pay-out ratio has been reduced to allow for more balance sheet and strategic flexibility. As a result, the Group has received a reduced dividend from Hastings in 2021.

The Group's dividend payment strategy is considered with reference to the maintenance of the targeted solvency capital requirement of the various operating entities and the allowance for capital retention to fund organic growth initiatives. Considering the uncertain macroeconomic environment associated with the pandemic and the South African economy, the balance sheets of the Group and its entities are being prudently managed to ensure the necessary financial resilience to absorb financial shocks.

Dividend history (cents per share)



Jan Hofmeyr
Group CFO
31 August 2021

Earnings reconciliation

Group headline and normalised earnings reconciliation

R'million	June '21	June '20	% change
IFRS profit attributable to equity holders	**2 703**	2 540	6.4%
Non-controlling interest	**(112)**	(122)	7.8%
IFRS earnings attributable to ordinary shareholders	**2 591**	2 418	7.2%
Adjusted for:			
Impairment of investment in associate	**–**	3	
Profit on sale of subsidiary	**–**	(103)	
Minority share on sale of insurance book		15	
Gain on dilution of equity accounted investment	**–**	7	
Loss on disposal of property and equipment	**7**	1	
Share of profit of associate	**2**	–	
Tax effect of headline earnings adjustments	**(2)**	–	
Headline earnings	**2 598**	2 341	11.0%
Adjusted for:			
Transaction costs related to the Hastings privatisation	**110**	–	
Amortisation of intangible assets related to MS 1353[1]	**71**	70	
Normalised earnings	**2 779**	2 411	15.3%
Normalised earnings per share (cents)[2]	**74.7**	64.6	
Diluted normalised earnings per share (cents)[3]	**73.8**	64.6	

[1] *As part of the purchase price allocation of MS 1353 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 MS 1353 equity accounted share of intangible asset amortisation as accounted for in the consolidated statement of comprehensive income of Hastings.*
[2] *Normalised earnings per share is calculated using a weighted average number of shares of 3 718 751 330 (2020: 3 730 904 357).*
[3] *Diluted earnings per share is calculated using a diluted weighted average number of shares of 3 730 922 499 (2020: 3 732 021 837).*

Five year financial review

	2021	2020	2019	2018	2017
Statement of profit and loss and other comprehensive income – IFRS					
Gross written premium (R'million)	**20 570**	17 455	16 135	15 027	14 908
Underwriting result (R'million)[1]	**3 140**	2 974	2 881	3 217	2 954
Profit before tax (R'million)	**3 819**	3 528	3 246	4 072	4 331
Headline earnings attributable to ordinary shareholders (R'million)	**2 598**	2 341	2 555	2 933	3 223
Earnings attributable to ordinary shareholders (R'million)	**2 591**	2 418	2 100	2 908	3 212
Earnings per share (cents)					
– Basic	**69.7**	64.8	56.0	77.3	85.4
– Diluted	**68.8**	64.8	55.9	74.0	82.6
Headline earnings per share (cents)					
– Basic	**69.9**	62.8	68.1	78.0	85.7
– Diluted	**69.0**	62.7	68.0	74.6	82.9
Dividend declared per share (cents)	**59.0**	53.7	55.5	53.5	40.2
Special dividend declared per share (cents)	**–**	–	12.0	7.0	–
Statement of financial position – IFRS					
Total assets (R'million)	**24 782**	23 211	19 949	19 503	18 165
Total equity (R'million)	**11 595**	11 486	10 978	11 144	9 824
Average equity attributable to ordinary shareholders (R'million)	**11 541**	11 232	11 061	10 484	7 601
Key ratios					
Claims ratio (including non-claims bonuses) (%)	**51.7%**	51.1%	51.1%	49.8%	51.3%
Cost-to-income ratio (%)	**31.0%**	29.4%	28.3%	25.6%	25.8%
Combined ratio (%)	**82.3%**	81.6%	80.9%	77.3%	79.0%
Normalised results					
Normalised gross written premium (R'million)	**20 570**	17 512	15 906	15 027	14 908
Normalised earnings (R'million)	**2 779**	2 411	2 634	3 012	2 476
Normalised earnings per share (cents)					
– Basic	**74.7**	64.6	70.2	80.1	65.8
– Diluted	**73.8**	64.6	70.1	76.7	63.3
Normalised return on equity (%)[2]	**25.6%**	22.9%	25.5%	31.4%	33.7%

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

Our awards

OUTSURANCE

2020 The Star – *Readers' Choice Award for Runner-Up – Best Pet Insurance*

2020 The Star – *Readers' Choice Award for Runner-Up – Best Short Term Insurance*

2020 The Star – *Readers' Choice Award for Winner – Best Car Insurance*

2020 The Star – *Readers' Choice Award for Winner – Best Life Insurance*

2020 Pretoria News – *Readers' Choice Award for Winner – Best Insurance Company*

2020 Pretoria News – *Readers' Choice Award for Winner – Best Short Term Insurance Company*

2021 Beeld – *Platinum – Beste Versekeraar Leserskeuse*

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2020 Canstar *– Most Satisfied Customers – Home Insurer (NSW)*

2020 Canstar *– Most Satisfied Customers – Home Insurer (VIC)*

2020 Canstar *– Most Satisfied Customers – Home Insurer (QLD)*

2020 Canstar – *Most Satisfied Customers – Car Insurer (NSW)*

2020 Canstar – *Most Satisfied Customers – Car Insurer (VIC)*

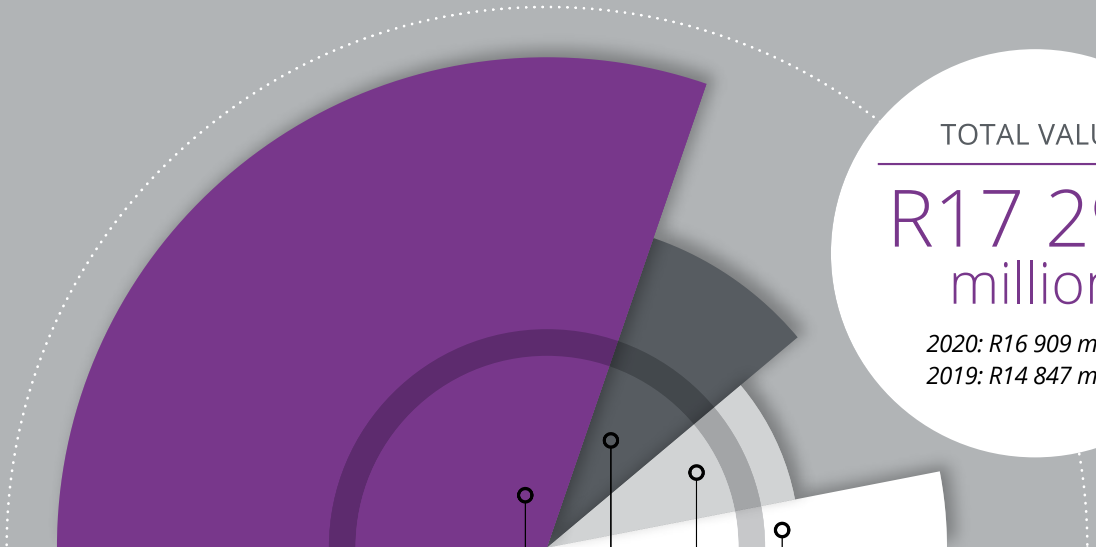
2020 Canstar – *Most Satisfied Customers – Car Insurer (QLD)*

2021 Mozo People's Choice *– Home and Car Insurance – Most Recommended*

2021 Mozo People's Choice *– Home Insurance – Excellent Claims Experience*

2021 Mozo People's Choice *– Home Insurance – Excellent Customer Service*

Economic impact statement



TOTAL VALUE

R17 291 million

2020: R16 909 million
2019: R14 847 million

POLICYHOLDERS

R10 777 million

2020: R10 344 million
2019: R8 586 million

EMPLOYEES

R3 549 million

2020: R2 857 million
2019: R2 494 million

PROVIDERS OF CAPITAL

R2 479 million

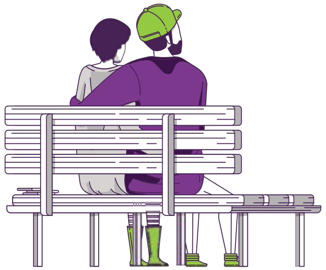
2020: R2 720 million
2019: R2 717 million

GOVERNMENT

R 1 115 million

2020: R988 million
2019: R1 044 million

Our sustainability strategy



The OUTsurance Group has a long-standing commitment to be a responsible corporate citizen. This commitment includes our focus on resilience and playing our part in driving sustainability to the benefit of all our stakeholders. In the face of the ongoing COVID-19 pandemic and the uncertainties it brings, key elements of our sustainability strategy have never been more important to help us pivot through these unprecedented times.

At OUTsurance we remain agile, reinvent ourselves and lead the way with fair outcomes for our customers at the centre of everything we do. The Group's business outlook remains positive. Our leadership team is focused and optimistic. Our insurance, business and risk management solutions help address environmental and social challenges. An innovative and values-based culture ensures that we can offer value for money products which are accessible through digital platforms and that address the needs of our customers.

Our products and social support aim to play a part in reducing societal vulnerabilities. Resilience is offered to society through insurance and investment solutions but also through risk management and corporate social investment.

We are continuously aiming to mitigate climate related risks, minimising the environmental impact of our operations by progressing energy saving and carbon footprint reduction solutions.

As part of a global organisation, our people come together to offer diverse talents, skills and perspectives and thus creating phenomenal value. As such our employees remain valued beyond any other asset and they have truly been the engine that kept the business running at full steam amid the pandemic.

Leadership adapted during COVID-19 where our employees are divided into two main groups namely those working from the office under strict risk mitigating protocols and those working from home. This brought unique challenges including staying connected and maintaining our distinctive corporate culture. We found solutions and our employees have shown that they can achieve anything when they have the end goal in mind.

As a group we are determined to flatten the curve. Our COVID-19 response evolves as required and robust protocols remain in place. We are totally dedicated to maintaining measures to ensure that our people are safe during this daunting period.

Our sustainability strategy supports the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015, to be achieved by 2030. The SDGs are the "blueprint to achieve a better and more sustainable future for all". In order to bring about the change that we believe would ensure a sustainable future, the report shows how our activities and efforts are coming together to make a difference towards achieving the SDGs.

Our stakeholders

Proactive engagement with all our stakeholders enables us to recognise their expectations and allow for meaningful outcomes and addressing possible concerns raised.

Our main stakeholder groups are summarised below:

OUR PEOPLE

(Permanent and temporary employees)

Material needs

- Great company to work for
- Promoting a safe and healthy working environment
- Open and honest communication
- Innovative culture
- Fair remuneration and development opportunities
- Equal, diverse and inclusive workplace

How we engage

- Wellness initiatives
- Regular engagement with senior management
- Surveys
- Departmental meetings and workshops
- Electronic and mobile communication
- Open door policies
- Digital engagement platforms
- Committees and forums
- Recognition and development programmes

Achieved objective

- Improved staff retention
- Positive values scores
- Increased employee satisfaction
- Innovative and digitally driven culture
- Increased leadership perception scores

OUR CUSTOMERS

(Existing and prospective including individuals and businesses)

Material needs

- Value for money products and services
- Fair treatment and awesome service
- Innovative and relevant insurance products

How we engage

- Call centres and face to face staff
- Advertising
- Social media
- Policy and contract documentation
- OUTsurance app and Youi app
- SMS messages and email communication
- MyOUTsurance and Youi client portals
- Customer satisfaction surveys
- YouiRewards email and in app messages

Achieved objective

- Customer growth
- 24 hour contact centres and assistance
- Increased customer satisfaction
- Increased customer value
- Easier access to information / assistance on multiple platforms
- Improved cross-sell quote start rates
- Increased longevity of clients

OUR SERVICE PROVIDERS

(Service providers and suppliers)

Material needs

- Prompt and accurate payment
- Access to market
- Feedback on business performance
- Ease of communication

How we engage

- Self-payment systems
- Online quotation system
- Personal interaction via call centre
- Roadshows
- Electronic communication
- Regular audits and guidance
- KWANDE supplier development programme
- Dedicated service provider relationship managers
- Induction and on-boarding sessions
- Focus groups
- Performance management meetings

Achieved objective

- Faster quotations process
- Accurate and timeous payment
- Real time problem resolution
- Increased customer satisfaction
- Growth for our suppliers
- Sustainable service provider base
- Determining win-win scenarios with key suppliers
- Improved service provider capacity

OUR COMMUNITY

(Communities in which the Group's offices operate, including charity organisations)

Material needs

- Responsible corporate citizenship
- Charitable initiatives
- Access to insurance services

How we engage

- Staff Helping SA OUT
- OUTsurance pointsmen
- YOUI@Hand
- Sponsorships
- Internships

Achieved objective

- Giving back to the community
- High visibility
- Procurement opportunities
- Educating the public about insurance

GOVERNMENT, REGULATORS AND INDUSTRY BODIES

(Regulators, industry bodies, government departments, associations and Ombud schemes)

Material needs

- Comply with laws, regulations, standards and codes of conduct
- Timely regulatory reporting including breach reporting
- Transparent communication to the benefit of the industry and consumers
- Keeping abreast of regulatory developments

How we engage

- Engagement through various monthly and quarterly committee, board and forum meetings
- Supervisory meetings with various Regulators
- Electronic and telecommunications
- Dedicated delegations for direct liaison with regulatory and industry bodies
- Regulatory affairs function within Compliance and Legal to support on-going regulatory correspondence and engagement

Achieved objective

- Immediate implementation of regulatory changes
- High level of cooperation
- Healthy and transparent external relationships
- Contribute to the design and content of new laws, regulations, standards and codes of conduct

OUR PEOPLE

As a values based and people centric organisation, great emphasis is placed on our people and their holistic wellness needs in order to achieve both personal and business success.

Our people objectives include:

- Keeping our people **safe, healthy** and **happy**
- To celebrate **our workforce diversity**
- Creating a fun **working environment for all staff members**
- Enhancing our **people's potential** through **training** and **development programmes**
- Giving our **people access** to **great employee benefits, rewards** and **recognition programmes**
- Ensuring our people **maintain a healthy work-life balance**
- To provide **staff members** with **opportunities** to **give back to the community**
- Having **values based leaders** and **providing staff** with **career advancement opportunities**
- Looking after the **personal, emotional** and **financial wellbeing** of **our people**

GROUP FEMALE RATIO

49.9%

2020: 49.2% | 2019: 49.2%

% change 2020 / 2021: 1.4%

SOUTH AFRICA ACI[1] RATIO

72.6%

2020: 70.9% | 2019: 71.0%

% change 2020 / 2021: 2.4%

SOUTH AFRICA ACI MANAGEMENT[2]

55.2%

2020: 50.9% | 2019: 49.6%

% change 2020 / 2021: 8.4%

SOUTH AFRICA ACI EXCO MEMBERS

50%

2020: 50% | 2019: 50%

% change 2020 / 2021: 0%

SOUTH AFRICA DISABLED STAFF MEMBERS

45

2020: 50 | 2019: 41

% change 2020 / 2021: (10.0%)

[1] *African, Coloured and Indian.*
[2] *Management excluding EXCO members.*

SOUTHERN AFRICA

TOTAL STAFF MEMBERS

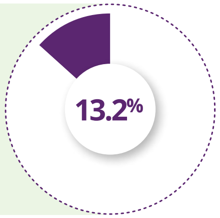
4 592

Average length of service[2] 46.8

Percentage of total staff members

Operational Staff
Average length of service[2]
41.9

Support Staff
Average length of service[2]
79.0



TOTAL GROUP WORKFORCE[1]

5 954

2020: 5 380 | 2019: 5 411

% change 2020 / 2021: 10.7%

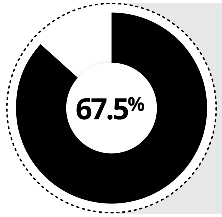
AUSTRALIA AND NEW ZEALAND

TOTAL STAFF MEMBERS

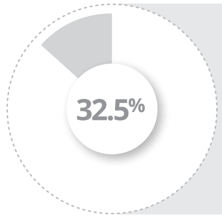
1 362

Average length of service[2] 50.3

Percentage of total staff members



Operational Staff
Average length of service[2]
47.0



Support Staff
Average length of service[2]
57.0

[1] *Staff members in South Africa, Australia and New Zealand.*
[2] *Average length of service was determined in months.*

Employee value proposition

Our employees receive a comprehensive first class set of benefits, in return for the skills and experience that they offer to the organisation. This is in essence the employee value proposition (EVP) and defines our organisation and what it stands for. It also serves to attract and retain employees who share in our Company values.

In order to achieve the above, the organisation provides access to the following benefits:

OUTsurance | Jerusalema Challenge – YouTube

Youi | We're Youi – YouTube

Group

- Mental, emotional and financial wellness service providers and wellness events
- Reward and recognition programmes
- Study support for employees
- Internally facilitated leadership bridging programmes
- Various charity drives and initiatives
- Family focused wellness resources
- Employee benefits and dedicated expert guidance service
- On-site canteen
- On-site sports and recreation facilities

OUTsurance

- Clinic staffed by a nurse, physiotherapist and doctor
- Accredited learning academy
- Employment Equity and Transformation Forums

Youi

- Accredited traineeship course for new sales advisors
- Career advisory services for employees
- Commitment to internal career opportunities (all roles advertised internally)

Due to COVID-19, some of the normal EVP activities have been restricted.

Residence of staff and staff permanently employed

99.9%

of our **total Group** workforce is permanently employed

77.1%

of our **total Group** staff complement resides in South Africa

Developing our people

People development is a priority that supports the core values of our business. We passionately encourage personal, professional and leadership development that supports individual growth and advances the careers of our people. With ongoing training, we invest time, effort and energy to ensure compliance to ever-changing regulatory requirements. It is an investment with short- and long-term benefits that include loyalty, consistency, increased productivity and innovation which enhances personal career development.

In order to live up to our values of Human, Passionate and Recognition in particular, our development efforts are facilitated via:

Group

- Internally facilitated leadership bridging programmes
- A learning management system to deliver online training
- Financial support for external studies

OUTsurance

- Accredited learning academy
- Executive coaching for senior leaders
- Learnership programmes and internships

Youi

- Accredited traineeship course for new Sales advisors, Client service department (CSD) and Retention advisors
- External short course learning programmes
- Comprehensive onboarding programme for new and remote employees

GROUP EXTERNAL AND STUDY ASSISTANCE TRAINING SPEND (R'000)

16 845

2020: 15 942 | 2019: 15 869

% change 2020 / 2021: 5.7%

GROUP EXTERNAL TRAINING SPEND (R'000)

12 257

2020: 13 110 | 2019: 13 126

% change 2020 / 2021: (6.5%)

GROUP STUDY ASSISTANCE SPEND (R'000)

4 588

2020: 2 831 | 2019: 2 743

% change 2020 / 2021: 62.0%

OUTSURANCE

EXTERNAL TRAINING SPEND SA (R'000)

3 390

2020: 4 418 | 2019: 4 247

STUDY ASSISTANCE SPEND SA (R'000)

4 588

2020: 2 831 | 2019: 2 737

youi

EXTERNAL TRAINING SPEND AUS (R'000)

8 867

2020: 8 693 | 2019: 8 878

SKILLS DEVELOPMENT RATIO[1]

63.0%

[1] The ratio is expressed as a percentage of total possible points available. The figure is externally calculated and confirmed by Empowerdex (Economic Empowerment verification agency). The B-BBEE certificate is available on the OUTsurance website.

Promoting health and wellbeing

Workplace safety is the practice of ensuring a safe working environment for employees and visitors alike. It is therefore the responsibility of the company to promote wellness, and minimise the risk of accidents in the workplace which may result in property damage, injuries, or loss of life.

It is for this reason that the Group has dedicated staff, both in South Africa and Australia, who oversee the health and safety of all staff, contractors and visitors who enter any of our premises. They are supported by the respective health and safety committees and have elected representatives who are formally trained in various disciplines including first aid, fire safety and occupational health and safety.

Workplace safety is managed through:

- Workplace safety audits
- Training
- Hazard identification
- Awareness
- Incident investigations
- Reporting
- Fire drills

OUR PEOPLE COVID-19 RESPONSE

Ensuring the safety and well-being of all staff members as well as minimising the possibility of infection in the workplace have been a main focus for the Group. Measures were taken and policies were implemented by both OUTsurance and Youi to maintain a healthy working environment and ensure the safety of all our people.

OUTsurance

- Personal protective equipment provided for employees
- Working from home policies implemented with a percentage of staff still working remotely to ensure social distancing
- Protocols updated to comply with regulations and requirements
- Physical partitions installed between staff in all call centre seating clusters
- Ongoing building hygiene programme, including deep decontamination, fog sterilization, UV light based cleaning
- Daily monitoring of employees to identify symptoms and risks by means of a COVID-19 Screening app
- Ongoing awareness and education provided on COVID-19
- Counselling and advice provided through an Employee Wellness Programme and the Human Capital team
- Critical training courses provided virtually
- Increased focus on a vaccination strategy to ensure high vaccination rates.

Youi

- Social distancing aligned with local Government regulations
- Standalone call centres for a temporary period until 5 November 2020
- Regular livestream sessions with the CEO
- Ensuring building hygiene by using the highest level air filtration system and continuous usage of bio disinfectant solutions and fog sterilization.

Rewarding loyalty

OUTbonus

Rewarding customers is part of our DNA, our promise is after all that "you always get something out". The OUTbonus is a cash reward of a percentage of paid premiums to loyal customers for being claim-free. These payments are made within clearly defined OUTbonus cycles. Once a claim has been submitted the OUTbonus for that cycle will be forfeited and a new cycle will start immediately following the incident date.

2003	2019	2020	2021
1st OUTbonus paid	**R3.6 billion** paid to date	**R4.1 billion** paid to date	**R4.6 billion** paid to date

OUTBONUS PAYMENT PER ANNUM (2020 / 2021)

R 490 765 156

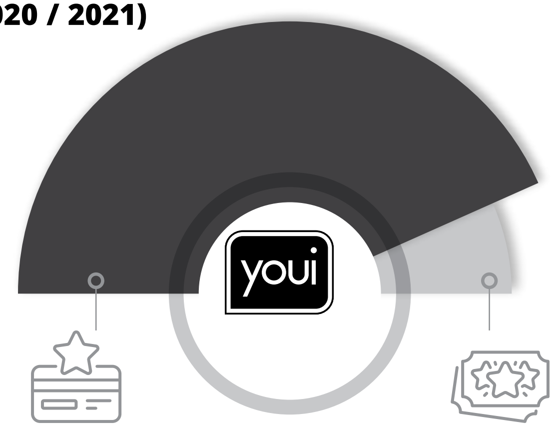
% change 2020 / 2021: 8%

YouiRewards

At inception of the Youi policy a customer can sign up for YouiRewards, a programme that provides exclusive deals on some of Australia's best brands. This is just another way we reward our loyal customers. Customers had the opportunity to select gift cards or discount vouchers to redeem, whichever suit their needs.

The YouiRewards programme was revamped during the reporting period and gift cards were discontinued. Customers still have access to redeem discount vouchers that suit their needs via the Youi app. Youi is in the process of re-evaluating their customer value proposition and the structure and benefits of YouiRewards will form part of the process.

YouiRewards per annum (2020 / 2021)



R2.4 million in gift cards utilised

R3.9 million potential saving in discount vouchers available

OUR CUSTOMERS COVID-19 RESPONSE

Many people were financially affected by this world-wide Pandemic. The Group implemented several measures and initiatives to provide much needed relief to customers.

OUTsurance

- Continued monitoring and use of enhanced self-service solutions to ensure immediate service and support
- Period of non-payment of premiums extended before cancellation until September 2020
- Temporary amendment of cover to allow for premium relief

Youi

- Proactive and continuous communication with our customers
- Financial support by means of several relief programmes until 30 September 2020
- Additional premium discounts evaluated on a case by case basis
- Flexibility on cover and downgrade options

COMBINED IN-FORCE POLICIES

2 156 156

% change 2020 / 2021: 7.8%

OUTSURANCE

IN-FORCE POLICIES*

1 008 025

% change 2020 / 2021: 9.2%

youi

IN-FORCE POLICIES

1 148 131

% change 2020 / 2021: 6.6%

* *Includes OUTvest contracts.*

Digital service channels

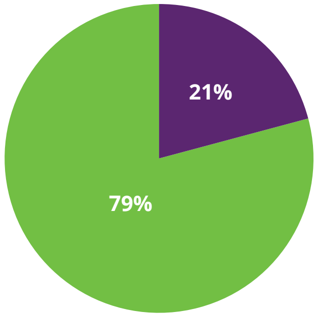
OUT app & web portal

With technology at our customers' fingertips insurance has become easier and more convenient by downloading the OUTsurance app or registering on the online portal.

During the reporting period a total of 178 654 customers registered their profiles on the OUTsurance app or the OUTsurance portal. The following digital functionalities are available to our customers:

- Request Pointsmen
- Request emergency roadside, home and panic assistance
- Request quotes on certain products and changes on your policy
- Cover OUT-and-About items
- Submit geyser and windscreen claims
- Service Provider Connect
- Claims tracker
- Downloading documents
- Change banking details
- Enrol in the SmartDrive programme
- Refer and Earn
- Weather related claims capture
- Submit first notice of loss
- Vehicle inspection
- Vehicle accident claims capture*
- Amend risk start date*
- Pet microchip add/amend*
- Update preferred method of communication*

We are pleased to note that an increased number of customers are taking advantage of the opportunity to submit their claims digitally:



- Digital (2020: 12%)
- Traditional (2020: 88%)

Google play | App Store

** New feature added during period under review.*

Youi app & web portal

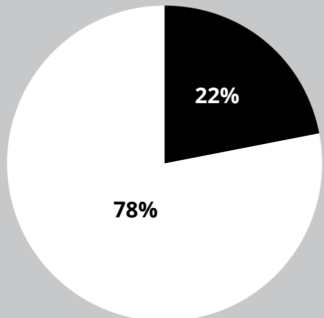
A total of 484 767 policies are digitally linked to the Youi app and portal.

Youi's digital platforms make life easier for customers by providing them the opportunity to:

- View policy details
- Manage policy
- Contact YouiAssist
- SmartDrive programme
- Submit claims
- Link up policies to access YouiRewards partner offers

Login functionality was improved and Multi Factor Authentication was implemented to enhance app security.

During the current year an increased number of customers made use of the digital platforms to submit claims, compared to the previous year:



- Digital (2020: 19%)
- Traditional (2020: 81%)

Google play | App Store

Exceeding customers' expectation

Our company values are Awesome Service, Passionate, Honest, Human, Dynamic and Recognition. We live these values and translate it into the customer experience. We aim to exceed customer expectation with every interaction and go above and beyond to ensure a memorable experience. We continuously review our processes and environment to identify opportunities to deliver awesome service in new and innovative ways. An integral part of keeping our promise of awesome service is to encourage our customers to provide honest feedback about their engagement with us through an online survey feedback system. This allows us to track comments and assess where there are chances for us to improve. We have a dedicated department that monitors the experiences of our customers, responds to queries and tracks progress to ensure that matters are resolved in a timely and efficient manner.

OUTSURANCE CUSTOMER SATISFACTION INDEX (CSI)

89.7%

2020: 89.3% | 2019: 89.2%

% change 2020 / 2021: 0.4%

YOUI CUSTOMER SATISFACTION INDEX (CSI)

87.5%

2020: 86.5% | 2019: 85.8%

% change 2020 / 2021: 1.2%

The Customer Satisfaction Index (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 it by the total number of responses received. The CSI figure discussed relates only to customer satisfaction survey responses and excludes any other feedback.

Our CSI is based on an automated process requiring a client to evaluate our service following an interaction on a claim, policy amendment or sale. Clients are requested to evaluate the service delivery by selecting either: awesome, good, acceptable, bad or very bad.

Even if you are not a client, your feedback is important to us. For that reason we also consider our CSI for clients that only obtained a quote. This gives us the opportunity to engage with potential clients to enhance their experience with us.

CSI Achievement for OUTsurance

Consulta's SA Consumer Satisfaction Index (SAcsi) for short-term insurance surveyed 2 600 customers of the major South African direct and intermediated short-term insurers during the second half of 2020. OUTsurance was ranked as the leading short-term insurer in the overall customer satisfaction measure in the 2020 SAcsi report, showing a consistent year-on-year improvement on our CSI score.

People are talking and we're listening

Anyone can communicate with us by means of our website as a platform to share their experience on our Talk@OUT and Youi walls. We encourage people to give their feedback whether it is good, or maybe not so good. We have shared some of the highlights. Visit our wall and see for yourself what our customers are saying.

OUT WALL

Highly recommended

I am very happy with the service I have received from OUTsurance. They have always met my needs. I will recommend them to everyone. They are AWESOME. Thank you OUTsurance.

Click here to read more awesome comments.

Eureka moment

OUTsurance sticks to their promises as manifested and advertised. Always available within 2 minutes telephonically. Awesome service and a eureka moment for me!!

Awesome service

Thanks very much OUTsurance for outstanding service with my recent claim. I am very happy with your fast service. From the day of the accident till the claim was finalised it was 2 days. Awesome service from OUTsurance!!

Super impressed

WOW, I just have to share the awesome service I received from OUTsurance this morning. The 2 gentlemen that assisted me identified and reacted to my needs perfectly. Now I pay less, for MORE and I am super impressed with the App. Thank you so much!

Outstanding service

I am extremely ecstatic with the outstanding service I received from OUTSURANCE..... Wow I am blown away with the efficiency and the professionalism from your claims department as well and I'm so glad that I chose you to protect me.

YOUI WALL

Very impressed

Fantastic customer service and follow up communication to ensure everyone was alright and home. I have never had this level of service in the 25 years of driving. Very impressed and would recommend Youi to my family and friends.

Youi Wall | Discuss, Share, Tell | Youi Insurance

Most pleasant interaction

Ben was great. Great energy, good manners and even remembered I had a second query once the first was resolved (even though I had forgotten).

Pleased with the service

I am very pleased with the service provided by Youi. They were very helpful and very quick to finalise the claim. Would definitely recommend Youi to my friends and family.

Super-efficient and fast

The support given and quickness of the processing of the claim is wonderful. Can't ask for more as a consumer.

Lovely service

Absolutely lovely service, moving is already so challenging thank you for making my day!

No one beats Youi

I have been with many insurance companies but NO ONE beats Youi. They don't just insure your car and home but they take a genuine interest in the person.

Ombudsman for Short-Term Insurance (OSTI)

The OSTI is a non-profit industry Ombud scheme. OSTI provides the insured public with a free and independent alternative dispute resolution mechanism should a customer feel aggrieved by their insurer. OSTI also deals with commercial insurance disputes for small businesses and sole proprietors.

OSTI and the Ombudsman for Long-Term Insurance have amalgamated and a service agreement is shared between the two offices. This provides a single port of entry for all insurance complaints.

The OSTI has 55 subscribing members and the annual industry statistics are published in OSTI's 2020 annual report that can be found on their website **www.osti.co.za**

The statistics alongside are compiled for the 2020 calendar year in line with the OSTI reporting period.

Ombudsman statistics (OUTSURANCE)

NUMBER OF COMPLAINTS RECEIVED BY OSTI PER 1 000 CLAIMS	OVERTURN RATE[1]	NUMBER OF DECISIONS OVERTURNED PER 10 000 CLAIMS[2]
0.88 / 1 000	5.5%	0.46 / 10 000
Industry **2.52 / 1 000**	Industry **16.6%**	Industry **4 / 10 000**
2019: 1.02 / 1 000	*2019: 8.0%*	*2019: 0.75 / 10 000*

[1] Number of complaints finalised with benefit divided by total finalised matters.
[2] Company calculated number, derived from expressing number of OSTI complaints and overturn rate per 10 000 claims.

OSTI Results

Australian Financial Complaints Authority (AFCA)

The AFCA is an independent, non-profit Ombud scheme which provides a free and fair alternative dispute resolution mechanism. AFCA considers complaints related to credit, insurance, banking, investments and financial advices, as well as superannuation.

The statistics alongside are compiled for the financial year spanning from June 2020 to July 2021 in line with the AFCA's reporting period.

AFCA has not released their industry results at the time of reporting and comparative industry figures are therefore not available.

Ombudsman statistics (YOUI)

NUMBER OF COMPLAINTS RECEIVED BY AFCA PER 1 000 CLAIMS	OVERTURN RATE[1]	NUMBER OF DECISIONS OVERTURNED PER 10 000 CLAIMS[2]
0.92 / 1 000	5.0%	0.65 / 10 000
2020: 0.82 / 1 000	*2019: 2.2%*	*2019: 0.36 / 10 000*

[1] Number of complaints finalised with benefit divided by total finalised matters.
[2] Company calculated number, derived from expressing number of AFCA complaints and overturn rate per 10 000 claims.

OUR SERVICE PROVIDERS

COVID-19 RESPONSE

The pandemic has placed considerable strain on the Group's suppliers who play an integral part in after claims service delivery. OUTsurance and Youi have responded to provide relief and assistance to these suppliers based on each country's economic and geographical needs.

OUR SUPPLIERS

OUTsurance

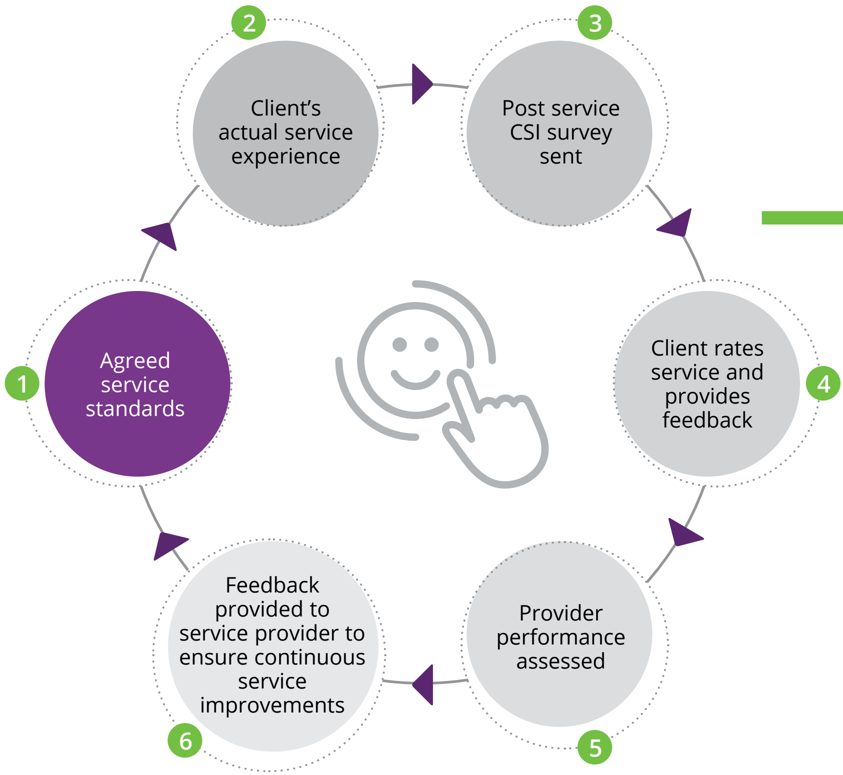
- Temporary discount relief for panel beaters until 31 July 2020
- Interest free loan fund created for assistance to all qualifying service providers

Youi

- Regular and proactive communications with suppliers to ensure safety and support
- Video assessing deployed to minimise risk and maintain service levels
- Proactive payments and partial invoicing to support our suppliers

Partnering with our service providers

In line with upholding our value of awesome service, OUTsurance and Youi service providers play a critical role to assist in attaining outstanding customer experience. Key in measuring this on our service providers is the CSI through a well-defined process.



Performance of our service providers

TOTAL NUMBER SERVICE PROVIDERS
2 983

OUTsurance
2 534

SERVICE PROVIDER CSI RATIO
90.7%
2020: 90.0% | 2019: 90.3%
% change 2020 / 2021: 0.8%

Youi
449

SERVICE PROVIDER CSI RATIO
87.3%
2020: 87.7% | 2019: 87.8%
% change 2020 / 2021: (0.5%)

Our continuous improvements and assistance to service providers are illustrated below:

OUTsurance

- Continuous assistance to poor performing service providers
- Reduction of poor workmanship complaints, by adding quality control processes pre-delivery
- Sharing service provider performance through a dashboard after claim finalization

Youi

- Consolidation of metro network repairers
- Control mechanisms to monitor service provider quoting behaviour
- 14 metro repairers are on the Uber portal, providing full mobility options to customers
- Allow customers to bypass the physical assessment through virtual assessments

Demonstrating our commitment to Broad-Based Black Economic Empowerment

OUTsurance Holdings is rated as a level two Broad-Based Black Economic Empowerment (B-BBEE) contributor.

This is achieved through various programmes that aim to support transformation and diversification of stakeholders we engage with, including but not limited to:

- A diverse supplier base for insurance related procurement spend
- A diverse supplier spend
- A supplier development programme that aims to develop the functioning of our Qualifying Small Enterprise (QSE) and Exempt Micro Enterprise (EME) black suppliers
- Creating jobs directly as a result of supplier or enterprise development initiatives

BLACK OWNED SUPPLIERS[1]

51.0%

2020: 47.8%

% change 2020 / 2021: 6.7%

BLACK WOMEN OWNED SUPPLIERS[1]

26.9%

2020: 23.9%

% change 2020 / 2021: 12.6%

[1] Procurement spend expressed as a percentage of total procurement spend. The definitions of black owned and black women owned suppliers are as per the Financial Sector Charter.

PREFERENTIAL PROCUREMENT[1]

110%

2020: 100%

2019: 100%

% change 2020 / 2021: 10%

[1] The score is expressed as a percentage of total possible B-BBEE points available.

All figures are externally calculated and confirmed by Empowerdex (B-BBEE verification agency). Figures obtained from the B-BBEE certificate which is available on the OUTsurance website.

KWANDE

KWANDE, our enterprise and supplier development programme, has come to its scheduled end in April 2021 after 24 months. A new Kwande Futhi programme has been launched which will focus on providing support to plumbing suppliers.

KWANDE
OUTsurance ESD Initiative

Overall, the programme was well received by the participating Small and Medium Enterprises (SMEs) with good performance noted, despite the challenging economic pressures endured by industry and the country.

27 SUPPLIERS

- 93% B-BBEE Level 1 Contributors
- 93% Black Owned[1]
- 52% Black Women Owned[1]
- 85% Exempted Micro Enterprises (EME)

Programme Key Objectives:

Access to Skills:

- Boot camps
- Mentoring
- Coaching
- Virtual engagements

Access to Finance:

- Establish recurring financials
- Loan & grant funding

Access to Markets:

- 9% revenue growth[2]
- 47% profit growth[2]
- 263 full time & 62 part time jobs supported

[1] *The definitions of black owned and black women owned suppliers are as per the Financial Sector Charter.*
[2] *Revenue & profit growth based on Dec 2019 to Jun 2020 vs Jul 2020 to Jan 2021.*

OUR COMMUNITY

Giving back

Giving back to the community is a fundamental part of the Group's culture. The efforts of our staff via the Staff Helping SA OUT (SHSAO) and Youi@Hand initiatives have provided support to the community at large in line with our value of Human. Apart from financial donations, staff also dedicate their time, expertise and support to connect to our community.

CSI funding raised

For our Group, physical service and time spent in the community is just as important as financial giving, however the COVID-19 pandemic made that aspect of giving back to the community somewhat challenging. Since the Group could not physically assist with most projects they still gave financial support to Corporate Social Investment (CSI).

CSI funding raised 2021

	SOUTHERN AFRICA	AUSTRALIA AND NEW ZEALAND	GROUP
EMPLOYEE CONTRIBUTION	R680 111	R12 780	R692 891
COMPANY CONTRIBUTION	R475 288	R260 645	R735 933
TOTAL CONTRIBUTION	R1 155 399	R273 425	R1 428 824

The funds that were donated by the company and the employees themselves were used to support several different CSI projects and initiatives.

The Group was involved in **29 initiatives** in the past year, which contributed towards various parts of the community. Most of the funds were spent according to our assessment of where the biggest needs existed, namely the two groupings of health and or HIV / AIDS as well as basic needs and social development.

CSI funding spend 2021

	SOUTHERN AFRICA R	AUSTRALIA AND NEW ZEALAND R	GROUP R
CSI / SED spend on basic needs and social development	784 323	207 983	992 306
CSI / SED spend on education projects	160 000	0	160 000
CSI / SED spend on health and or HIV / AIDS	962 740	65 442	1 028 182
CSI / SED spend on infrastructure development	149 903	0	149 903
CSI / SED spend on Environmental projects	16 973	0	16 973
Total value of CSI / SED spend	**2 073 939**	**273 425**	**2 347 364**

OUR COMMUNITY COVID-19 RESPONSE

In support of a strained healthcare system amidst the grip of the COVID-19 pandemic, OUTsurance has donated additional tents to the Steve Biko Hospital for testing and treatment of patients.

Staff Helping SA OUT

Earth Day Hennops River Revival

Earth Day: Hennops River Revival

The 22nd of April marked Earth Day, an annual event where people all across the world demonstrate support for the environment. In line with this year's theme of 'Restore our Earth', OUTsurance joined forces with the Hennops River Revival project. Volunteers gathered to revive and restore the Hennops River. The team went all out in cleaning the river, planting trees, picking up litter and removing weeds.

Genesis Partnership

OUTsurance partnered with Genesis Nutritional Products to provide nutritious, balanced instant meals to local communities. In April 2021, volunteers helped support Cape Town firefighters by keeping them well-nourished during their efforts to put out the fires in and around the University of Cape Town. In June 2021, the Group donated towards 7500 meals to the National Council of and for Persons with Disabilities (NCPD). Monthly donations will continue over the next 10 months, in order to assist other communities in need.

Youi@Hand

Hummingbird House Donation

Youi hosted a heartfelt event to raise awareness and funds for a charity that supports Queensland families living with, loving, and caring for a child or teenager with a life-limiting condition. In addition to the event at Headquarters, five passionate advisors won the opportunity to spend a day in Brisbane as part of Giving Day 2020, to assist the Hummingbird House team on the phones to raise much needed funds for the not-for-profit.

New Zealand Pink Ribbon awareness

In support of the Cancer Council's Pink Ribbon Day, our Youi NZ team organised a stylish company breakfast and information session for all Youi NZ staff. The entire office continued their support for the day by wearing an item of pink and engaging in educational resources throughout the month.

** Relevant local COVID-19 regulations varied during the 12 months, including mask wearing requirements. Youi adhered to all applicable requirements during company events.*

Blood donations

Blood donors have once again voluntarily contributed driven by the desire to help others. They have the satisfaction of knowing they saved human lives. COVID-19 related lockdowns and restrictions had an impact on the units of blood collected. We are proud that a total of **2 247** lives were saved which cannot be valued enough.

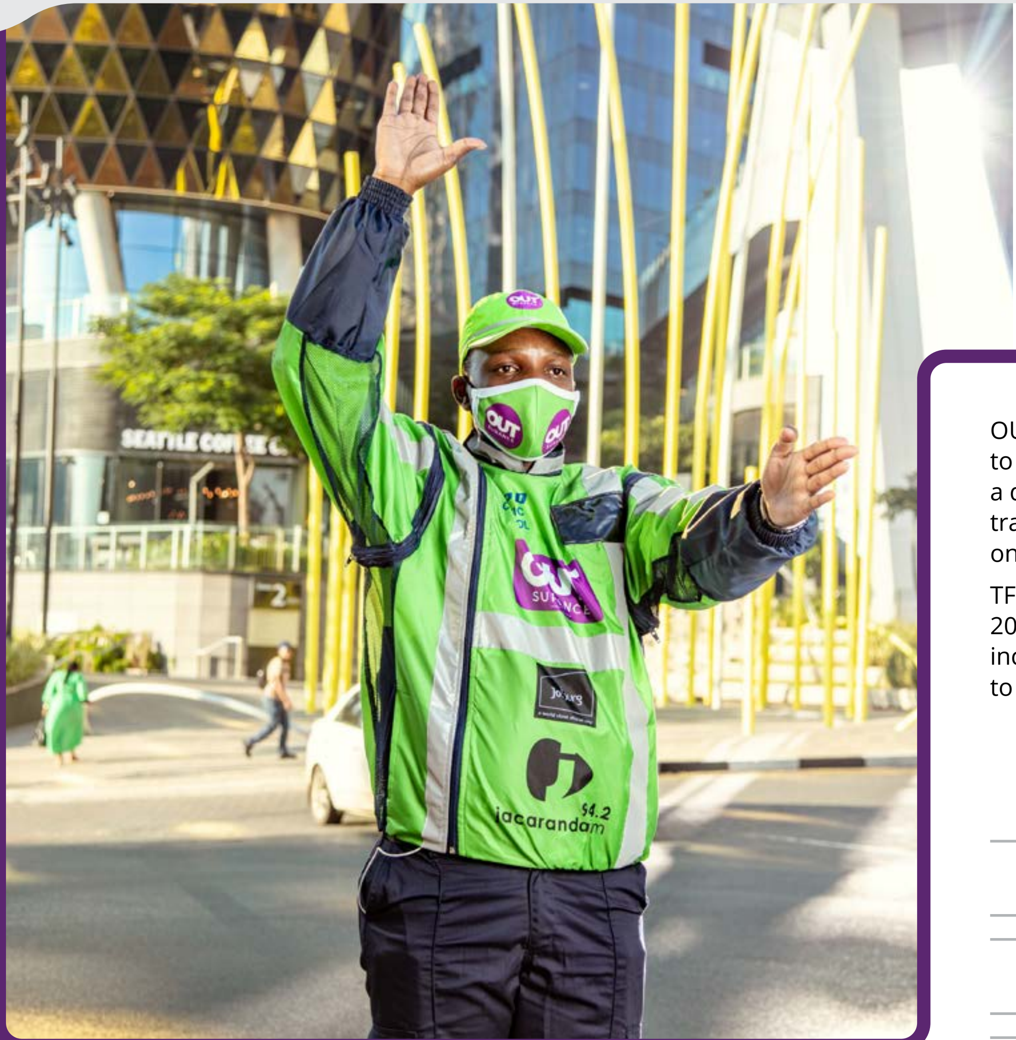
GROUP UNITS BLOOD DONATED

749

2020: 1 062 | 2019: 1 465

% change 2020 / 2021: (29.5%)

Enhancing safety through Pointsmen



Pointsmen back in Jozi.

OUTsurance in partnership with Traffic Free Flow (TFF) have been providing relief to road users in traffic congested areas within Johannesburg and Tshwane for over a decade. Static pointsmen are dispatched to heavily congested areas with regular traffic jams whilst the mobile pointsmen are assigned to hotspot areas dependent on pleas from road users.

TFF signed a five year term contract with the City of Johannesburg during October 2020. The pointsmen services for Johannesburg resumed on 11 January 2021 increasing the total number of pointsmen from 88 in the previous reporting period to 132 during the current reporting period.

	NUMBER OF POINTSMEN	PROGRAMME SPEND (R'000)	*% change in Spend*
2019	186	38 623	6%
2020	88	24 779	(36%)
2021	132	26 060	5%

** 2020 programme spend revised.*

OUR ENVIRONMENT

Climate change and environmental sustainability

Globally, climate change is an ever-increasing risk and at the same time stakeholder expectations around businesses' responses are rising. Climate related risks are prudently considered across the Group's operations as is evident in our scientific risk-based approach to insurance pricing and underwriting as well as the continuous improvements in terms of sustainability and environmentally friendly initiatives, projects and reporting.

Governance and strategy

Our Board approved Climate Change and Environmental Sustainability Policy encapsulates our response and strategy beyond our prior efforts. The Board and Management are committed to environmentally responsible practices, identifying and managing climate-related risks and opportunities with reference to the principles listed in our policy. Our pledge includes the enhancement of existing goals, metrics and key risk indicators as well as the related reporting and disclosures. This will occur over time in line with the recommendations of Task Force on Climate-related Financial Disclosures (TCFD).

Governance structures include the Board, the Board's Audit, Risk and Compliance Committee, the Social and Ethics Committee, the Internal Risk Committee and the Reinsurance Committee.

The principles committed to in our Climate Change and Environmental Sustainability Policy are:

Principle 1

LEAD FROM THE TOP
OUTsurance Board and Management have clear roles, accountability, oversight and governance of climate-related risks and opportunities.

Principle 2

STRATEGIES AND DECISIONS
OUTsurance includes climate-related considerations in strategies and decisions.

Principle 3

CLIMATE RISK MANAGEMENT
OUTsurance maintains systems and processes to identify, assess, mitigate, manage and report on climate-related risks and opportunities.

Principle 4

INCREASE SUSTAINABILITY, REDUCE IMPACT
OUTsurance implements measures to reduce our impact on the environment, increase sustainability, measure and report on greenhouse gas emissions.

Principle 5

BE INFORMED
OUTsurance supports and undertakes informal research on climate change to inform our business strategies, decisions and commitment to sustainability efforts. We share information.

Principle 6

INFLUENCE OTHER STAKEHOLDERS
OUTsurance communicates to our stakeholders (e.g. community, clients and suppliers) regarding climate change, our solutions, ideas, efforts and outcomes as well as the role they can play.

Principle 7

ROBUST MONITORING AND REPORTING
OUTsurance continues to seek ways to improve monitoring as well as internal and external reporting and disclosures in annual reporting.

Principle 8

REGULATORY AND COMPANY COMPLIANCE
OUTsurance puts measures in place to ensure compliance with relevant regulatory and company policy obligations.

Metrics, goals and targets

We monitor as a key risk indicator, the TCO_2e per employee. Our aim is to maintain this metric below three and the tolerance upper bound of our key risk indicator is set at five. Our carbon footprint reporting includes Scope 1, 2 and 3 greenhouse gasses (GHG) emissions. Key goals for our Group in this regard include:

1. **Providing leadership and influence** through our conduct and communication to all our stakeholders supported by a knowledgeable workforce and robust reporting and disclosures.
2. **Considering the environment** and **climate related risks** in our strategies and decisions.
3. **Identify, assess, mitigate, manage** and **report** on climate related risks and opportunities.
4. **Limit our impact on the environment, reducing our carbon footprint** through various projects and opportunities such as utilising renewable energy sources such as solar.
5. **Actively seek environmental sustainability projects** to support and build on previous successes such as our recycling efforts.

Our carbon footprint

Excessive Greenhouse gas (GHG) emissions keep the earth too warm and disturb the delicate balance required for sustainable life on earth. Anthropogenic emissions are the human activities that are contributing to disturbing the GHG balance of the atmosphere.

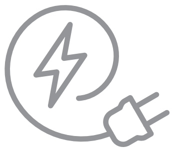
There are different types of GHG's and they vary in terms of their impact on earth, also referred to as the global warming potential (GWP). The different types of GHG's are converted into a measurement that allows us to compare apples with apples.

This is the purpose of expressing measurements around carbon footprint in terms of "tonnes of carbon dioxide equivalent" (TCO_2e). 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). 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).

The GHG Protocol **(http://www.ghgprotocol.org/)** divides GHG's into three scopes based on their sources and whether there is direct or indirect emission of GHG's:

SCOPE 1
Refers to all direct GHG emissions



SCOPE 2
Refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam

SCOPE 3
All the other indirect emissions including the transport related activities in vehicles not owned or controlled by us, waste disposal, etc

Reporting information around our methodology and resources are tabled below:

Carbon Footprint Reporting Period

OUTsurance Holdings Group's Financial Year (1 July 2020 to 30 June 2021)

Methodology & Resources

The Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard (revised edition)

Emission factors by Defra, GHG Conversion factors for Company Reporting, 2020

Other resources were consulted where applicable or more specifically relevant for South Africa, Australia and New Zealand

Electricity emission factors were sourced from:

- Eskom's 2020 Integrated Report for SA
- The Australian National Greenhouse accounts factors-October 2020
- New Zealand 2020 Emission Factors GHG

GHG Consolidation approach: Operational Control

Measurements Include

Information relating to all the South African entities in the Group and their employees

Information relating to Youi Australia and New Zealand and their employees

Exclusions

Where reliable data is currently not available such as employee commuting and cloud computing it is excluded – noted for future improvement

Our carbon footprint measurements are tabled alongside for the last three years. Our achievements illustrate the dedication to the reduction of our footprint.

		2021 Emissions (TCO_2e)	2020 Emissions (TCO_2e)	2019 Emissions (TCO_2e)	% change (2020 / 2021)
Scope 1	Fleet petrol	**286.8**	356.8	524.8	**(19.6%)**
	Fleet diesel	**322.5**	390.8	511.6	**(17.5%)**
	Generator diesel	**18.8**	16.5	45.7	**14.2%**
	R22 refrigerants	**45.3**	63.4	38.0	**(28.6%)**
	R410A refrigerants	**125.3**	304.8	146.2	**(58.9%)**
	HFC-134a refrigerants	**85.8**	n/a	n/a	
	R407C Refrigerants	**127.7**	n/a	n/a	
Total	**Scope 1 Business fleet fuels & refrigerants**	**1 012.2**	**1 132.3**	**1 266.3**	**(10.6%)**
Scope 2	Electricity – generated	**7 738.0**	8 956.5	9 548.1	**(13.6%)**
Total	**Scope 2 Electricity**	**7 738.0**	**8 956.5**	**9 548.1**	**(13.6%)**
Scope 3	Electricity – transmission and distribution	**841.8**	963.7	985.2	**(12.7%)**
	Actual paper used	**0.8**	0.8	1.6	**0.0%**
	Business air (domestic)	**88.5**	188.6	357.0	**(53.1%)**
	Business air (international)	**3.8**	98.6	206.7	**(96.2%)**
	Employee claimed – petrol	**2 123.3**	1 614.9	1 565.5	**31.48%**
	Employee claimed – diesel	**869.7**	624.0	607.5	**39.38%**
Total	**Scope 3 Electricity, paper, business air and road travel**	**3 927.9**	**3 490.6**	**3 723.5**	**12.5%**
Total emissions	Total carbon emissions per Annum (TCO_2e)	**12 678.1**	13 579.3	14 537.9	**(6.6%)**
	Number of employees	**5 954**	5 380	5 411	**10.7%**
	TCO_2e per employee	**2.1**	2.5	2.7	**(15.6%)**
	Total number of person hours worked (HW)*	**10 860 096**	9 813 120	9 869 664	**10.7%**
	TCO_2e / HW**	**0.0012**	0.0014	0.0015	**(15.6%)**

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

The following comments are pertinent to our carbon footprint table:

- The total carbon emissions (TCO_2e) for the Group was 6.6% lower in the last financial year.
- We saw a 15.6% reduction TCO_2e per employee from 2.5 in 2020 to 2.1 in 2021. As indicated under our metrics, goals and targets, we aim to keep this measurement below three.
- Scope 1: Fleet fuels reduced in the last year. Generator diesel utilisation increased marginally on the previous year which is mainly attributed to the generator operating due to cable theft and a transformer that tripped at a substation. New types of more environmentally friendly refrigerants were introduced where possible in 2021.
- Scope 2: Electricity represents the biggest source of emissions (61%) in the Group's carbon footprint but the additional information provided alongside around our energy consumption shows a 13.6% reduction year-on-year. Key information is tabled alongside.

Additional energy consumption information

TOTAL ELECTRICITY CONSUMPTION (kWh)

8 162 015

2020: 9 338 821 | 2019: 10 615 286

% change 2020 / 2021 (12.6%)

TOTAL INDIRECT ENERGY CONSUMPTION (GIGAJOULES, GJ) – FROM ELECTRICITY CONSUMED

29 383

2020: 33 620 | 2019: 38 215

% change 2020 / 2021 (12.6%)

TOTAL INDIRECT ENERGY CONSUMED PER PERSON HOUR WORKED (MJ / HW)

0.0000027

2020: 0.0000034 | 2019: 0.0000039

% change 2020 / 2021 (21.0%)

TOTAL ELECTRICITY CONSUMED PER PERSON HOUR WORKED (kWh / HW)

0.75

2020: 0.95 | 2019: 1.08

% change 2020 / 2021 (21.0%)

ONSITE SOLAR RENEWABLE ENERGY – TOTAL MWh

1 478.85

2020: 917.34 | 2019: 275.15

% change 2020 / 2021 61.2%

- The total electricity consumed per person hour worked (kW/HW) reduced by 21% in the last year.
- Not all our employees are working from home due to COVID-19 but with less employees at the offices, we saw a reduction in building cooling needs and utilisation of certain equipment. Our cafeteria was closed for four months due to COVID-19 and after re-opening with a limited menu, it required less equipment for a period. Several solutions are well established in the Group that are directed towards reducing electricity consumption. These focus on energy saving technology and improved facilities management resulting in more energy efficient buildings, some of which are listed below:
  - One of the biggest electricity usage drivers is the Heating Ventilation and Air Conditioning (HVAC) system. The Buildings Management System (BMS), enables OUTsurance to optimise settings and controls of the HVAC to improve efficiencies and reduce costs. Continuous setting changes in the BMS take place where we change set points of chillers to be more in line with outside ambient temperature, reducing the workload of the HVAC system.
  - Carbon reduction projects include geyser timers, energy saving LED lights and air-conditioning that deactivates during periods of inactivity.
  - The solar panels generated 1478.85 MWh of renewable energy in the last 12 months.
- Scope 3: We recorded a significant reduction in domestic and international air travel, mostly due to COVID-19 restrictions. Employee claimed petrol and diesel under scope 3 emissions saw increases due to a growing tied agency force.

Water consumption and conservation

TOTAL WATER CONSUMPTION (kL)

43 854

2020: 39 249 | 2019: 42 788

% change 2020 / 2021: 11.7%

WATER CONSUMED PER PERSON HOUR WORKED (kL / HW)

0.004038

2020: 0.004000 | 2019: 0.004335

% change 2020 / 2021: 1.0%

The water consumption increase noted is mainly attributed to better data. We were able to submit readings for more accurate billings and monitoring of water consumption.

Recycling and waste management

We understand that our waste and how we treat it has a significant impact on the natural world. For this reason we continue all possible recycling efforts during the different COVID-19 lockdown restrictions.

OUTsurance is committed to various initiatives to promote recycling, and reduce waste which include:

Waste Management
Adhering to the principle of "Reduce, Reuse and Recycle" and adopting the principle of "Prevent, Minimise or Control" in respect of waste management.

Hazardous Waste
Ensuring that hazardous waste is managed in such a manner that negative impacts are prevented, minimised or controlled in accordance with the relevant legal requirements.

Recycling
Several recycling efforts which also enable our staff to recycle on-site if they do not have access to other recycling facilities or simply prefer to use ours.

GROUP TOTAL PAPER RECYCLED

19 184 kg

2020: 23 416 kg

% change 2020 / 2021: (18.1%)

GROUP TOTAL OTHER WASTE RECYCLED

85 639 kg

2020: 108 729 kg

% change 2020 / 2021: (21.2%)

Recycled paper
17 298 kg
2020: 20 484 kg

Other recycled waste
35 735 kg
2020: 57 625 kg

Recycled paper
1 886 kg
2020: 2 932 kg

Other recycled waste
49 904 kg
2020: 51 104 kg

Electronic document ratio (EDR)

Paperless document distribution is another way we reduce our carbon footprint.

Our electronic document ratio (EDR) measures the total number of electronic policy documents distributed to our clients as a percentage of all the documents sent to our clients. Youi documents only get posted when email is not successfully received by the client.

OUTsurance

ELECTRONIC DOCUMENT RATIO

96.2%

2020: 95.4%

% change 2020 / 2021: 0.8%

Youi

ELECTRONIC DOCUMENT RATIO

99.8%

2020: 99.9%

% change 2020 / 2021: (0.1%)

Risk management

Risk and opportunity identification and management are integral to the successful delivery of OUTsurance's business strategy and are key elements of our corporate culture. It enables us to deliver on OUTsurance's purpose to "disrupt, simplify and serve".

Risk governance

The Board-approved Group Risk Management Strategy and Framework (GRMS) describes the structures, risk management system, policies and processes to effectively identify, monitor and manage the current and emerging material risks that the Group faces that might affect our goals or our ability to meet our obligations to our customers. The impact of risks is understood, and appropriate internal control systems are in place to mitigate our exposure to such risks.

The Group Governance Framework ensures that governance structures, assignment of roles and delegation of responsibilities and appropriate policies are in place to support the management of risk in the Group.

Governance over the risk management system and system of internal controls is supported by the control functions in the Group: risk management, compliance, internal audit and actuarial function.

The Group Chief Risk Officer's (CRO) independence and segregation of duties from operational lines responsibilities are supported by suitable reporting lines. A key function of the Group CRO role is to assist the Board and the ARC Committee to maintain an effective group-wide risk management framework and risk governance processes.

The Board, senior management and the risk management department collaborate with the business risk owners 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 are submitted to the Board, its committees, the regulators, senior management and other internal stakeholders to provide oversight of the profiles of the respective insurers as well as the Group.

Risk appetite

A business profits from taking desired risks within its appetite. The risk appetite describes the nature and level of risk that the Group and respective entities are willing to take in pursuit of strategic objectives. A Board approved Risk Appetite Statement is in place. It provides the parameters within which management operate and manage risk. Reports to the Board and other governance structures on the risk profile with reference to the agreed risk appetite assess whether risk taking is within acceptable boundaries.

Risk culture

Our risk culture is defined as "the system of values and norms of behaviour that influence decisions and actions of staff and their ability to identify, understand and act on the risks that the company face, 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. Leadership communication is crucial to ensure that our purpose, values, acceptable behaviour and risk appetite is communicated and understood. All the important information is documented in policies, processes, procedures, guidelines and training. These serve as culture enablers which reinforce and support the leadership message shared around the desired risk culture.

Our conduct, behaviours, relationships and various business and performance results are indicators of the culture. Measurement and reporting take place to assess the state of the culture compared to the desired culture as described in the Risk Culture Framework.

Material risk

Material risks can hinder or prevent the achievement of business objectives or values. The main risk classes used to categorise risks in our Risk Classification System are the Strategic, Financial, Operational and Compliance risk classes. Through robust risk management practices across the business, risk owners and the risk management function join forces to maintain risk registers for the Group as well as for each of the entities in the Group. Appropriate action plans and tasks are developed in response to identified risks. Challenge and review processes are undertaken through the CROs.

The main risks are summarised below in no particular order:

	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.	Our corporate value of providing awesome service to our customers remains a key focus area where we seek continuous improvement as it is crucial to our efforts to protect our reputation. Behaviour, processes or changes that can harm our reputation, are closely monitored and managed across the business and in several committees and forums. We also have a range of objective internal and external measures to track brand health.
Pandemic risk	Pandemic risk manifested in 2019 – 2020 in COVID-19 as a global threat. Unfortunately, it is still an ongoing threat and it continuously evolves and impacts virtually all aspects of the environment we operate in and our business operations.	Our pandemic response plans as well as a variety of protocols and measures are designed to protect all our stakeholders, including a work-from-home strategy. These are updated as required. We remain agile as we continue to monitor and respond appropriately.
Talent drain	The exit of talent from South Africa, both young and the more experienced, and the resulting loss of key skills, will have an impact on any business in our industry.	Whilst several factors driving the talent drain to other countries are not within our control, employee value proposition and retention strategies as well as our endeavours to remain a great Group to work for are in place and are constantly reviewed and updated.
Cyber and information security risk	There are various risks linked to cyber risks, data protection, 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, processes and systems 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 or smaller investments.	Our low cost operating model, offering value for money products including our Essential range, our scientific and accurate underwriting model which is based on the risk profile of each customer, ensure that we manage costs, offer appropriate premiums and that our client base is resilient as they manage financial risks well.

	CONTEXT AND IMPACT	MITIGATION
Increasing regulatory burden and cost of compliance	Regulatory compliance describes the goal to ensure that we are aware of and take measures to comply with the relevant laws and regulations. Regulatory change impacts innovation, business processes, procedures and increases costs.	Dedicated compliance resources, 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 business efforts.
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 carefully identify and monitor any possible conduct risk or behaviour which is not aligned with the principles of Treating Customers Fairly (TCF). Reporting on such risks is in place. TCF Forum monitoring. Processes, procedures and performance monitoring tools to support TCF outcomes are embedded in our operations. Leadership from the top enables a risk aware culture, innovative improvements and good customer outcomes.
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 of our combined assurance activities are key to mitigating these risks. Regular and detailed monitoring and reporting take place.
Financial system failure and deteriorating credit quality risks	The risks of financial system failures, sovereign downgrades and the current credit environment may have a negative impact on business.	Our businesses are well capitalised and we have diversified investments. We have documented investment, capital management and liquidity policies and governance structures to ensure sound management and internal controls.
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. Climate change and global warming factors may over time impact our business.	The risk is mitigated through our business model which includes centralised systems, automated underwriting and pricing decisions, systemised mandates and controls. We do not outsource core insurance disciplines such as pricing, underwriting, product design, IT or claims management. Underwriting processes are based on a robust underwriting philosophy of prudent consideration of risk factors in line with a documented underwriting risk policy. We insure only risks that we can scientifically price accurately. Product design and underwriting risk indicators are monitored closely. Diversification by product and geographic location reduce the impact of accumulation risk. Prudent Reinsurance programmes are in place.
Political risk	The risk of an unstable political environment impacting adversely on customers, the business environment and economy.	Focus on our business and efforts to make positive contributions to society and the economy.

	CONTEXT AND IMPACT	MITIGATION
Climate risk	Possible impact of climate change and global warming on people, economy and business include transition and physical risks: **a) Transition risks:** Transitioning to a lower carbon impact requires changes in policy, reporting, technology and solutions to mitigate climate-related risks. Carbon footprint reporting, reduction and energy efficiency could be costly. Not meeting consumers' expectations in terms of our carbon footprint carries reputational risk. **b) Physical risks:** Acute physical risks are event-driven such as floods, cyclones or other extreme weather events. Chronic physical risks are long-term changes in climate patterns causing rising sea levels, heat waves or droughts and prolonged periods of water scarcity.	A Board approved Climate Change and Sustainability Policy is in place including reporting and disclosures in accordance with the recommendations of the Task Force for Climate Related Disclosure (TCFD). Utilise multi-purpose data and reporting sources and processes. Continue to identify opportunities for footprint and cost reduction and effective stakeholder communication to share successes. Sustainability, Social and Ethics reporting to governance structures with Social and Ethics (SE) responsibilities which include environmental risks. New SE Committee established. Refer to the Carbon footprint section regarding our efforts to limit carbon emissions. Board approved Reinsurance and Underwriting policies, processes and agreements. Stress & scenario testing and reporting. Regular reporting takes place on key risk indicators. Monitoring of carbon footprint and ongoing efforts to reduce carbon emission. Regular reporting takes place on key risk indicators.
Service delivery failure risk of SOE's	Service failures or disruptions by state owned enterprises (SOE's) in South Africa impact business operations and the ability to provide consistent and reliable service to consumers. Public unrest and rising crime levels are real threats linked to this risk which will have wide-ranging adverse impact on business and society.	Our business continuity plans including alternative energy sources, solar panels, generators, water capture and storage and alternative communication solutions provide some mitigating relief for limited periods of time. A work-from-home strategy is in place.
Inadequate transformation outcomes	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 imperative for senior management and the Board, driven through the relevant governance structures, a dedicated Transformation department and Forum. A Transformation plan drives the desired processes. Ongoing monitoring of reviewed goals and dedicated focus.
Disruptive technology and 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. An example is self-driving vehicles. Changes in the competitive environment can put pressure on our company to make changes to product offerings, processes, systems or policies.	Our innovation focus, pro-active monitoring of technological, global and industry trends and developments ensure that our products and service offerings remain relevant. Product line diversification and a dedicated research and development function enable the adoption of new technologies as the business case prevails.

Risk and assurance reporting

The control functions submit regular reports to the various management and Board Committees and the Board. Risk Management reporting includes risk profiles, top risks as well as key risk indicators monitored in line with the board-approved risk appetite as well as Information Security and Cyber Risks.

The Internal Risk Committee, the ARC Committee and the Board also receive two comprehensive risk management reports on an annual basis, namely the Own Risk and Solvency Assessment (ORSA) Report and the Social and Ethics report.

- The ORSA Report which is approved by the Board and senior management contains a detailed risk assessment report and complies with the ORSA Policy and regulatory requirements. This risk assessment covers all material risks including emerging risks and a variety of key themes such as strategic, financial, climate change, sustainability, cyber, regulatory and reputational risks.

- The themes covered by the Social and Ethics report include topics such as the:
  - Employee relationships, wellness, health, labour and employment matters as well as educational and development programmes
  - 10 principles set out in the United Nations Global Compact Principles
  - Anti-corruption, whistle blowing and fraud line reports, conflicts of interest, misconduct, fraud, or any other unethical activity
  - Transformation matters including Employment Equity, promotion of equality, prevention of unfair discrimination and Broad-Based Black Economic Empowerment
  - Consumer relationships, including the company's advertising, public relations, compliance with consumer protection laws and the fair treatment of customers
  - Contribution to communities, sponsorship, donations and charitable giving
  - The environment, sustainable practices, our carbon footprint and climate change

The control environment

OUTsurance maintains an effective control environment to manage material risks to its business and customers. The Group has the following control functions in place:

- Internal Audit
- Risk Management
- Compliance
- Actuarial

The Internal Control System serves to provide the Board and other stakeholders with reasonable assurance that our businesses are managed and operated in accordance with:

- Delegation of authority, business strategy and objectives
- Company policies and procedures
- Compliance with laws, regulations and industry conduct

The evaluation of the effectiveness of the control functions takes place on an annual basis. Internal Audit performs regular reviews of the control functions as stipulated in their approved plans.

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 activities to optimise the level of risk, governance and control oversight in the Group. The Combined Assurance Forum serves to support the objectives of the model. The three lines of defence provide a sound governance of risk model which promotes transparency, accountability, consistency and segregation of roles, as illustrated in the table below:

Combined Assurance Model – three lines of defence

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

Corporate governance

The governance framework

The Board of Directors of OUTsurance Holdings Limited (the Board) as well as the Boards of the insurers in the OUTsurance Holdings Group (the Group) adopted a Group Governance Framework to ensure the prudent management and oversight of the insurance business of the Group as it serves to protect the interests of policyholders and all stakeholders.

Delegation of authority

The Board delegates its authority as stipulated in the delegation of authority policy which is reviewed and approved by the Board 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.

The Board of Directors

The 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, risk management, social, environmental and ethical matters. The Board oversees the activities of the Group ensuring that it is in line with best practice and that the conduct of employees has the fair treatment of customers at heart.

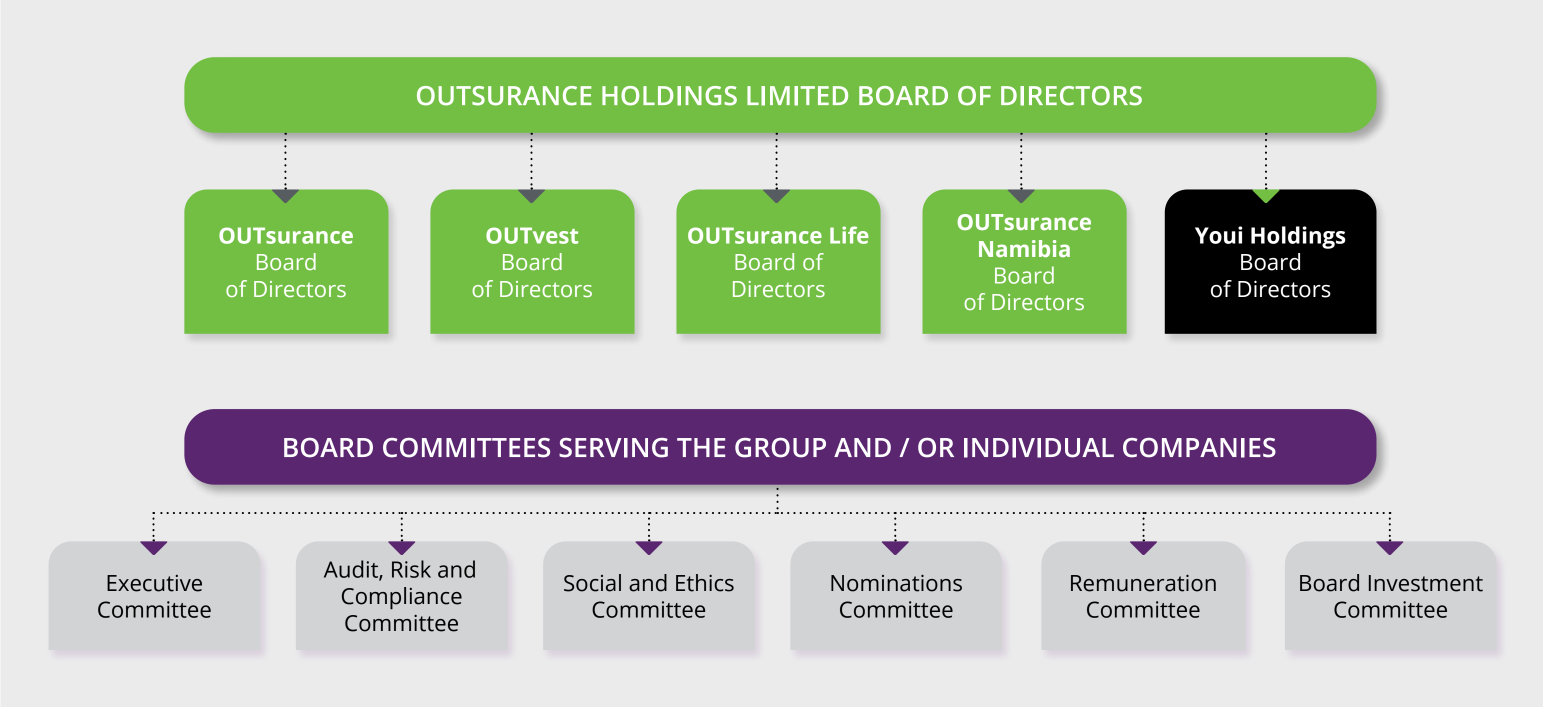
Board members have full and unrestricted access to management, information and property and are guided by a formal charter. Amongst others, the charter provides the Board with responsibilities to approve corporate strategy set to achieve objectives, to ensure that there are appropriate policies and procedures, effective risk management and governance, reliable and 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 insurer boards and board committees in performing its oversight responsibilities and ensuring that the company activities and culture are aligned with our corporate values and policies.

The company secretary ensures that the provisions of the Companies Act, 2008 and its associated regulations are complied with. The company secretary provides guidance to the Board in discharging their responsibilities and advises on business ethics and good governance.

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 below:



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 South African, Australasian and Namibian operations respectively, all ultimately report back into the Board. 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 Remuneration Committee consists of three non-executive members and the chairperson is an independent director. The Nomination Committee consists of three non-executive members and the chairperson is a non-executive director. The Social and Ethics Committee was constituted during the current financial year and comprises of three non-executive members and the chairperson is an independent director. This committee takes over the social and ethics mandate from the Audit, Risk and Compliance Committee from the 2022 financial year.

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. 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 the Board has established high ethical standards and that board reports were detailed, informative and comprehensive and that all relevant aspects of the business were dealt with in the reports and that the meetings were reported to be well organised and effectively run.

Board, composition, skills and expertise

The Board consists of an appropriate mix of executive and non-executive directors. The Board comprises 12 members of whom 11 are non-executive directors. The majority of non-executive directors are also independent. The Board includes four female independent directors. Six of the independent directors are from the historically disadvantaged South Africans (HDSA) group.

Mr Peter Cooper retired from the Board with effect 1 September 2020. There were no further changes for the period 1 July 2020 to 30 June 2021.

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.

The table alongside provides more information regarding the directors of the Board:

DIRECTORATE

Mr Herman Lambertus Bosman (52)* Non-executive Chairman BCom (Law), LLB, LLM, CFA **Appointed:** 5 November 2015 **Appointed as Chairman:** 1 July 2020	**Mr Kubandiran Pillay (60)** Lead independent director BA; LLB; MCJ (USA) **Appointed:** 19 February 2014 **Appointed as Lead independent director:** 1 July 2020	**Mr Raymond Ndlovu (54)** Independent director B.Business Studies (Hon) **Appointed:** 28 August 2018	**Ms Tlaleng Moabi (44)** Independent director MSc Engineering (Transport); BSc Engineering (Electrical); B Engineering (Management of Technology) **Appointed:** 29 June 2018
Ms Judy Madavo (62) Independent director BA (Hon) Sociology and Social Administration; MSc Medical Sociology – University of London/ Bedford College **Appointed:** 8 November 2004	**Mr George Louis Marx (67)** Independent director BSc (Econ) Cum Laude; FASSA; Chartered Enterprise Risk Actuary (CERA) **Appointed:** 20 August 2008	**Ms Buhle Hanise (38)** Independent director BCom (Accounting); CA (SA) **Appointed:** 29 June 2018	**Mr Marthinus Visser (47)** Executive director BCom (Hon) Actuarial Science; FASSA; F.I.A **Appointed:** 1 January 2018
Mr Alan William Hedding (70) Independent director BCom; BCompt (Hon); CA (SA) **Appointed:** 10 October 2013	**Mr Willem Roos (49)** Non-executive director BCom (Hon) (Actuarial Science); FASSA **Served as executive director:** 30 April 2001 to 1 January 2018 **Appointed as non-executive director:** 1 January 2018	**Mr Rudolf Pretorius (59)** Independent director BCom (Hon); CA (SA) **Appointed:** 27 January 1998	**Mr Peter Cooper (65)**** Independent director BCom (Hon); CA (SA); Higher Diploma in Income Tax – Wits **Appointed:** 11 May 2000 **Retired:** 1 September 2020
Ms Mamokete Ramathe (41) Independent director BCom (Hon) Business Management, Master of Development Finance, Master of Arts in Leading Innovation and Change; BCom (Accounting) (Finance) **Appointed:** 29 June 2018			

* *Mr Bosman is a non-independent, non-executive director and his appointment as the chairperson has been approved by the Prudential Authority.*

** *Mr Cooper retired from the Board effective 1 September 2020.*

Proceedings

The Board met four times during the period under review. The directors' attendance of meetings is summarised in the next table. The meeting attendance ratio for the year was 98%.

Board meetings and attendance	August 2020	November 2020	March 2021	June 2021
Mr Herman Bosman (Chairman)	✓	✓	✓	✓
Mr Kubandiran Pillay	✓	✓	✓	✓
Mr Alan Hedding	A	✓	✓	✓
Ms Judy Madavo	✓	✓	✓	✓
Mr George Marx	✓	✓	✓	✓
Mr Rudolf Pretorius	✓	✓	✓	✓
Mr Willem Roos	✓	✓	✓	✓
Mr Marthinus Visser	✓	✓	✓	✓
Ms Mamokete Ramathe	✓	✓	✓	✓
Ms Buhle Hanise	✓	✓	✓	✓
Ms Tlaleng Moabi	✓	✓	✓	✓
Mr Raymond Ndlovu	✓	✓	✓	✓
Mr Peter Cooper*	✓			

A - Apologies noted.

Attendance ratio 98%.

** Mr Cooper retired from the Board effective 1 September 2020.*

Board Investment Committee

The Board Investment Committee is mandated to consider the balance sheet management activities for the Group and its operating entities together with evaluating the Group's portfolio investments and future investment opportunities.

The Board Investment Committee convenes on an ad-hoc basis. The membership of the committee is noted below:

Board Investment Committee	
Mr Marthinus Visser	Executive director
Mr Willem Roos	Non-executive director
Mr Rudolf Pretorius	Independent director
Ms Mamokete Ramathe	Independent director
Mr Raymond Ndlovu	Independent director
Mr Kubandiran Pillay	Lead independent director
Mr Herman Bosman	Non-executive director

Nominations Committee

The Nominations Committee is mandated to review proposed candidates for appointment to the Board, board committees, the Chief Executive Officer, Chief Financial Officer and Heads of Control Functions. The nominations proposed by the committee are considered and where appropriate approved by the Board.

The committee meets on an ad-hoc basis and met once during the reporting period. The composition of the committee is set out below:

Nominations Committee members		Meeting attendance June 2021
Mr Herman Bosman (Chairman)	Non-executive director	✓
Mr Kubandiran Pillay	Lead independent director	✓
Mr Raymond Ndlovu	Independent director	✓
Mr Marthinus Visser	Executive director	✓

Executive Committee

The OUTsurance South Africa Executive Committee (EXCO) is responsible for implementing the strategies approved by the Board and for managing the day-to-day affairs of the Group. The EXCO is mandated to this end by the Board in terms of the delegation of authority. The EXCO is chaired by the Chief Executive Officer and meets every two weeks.

The EXCO oversees and guides various internal committees including the following:

- Asset, Liability and Capital Committee
- Claims Committee
- Combined Assurance Forum
- Internal Risk Committee
- Operational Committee
- Reinsurance Committee
- Transformation Committee

The table below provides more information regarding the OUTsurance Executive Committee:

OUTSURANCE SOUTH AFRICA EXECUTIVE COMMITTEE

Mr Danie Matthee Chief Executive Officer	**Mr Jan Hofmeyr** Group Chief Financial Officer	**Mr Wilbur Smith** Chief Operating Officer – Sales and Client Care	**Ms Lynette Bisschoff** Group Chief Risk Officer
Mr Suren Naidoo Chief People Officer	**Mr Paul Myeza** Chief Operating Officer – OUTsurance Life	**Ms Natasha Kawulesar** Head of Client Relations	**Mr Matt Cole** Chief Information Officer
Mr Arnold De Swardt Chief Actuary	**Mr Burton Naicker*** Chief Operating Officer – Claims and Legal	**Mr Micky Maharaj**** Chief Operating Officer – Claims and Legal	**Ms Keneiloe Selamolela** Chief Transformation Officer
Mr Carl Louw Chief Marketing Officer	**Mr Riyaad Loonat** Chief Operating Officer – Business OUTsurance		

** Mr Burton Naicker resigned in July 2021.*
*** Mr Micky Maharaj was the Chief Operating Officer of OUTsurance Shared Services up to 30 June 2021.*

The Youi Holdings Executive Committee is chaired by the Youi Chief Executive Officer and comprises of the following members:

YOUI EXECUTIVE COMMITTEE

Hugo Schreuder Chief Executive Officer	**Peter Broome** Chief Operating Officer	**Bert Bakker** Chief Risk Officer	**Loren Fisher** Group Chief Risk Officer
Tanya Cain Chief Financial Officer	**Nathaniel Simpson** Chief Product Officer	**Joachim Holte** Chief Marketing and Digital Officer	**Debra Kraft** Chief People Officer and Culture Officer

Report by the Audit, Risk and Compliance Committee

Composition

The OUTsurance Holdings Limited Audit, Risk and Compliance Committee (the Committee) is comprised of four independent non-executive directors. The Group's Chief Executive Officer, Group Chief Financial Officer, Chief Risk Officer, Chief Audit Executive, Head of Actuarial functions, external auditors and other assurance providers attend committee meetings in an ex-officio capacity. The heads of the Control Functions meet at least quarterly with the Chairman of the Committee. The Chief Risk Officer, Chief Audit Executive and external auditors meet independently with the Committee members as and when required.

Role

The 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. The Group established a separate Social and Ethics Committee which will oversee these matters from the 2022 financial year.

In addition to the above duties, the Committee assists the Board in:

- Evaluating the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing and actuarial valuation processes applied in the day-to-day management of the business of the Group;
- The facilitation and promotion of communication and liaison between the Board, senior management, the external auditor and internal audit function concerning matters regarding effective governance;
- Developing its risk management strategy;
- Evaluating the adequacy and effectiveness of the risk management system;
- Identifying any build-up and concentration of the various risks to which the Group is exposed;
- Identifying and monitoring all material risks to ensure that its decision-making capability and accuracy of its reporting are adequately maintained;
- Facilitating and ensuring the appropriate segmentation of duties of the risk management function from operational business line responsibilities and ensure that the segregation is observed;
- Introducing measures to enhance the adequacy and effectiveness of the risk management system;
- Overseeing the monitoring of risk management on an enterprise-wide and individual business unit basis;
- Overseeing financial risk and asset-liability matching strategies of the Group; and
- Overseeing the Group's finance systems transformation project.

A particular focus point for the Committee is the progress made towards the adoption of IFRS 17. The committee is undergoing ongoing training and assessment of comparative results.

Annual report

The Committee is aware of the significance of accounting policies in presenting financial results. The Committee reviewed the accounting policies and are 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 Committee. The Committee accordingly approves the internal audit charter and the annual internal audit plan. The Chief 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 Chief Audit Executive and is satisfied that the Chief Audit Executive has fulfilled the obligations of the position. In addition, the Committee conducts an independent review of the quality of the internal audit function every three years. This review was conducted and there were no significant findings from this review.

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

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 activities to optimise the level of risk, governance and control oversight in the Group.

The Combined Assurance Forum (the Forum) met five times during the reporting period and is composed of, among others, the Chief Audit Executive as chairman, Chief Risk and Compliance Officer, External Audit, Information Security Manager and the Chief Financial Officer.

The Forum serves to support the objectives of the combined assurance model, to accomplish the philosophy behind it and maintaining an effective control environment. It provides a platform for control functions and assurance providers to discuss relevant themes including emerging and material risks.

Finance function expertise

The Committee considers the expertise and experience of the Group 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 2020, 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 2021 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 as set out in Section 90(2) of the Companies Act, 2008, 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.

Mandatory audit firm rotation

New regulations require a company to rotate external auditors where the auditor has been appointed in such capacity for a period of more than ten years and is referred to as Mandatory Audit Firm Rotation (MAFR). MAFR is applicable to the Group from the 2024 financial year. The Group is considering the impact of MAFR and preparing for the adoption of IFRS 17. Accordingly, the Group, in collaboration with parent RMI Holdings Limited, will rotate auditors in the 2023 financial year to allow the new auditor to sign off on IFRS 17 prior to adoption. The appointment of the new auditor will be completed by the end of the 2022 calendar year with the incoming audit partner observing the 2022 audit process.

Regulatory environment

The Committee monitors the ever changing regulatory and legislative compliance landscape applicable to the Group's operations. Progress and compliance are monitored through regular management reporting.

The Committee is satisfied with the skills and expertise of management regarding regulatory and legislative compliance.

Audit Committee

The Committee is accountable to fulfil the audit functions, duties and oversight for OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited. The composition, knowledge, experience and size of the Committee complied with the requirements of Section 33 of the Insurance Act 18 of 2017 and Prudential Standard GOI 2. The Committee at all times includes members with technical, accounting and actuarial skills as well as experience in both long and short-term insurance.

The Committee has access to management and necessary information in order to perform its functions and it ensures that adequate time and oversight is provided to all licenced entities. The Committee also has access to training in respect of new technical accounting standards that impact the Group, specifically IRFS 17.

Going concern

The Committee has assessed the going concern status of the Group and has accordingly confirmed to the Board that the Group will be a going concern for the foreseeable future. Please refer to note 41 for more disclosure.

Proceedings

The Committee met four times during the reporting period. The membership and attendance are as follows:

Audit, Risk and Compliance Committee	August 2020	November 2020	February 2021	May 2021
Mr George Marx (Chairman)	✓	✓	✓	✓
Mr Alan Hedding	✓	✓	✓	✓
Ms Buhle Hanise	✓	✓	✓	✓
Ms Tlaleng Moabi*		✓	✓	✓
Mr Peter Cooper**	✓			

* *Ms Moabi was appointed effective 1 September 2020.*
** *Mr Cooper retired from the Board effective 1 September 2020.*

Conclusion

The Committee discharged its duties and responsibilities as envisaged in its formal charter as well as in line with the principles of good corporate governance.

Mr G L Marx
Chairman
31 August 2021

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 remuneration policy is aligned with the risk management strategy of the Group and that it adequately reflects and protects the interests of all stakeholders.

Key responsibilities of Remco include the development and review of an appropriate remuneration policy, monitoring the implementation and effectiveness of the remuneration policy, review and approval of annual remuneration packages of the Chief Executive Officers, senior management reporting directly to the Chief Executive Officer, employees whose activities may affect the financial soundness of the insurer, general 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 current legal and regulatory compliance environment, current remuneration trends, 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.

In addition, the Remco considered the economic impact of the COVID-19 pandemic in determining appropriate remuneration for executive and senior management, employees and non-executive directors.

The Group entities delivered a stable and resilient operational and financial performance since the outbreak of COVID-19. These factors reduced the overall uncertainty within which the Remco assessed the 2021 remuneration proposals. As such the remuneration approach for 2021 bonuses and remuneration adjustments are consistent with the historic practices of the Group. The retention of talent, particularly in the South African operation, is a key current focus area for the Remco when considering remuneration proposals and strategies.

With the support of our major shareholder, a new share ownership scheme was implemented with effect 1 June 2021. This scheme is designed to enhance the broader spread of equity ownership of key employees and technical skills across the organisation and excludes executive management. The development of our strong owner-manager culture is a key differentiator to drive wealth creation, long-term decision making and talent retention.

Through various share incentive and ownership initiatives the Group and its key employees have been able to foster a culture where we manage the business as owners and share in the creation of value by making the right long-term business decisions.

Committee members and meetings

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

The committee meets at least twice a year and special meetings may be convened if required. In the past year, four meetings were held. The composition of the Remco and attendance of members is noted in the table below:

Remuneration committee members		Meeting attendance November 2020	Meeting attendance February 2021	Meeting attendance March 2021	Meeting attendance June 2021
Mr Kubandiran Pillay (Chairman)	Lead independent director	✓	✓	✓	✓
Mr Herman Bosman	Non-executive director	✓	✓	✓	✓
Mr Raymond Ndlovu	Independent director	✓	✓	✓	✓
Mr Marthinus Visser	Executive director	✓	✓	✓	✓

Remuneration policy

A remuneration policy is in place and approved by the OUTsurance Holdings Board 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 the Group and our stakeholders.

The remuneration policy for the Australian and New Zealand subsidiaries of Youi Holdings (Pty) Limited 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 components mentioned alongside 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 approval of remuneration arrangements, including but not limited to performance-based remuneration components.

OUTsurance's primary remuneration objectives are to ensure that:

- The total remuneration payable by the company 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 staff;
- 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;
- Considers remuneration design and management a key business competence and receives the required focus and resources;
- Aligns individual and group performance objectives to business plans and performance reviews on all levels are done at least once a year; and
- Deals with underperformance in line with agreements, policies and objectives.

Information regarding directors' and prescribed officers' emoluments is available on page 174.

The implementation report of the Remuneration Committee was presented to the Board in August 2021 and after consideration was given thereto the Board adopted the implementation report.

Mr Kuben Pillay
Chairman
31 August 2021

Embedded value results

Definition

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

The embedded value (EV) 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 (PVIF); less
- The cost of required capital.

The ANW of covered business is calculated on the published accounting (IFRS) basis and is defined as the value of all assets attributed to the covered business that are not required to back the liabilities of the covered business. For OUTsurance Life all business is covered business, and therefore the ANW is set equal to the net asset value as per the IFRS balance sheet.

The PVIF is the discounted value, at the risk discount rate, 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 IFRS.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the required capital on the statutory basis in accordance with the latest Financial Soundness for Insurers Specifications as published by the Prudential Authority, the margins held under IFRS, as well as any additional capital considered appropriate by the Board given the risk of the business. The required capital has been set at 1.5 x SCR (2020: 1.5 x SCR), which is the target SCR ratio.

The cost of required capital is the difference between the current required capital and 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 (VNB) is calculated as the discounted value, at point of sale, using the risk discount rate, of the projected stream of after-tax profits for new covered business issued during the past 12 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.

Profitability of new covered business (the VNB margin) 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 new single premiums plus the discounted value, at the risk discount rate, of expected future premiums on new recurring premium business.

Embedded value

The table below provides a breakdown of the EV on the IFRS basis for OUTsurance Life for the twelve months under review and comparative figures:

Embedded value of covered business (R'000)	30 June 2021	30 June 2020	% change
Covered business ANW	**647 767**	627 165	3.3%
Free surplus	**622 105**	605 481	2.7%
Required capital	**25 662**	21 684	18.3%
Present value of in-force business (PVIF)	**730 513**	580 090	25.9%
Cost of required capital	**(69 161)**	(13 475)	(>100%)
Embedded value of covered business	**1 309 119**	1 193 780	
Present value of gross premiums (in-force book)	**4 146 667**	3 225 049	
Annualised return on embedded value	**9.7%**	9.6%	

The embedded value earnings for the financial year was R115.3 million resulting in an annualised return on embedded value of 9.7%.

The ANW increased by R20.6 million, largely driven by investment return variances as well as the expected profit transfer arising from the release of margins held in the liability projections.

The PVIF increased by R150.4 million, mostly attributable to the expected profits generated from new business written over the period.

The cost of the required capital for OUTsurance Life increased by R55.7 million primarily due to the change in the new yield environment.

Embedded value earnings

The table below shows the components of the embedded value earnings of OUTsurance Life for the twelve months under review.

Embedded value earnings for the reporting period *at June 2021 (12 months) (R'000)*	ANW	PVIF	Cost of required capital	Embedded value
Embedded value at end of the period	**647 767**	**730 513**	**(69 161)**	**1 309 119**
Embedded value at beginning of the period	**(627 165)**	**(580 090)**	**13 475**	**(1 193 780)**
Embedded value earnings for the period *at June 2020 (12 months)*	20 602	150 423	(55 686)	115 339
Embedded value at end of the period	627 165	580 090	(13 475)	1 193 780
Dividends paid	130 000	–	–	130 000
Preference shares	(10 000)	–	–	(10 000)
Embedded value at beginning of the period	(734 628)	(527 492)	62 522	(1 199 598)
Embedded value earnings for the period	12 537	52 598	49 047	114 182

The components of the embedded value earnings are analysed further in the next section.

Analysis of embedded value earnings

Components of embedded value earnings *at June 2021 (12 months) (R'000)*	ANW	PVIF	Cost of required capital	Embedded value
Embedded value operating return	**10 490**	**114 538**	**(9 851)**	**115 177**
Value of new business at point of sale	**(78 056)**	**154 955**	**(17 441)**	**59 458**
Expected return on covered business (unwind)	**–**	**56 366**	**9 692**	**66 058**
Expected profit transfer	**93 660**	**(93 660)**	**–**	**–**
Operating experience variances[1]	**(3 751)**	**11 476**	**(193)**	**7 532**
Operating model changes	**448**	**(2 867)**	**(2)**	**(2 421)**
Operating assumption changes	**(1 811)**	**(11 732)**	**(1 907)**	**(15 450)**
Embedded value non-operating return	**10 112**	**35 885**	**(45 835)**	**162**
Investment return variances	**160 020**	**–**	**–**	**160 020**
Other Revenue Items	**(1 542)**	**–**	**–**	**(1 542)**
Effect of economic assumption changes	**(148 366)**	**35 885**	**(45 835)**	**(158 316)**
Embedded value earnings	**20 602**	**150 423**	**(55 686)**	**115 339**

[1] *The operating experience variances line for ANW includes an unexplained variance of R1.9 million in the current financial year.*

Components of embedded value earnings *at June 2020 (12 months) (R'000)*	ANW	PVIF	Cost of required capital	Embedded value
Embedded value operating return	(59 798)	78 785	48 744	67 731
Value of new business at point of sale	(52 940)	68 449	(6 061)	9 448
Expected return on covered business (unwind)	–	67 606	5 032	72 638
Expected profit transfer	87 204	(87 204)	–	–
Operating experience variances	(39 199)	(2 671)	(16 651)	(58 521)
Operating model changes	(35 224)	63 957	65 688	94 421
Operating assumption changes	(19 639)	(31 352)	736	(50 255)
Embedded value non-operating return	72 335	(26 187)	303	46 451
Investment return variances	(63 219)	–	–	(63 219)
Effect of economic assumption changes	135 554	(26 187)	303	109 670
Embedded value earnings	12 537	52 598	49 047	114 182

The table below provides additional detail on key movements in the analysis of embedded value. ANW in the below tables is shown net of cost of required capital.

Experience variances (ANW only)

R'000	30 June 2021 ANW	30 June 2020 ANW
Persistency	**(901)**	(15 307)
Risk	**(18 003)**	(730)
Expenses	**13 240**	(23 411)
Other	**1 720**	(16 402)
Experience variance	**(3 944)**	(55 850)

Assumption and model changes

	30 June 2021			30 June 2020		
R'000	ANW	VIF	EV	ANW	VIF	EV
Persistency	**39 557**	**12 331**	**51 888**	1 472	(4 205)	(2 733)
Risk	**(72 247)**	**5 236**	**(67 011)**	5 602	1 031	6 632
Expenses	**(1 812)**	**6 989**	**5 177**	(14 040)	(3 915)	(17 955)
COVID-19 allowance	**37 192**	**(35 840)**	**1 352**	27 162	(23 630)	3 532
Model and other changes	**(5 962)**	**(3 315)**	**(9 277)**	(8 635)	63 324	54 690
Assumption and model changes	**(3 272)**	**(14 599)**	**(17 871)**	11 561	32 605	44 166

Economic assumption changes

	30 June 2021			30 June 2020		
R'000	ANW	VIF	EV	ANW	VIF	EV
Economic assumptions impact on liabilities	**(194 201)**	**35 885**	**(158 316)**	135 857	(26 187)	109 670
Other Investment variance	**160 020**	**–**	**160 020**	(63 219)	–	(63 219)
Economic variance	**(34 181)**	**35 885**	**1 704**	72 638	(26 187)	46 451

Embedded value reconciliation

The table below reconciles the embedded value to the IFRS excess assets.

R'000	30 June 2021	30 June 2020
IFRS Excess assets	**647 767**	627 165
Add Present value of future profits	**730 513**	580 090
Add Cost of residual required capital	**(69 161)**	(13 475)
Embedded value	**1 309 119**	1 193 780

Value of new business

Value of new business (12 months) (R'000)	30 June 2021	30 June 2020
Gross value of new business	**76 899**	15 509
Cost of required capital	**(17 441)**	(6 061)
Value of new business	**59 458**	9 448
Present value of gross premiums (new business)	**690 624**	426 775
New business margin	**8.6%**	2.2%

The VNB margin over the year has increased from 2.2% to 8.6%. This is mainly due to improved persistency and expense expectations resulting from improved experience. A more detailed analysis of the value of new business can be found below:

Analysis of value of new business

	30 June 2021	30 June 2020
Start of period	**2.2%**	8.3%
VNB changes due to:		
Updated non-economic assumptions	**8.9%**	(3.8%)
Updated economics	**(0.8%)**	1.9%
Updated business mix	**1.9%**	(3.2%)
Updated model changes	**(1.6%)**	1.4%
Updated COVID-19 margin	**0.3%**	(2.4%)
Other	**(2.2%)**	–
End of period	**8.6%**	2.2%

Sensitivity analysis

The table below provides an analysis of the sensitivities, as prescribed by APN 107, of the embedded value of the in-force book:

Value of in-force sensitivity analysis ***at June 2021 (R'000)***	**Gross value of in-force**	**Cost of required capital**	**Net value of in-force**	**% Change**
Base	**730 513**	**(69 161)**	**661 352**	
1% increase in the risk discount rate	**693 819**	**(69 101)**	**624 718**	**(5.5%)**
1% decrease in the interest rate environment	**695 861**	**(180 670)**	**515 191**	**(22.1%)**
10% decrease in maintenance expenses	**754 075**	**(63 315)**	**690 760**	**4.4%**
10% decrease in new business acquisition expenses	**730 513**	**(69 161)**	**661 352**	**–**
10% decrease in lapse rates	**739 071**	**(87 067)**	**652 004**	**(1.4%)**
5% decrease in morbidity and mortality rates	**775 875**	**(57 808)**	**718 067**	**8.6%**

Value of in-force sensitivity analysis *at June 2020 (R'000)*	Gross value of in-force	Cost of required capital	Net value of in-force	% Change
Base	580 090	(13 475)	566 615	
1% increase in the risk discount rate	555 981	(13 475)	542 506	(4.3%)
1% decrease in the interest rate environment	556 136	(13 400)	542 736	(4.2%)
10% decrease in maintenance expenses	599 214	(13 044)	586 170	3.5%
10% decrease in new business acquisition expenses	580 090	(13 475)	566 615	–
10% decrease in lapse rates	587 067	(14 486)	572 581	1.1%
5% decrease in morbidity and mortality rates	615 984	(13 588)	602 396	6.3%

The table below provides an analysis of the sensitivities, as prescribed by APN 107, of new business written:

Value of new business sensitivity analysis *at June 2021 (R'000)*	**Gross value of in-force**	**Cost of required capital**	**Net value of in-force**	**% Change**
Base	76 899	(17 441)	59 458	
1% increase in the risk discount rate	58 578	(17 443)	41 135	(30.8%)
1% decrease in the interest rate environment	74 305	(30 880)	43 425	(27.0%)
10% decrease in maintenance expenses	70 422	(16 415)	54 007	(9.2%)
10% decrease in new business acquisition expenses	85 340	(17 441)	67 899	14.2%
10% decrease in lapse rates	88 168	(18 392)	69 776	17.4%
5% decrease in morbidity and mortality rates	71 411	(17 478)	53 933	(9.3%)

Value of new business sensitivity analysis *at June 2020 (R'000)*	Gross value of in-force	Cost of required capital	Net value of in-force	% Change
Base	15 509	(6 061)	9 448	
1% increase in the risk discount rate	11 248	(6 065)	5 183	(45.1%)
1% decrease in the interest rate environment	21 424	(5 952)	15 472	63.8%
10% decrease in maintenance expenses	18 474	(5 770)	12 704	34.5%
10% decrease in new business acquisition expenses	31 541	(6 061)	25 480	169.7%
10% decrease in lapse rates	31 749	(5 257)	26 492	180.4%
5% decrease in morbidity and mortality rates	18 904	(5 841)	13 063	38.3%

Economic assumptions

	June 2021	June 2020
Discounted mean term	**10.2**	9.3
Securities backing non-bonus liabilities	**10.5%**	11.4%
Securities backing bonus liabilities	**7.7%**	7.8%
Inflation rate	**5.8%**	7.6%
Risk discount rate	**14.5%**	15.4%

Group annual financial statements

The reports and statements set out below comprise 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 and Company'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 and Company 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 and Company.

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 and Company'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 have 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 and Company's independent external auditors to report on the fair presentation of the financial statements. Their unqualified report appears on pages 85 to 86.

The preparation of the financial statements for the year ended 30 June 2021 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 2021 which appear on pages 87 to 203, were approved by the Board of directors on 31 August 2021 and are signed on its behalf by:

HL Bosman
Chairman
Signed: Sandton
Date: 31 August 2021

MC Visser
Chief Executive Officer
Signed: Centurion
Date: 31 August 2021

Certificate by the Group Secretary

for the year ended 30 June 2021

As Group Secretary, I hereby confirm, in terms of section 88(2)(e) of the Companies Act of 2008, that for the year ended 30 June 2021, the Group and Company have 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.

Z Waterston
Group Secretary
Signed: Centurion
Date: 31 August 2021

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 insurance and investment management activities. The Group operates insurance businesses in South Africa, Australia and Namibia. The Group indirectly owns a 14.7% (2020: 14.7%) interest in Hastings Group Holdings plc.

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 5. The results are presented in the consolidated statement of profit or loss and other comprehensive income on pages 87 to 88. A segmental analysis is provided on page 122.

Dividends

Ordinary dividends

The following ordinary cash dividends were declared:

	2021	2020
Interim (declared 1 March 2021)	**24.70**	24.70
Final (declared 31 August 2021)	**34.30**	29.00
	59.00	53.70

The final dividend is payable on 8 October 2021 to shareholders registered on 6 October 2021.

Ordinary share capital

Details of the holding company's authorised and issued share capital is provided in note 26 to the financial statements. There were no changes to the authorised or issued share capital during the course of the financial year.

Shareholder analysis

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

	2021	2020
Firness International (Pty) Limited	**80.3%**	80.3%
RMI Asset Company (Pty) Limited	**8.8%**	8.8%

Firness International and RMI Asset Company are wholly owned subsidiaries of Rand Merchant Investment Holdings Limited.

Directors' report *continued*

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. Subsequent to the reporting date the Group has exercised its call option to acquire a 5.1% interest in Youi from a minority shareholder. This transaction will be completed by the end of October 2021. The estimated transaction value is R640 million.

Directorate and prescribed officers

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

Directors	Designation	Date appointed	Date resigned
Executive director			
Mr MC Visser	(Group CEO)	01/01/2018	
Independent directors			
Mr LL Dippenaar	(Chairman up to 1 July 2020)	27/01/1998	01/01/2020
Mr P Cooper	(Retired 1 September 2020)	11/05/2000	01/09/2020
Mr PR Pretorius		27/01/1998	
Ms JJT Madavo		08/11/2004	
Mr GL Marx		20/08/2008	
Mr AW Hedding		28/05/2013	
Mr K Pillay		19/02/2014	
Ms ME Ramathe		29/06/2018	
Ms ET Moabi		29/06/2018	
Ms B Hanise		29/06/2018	
Mr RSM Ndlovu		28/08/2018	
Non-executive directors			
Mr HL Bosman	(Chairman from 1 July 2020)	05/11/2015	
Mr WT Roos		30/04/2001	

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

Mr MC Visser (Group CEO)

Mr JH Hofmeyr (Group CFO)

Mr D Matthee (CEO OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited)

Please refer to page 65 for the register of board meeting attendance.

Directors and prescribed officer emoluments

Details of director and prescribed officer remuneration, is provided in note 40 to the financial statements.

Audit, Risk and Compliance Committee report

The report of the Audit, Risk and Compliance Committee appears on pages 67 to 69.

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' report *continued*

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.

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 19 and 20 of the financial statements.

The Group owns a 49% interest in Main Street 1353 (Pty) Limited (MS1353) which in turn owned 29.7% of Hasting Group Holdings Plc (Hastings). During the year RMI Holdings, through its subsidiary MS1353, and Sampo Oyj Group (Sampo) jointly acquired Hastings and delisted it from the London Stock Exchange.

MS1353 swapped its 29.7% shareholding in Hastings for 29.7% share in Hastings Consolidated (previously known as Dorset Bidco) and purchased an additional 0.3% share in Hastings Consolidated. The effective date of the transaction was 16 November 2020.

MS1353's interest in Hastings Consolidated increased to 30% and it also holds an option to acquire a further 10% interest over an 18 month period after the completion of the transaction.

During the year, a 34.8% interest was sold to minority shareholders in CloudBadger Technologies (Pty) Limited (CloudBadger) (previously known as Bateleur Technologies (Pty) Limited). The Group's interest after the transaction is 65.2%. One of the minorities has an option to acquire a further interest, exercisable by April 2022. This may dilute the Group's interest in CloudBadger to 49%, ignoring the potential dilutive effect of the share incentive scheme.

Group secretary and registered address

The Group secretary is Ms Z Waterston. The address of the Group secretary is that of the Company's registered office, being:

Business address:
1241 Embankment Road
Zwartkop Ext 7
Centurion

Postal address:
PO Box 8443
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 2021, 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 87 to 223 comprise:

- the Consolidated and separate statements of financial position as at 30 June 2021;
- 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 Consolidated and separate 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 sections 290 and 291 of the Independent Regulatory Board for *Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018),* parts 1 and 3 of the Independent Regulatory Board for *Auditors' Code of Professional Conduct for Registered Auditors* (*Revised November 2018*) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "OUTsurance Annual Report 2021", which includes the Report of the Audit, Risk and Compliance Committee, the Certificate by the Group secretary and the Directors' Report as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report *continued*

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.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Goncalves
Registered Auditor
Johannesburg
17 September 2021

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June

	Notes	2021 R'000	2020 Restated R'000
Gross insurance premium written	5	**20 570 087**	17 349 327
Outward reinsurance premiums		**(1 658 668)**	(774 408)
Net premiums		**18 911 419**	16 574 919
Change in provision for unearned premiums	28	**(860 279)**	(422 148)
Earned premiums, net of reinsurance		**18 051 140**	16 152 771
Non-insurance related income	6	**61 775**	25 658
Investment income	7	**115 765**	131 890
Interest income on financial assets using the effective interest rate method	7	**241 234**	389 418
Net gains / (losses) from fair value adjustments on financial assets	8	**382 516**	(295 010)
Income		**18 852 430**	16 404 727
Policyholder benefits on insurance contracts net of reinsurance	9	**(9 251 661)**	(8 145 979)
Gross policyholder benefits under insurance contracts		**(10 527 904)**	(9 810 020)
Reinsurers' share of insurance contracts		**1 276 243**	1 664 041
Transfer to policyholder liabilities under insurance contracts	28	**(249 091)**	(33 702)
Marketing and administration expenses[1]	10	**(5 451 389)**	(4 774 944)
Fair value adjustment to financial liabilities		**(140 132)**	(138 656)
Result of operating activities		**3 760 157**	3 311 446
Finance charges	11	**(9 294)**	(7 669)
Equity accounted earnings	20	**67 842**	122 244
Impairment of investment in associate	20	**–**	(2 636)
Profit before taxation		**3 818 705**	3 423 385
Taxation	12	**(1 115 338)**	(988 159)
Net profit for the year from continuing operations		**2 703 367**	2 435 226
Discontinued operations			
Net profit for the year from discontinued operations	35	**–**	104 481
Net profit for the year		**2 703 367**	2 539 707
Net profit attributable to:			
Ordinary shareholders		**2 591 089**	2 417 942
Non-controlling interest		**112 278**	121 765
Net profit for the year		**2 703 367**	2 539 707

[1] *Refer to note 42 for the restatement of comparatives.*

Consolidated statement of profit or loss and other comprehensive income *continued*

	Notes	2021 R'000	2020 R'000
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Exchange differences on foreign operations		**(501 428)**	731 293
Fair value gains / (losses) on financial assets at fair value through other comprehensive income	8	**2 309**	(13 803)
Deferred income tax relating to items that may subsequently be reclassified to profit or loss		**(647)**	3 886
Items that will not subsequently be reclassified			
Other comprehensive income of associate		**(73 009)**	137 903
Total comprehensive income for the year		**2 130 592**	3 398 986
Total comprehensive income attributable to:			
Ordinary shareholders		**2 091 990**	3 169 488
Non-controlling interest		**38 602**	229 498
Total comprehensive income for the year		**2 130 592**	3 398 986
Earnings attributable to shareholders			
Earnings per share (cents)			
Basic earnings per share	13	**69.68**	64.81
Diluted earnings per share	13	**68.79**	64.75
Weighted average number of ordinary shares ('000)	13	**3 718 751**	3 730 904
Weighted average number of diluted ordinary shares ('000)	13	**3 730 922**	3 732 022

Consolidated statement of financial position

at 30 June

	Notes	2021 R'000	2020 R'000
Assets			
Deferred income tax	24	**485 720**	295 151
Investment in associates	20	**3 716 436**	3 732 470
Intangible assets	17	**205 604**	113 144
Right-of-use assets	18	**48 199**	82 973
Property and equipment	16	**1 030 608**	1 147 548
Employee benefits	30	**7 711**	4 092
Reinsurers' share of insurance contract provisions	28	**1 140 260**	1 338 183
Deferred acquisition costs	28	**513 393**	463 420
Financial assets			
Fair value through profit or loss	21	**2 451 949**	2 351 817
Fair value through other comprehensive income	21	**3 379 705**	3 219 143
Measured at amortised costs	21	**5 809 617**	5 781 780
Derivative financial instrument	22	**67 933**	–
Insurance and other receivables	23	**3 725 603**	3 537 949
Tax receivable		**19 324**	17 055
Cash and cash equivalents	25	**2 179 588**	1 225 950
Total assets		**24 781 650**	23 310 675
Equity			
Capital and reserves attributable to equity holders			
Share capital	26	**37 352**	37 151
Share premium	26	**2 076 330**	2 086 480
Other reserves			
Share-based payment reserve		**15 563**	13 314
Foreign currency translation reserve		**490 124**	917 876
Other reserves		**13 851**	14 189
Equity accounted reserve		**113 236**	186 539
Transaction with non-controlling interest		**(118 429)**	(104 704)
Retained earnings		**8 296 305**	7 699 337
Total shareholders' equity		**10 924 332**	10 850 182
Non-controlling interest	19	**671 028**	635 842
Total equity		**11 595 360**	11 486 024
Liabilities			
Deferred income tax	24	**269 705**	62 140
Insurance contract liabilities	28	**10 310 809**	9 601 061
Derivative financial instrument[1]	22	**72 375**	150 613
Investment contract liability	34	**37 181**	23 508
Lease liabilities[1]	27	**54 740**	88 689
Share-based payment liability	31	**224 134**	90 620
Employee benefits	30	**462 640**	414 588
Financial liabilities at fair value through profit or loss	32	**85 956**	64 648
Tax liabilities		**132 703**	72 880
Financial liabilities at amortised cost	33	**–**	100 000
Insurance and other payables	29	**1 536 047**	1 155 904
Total liabilities		**13 186 290**	11 824 651
Total equity and liabilities		**24 781 650**	23 310 675

[1] *The order of liquidity for these line items was amended to correctly reflect their maturity profile. The prior year line items were also reclassified.*

Consolidated statement of changes in equity

for the year ended 30 June

	Share capital R'000	Share Premium R'000	Other reserves[1] R'000	Foreign Currency translation reserve R'000	Share–based payments reserve R'000	Trans-actions with non–controlling interest R'000	Equity accounted 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 2019	37 442	2 388 721	12 106	294 316	8 787	(97 150)	41 282	7 809 350	10 494 854	483 339	10 978 193
Change in accounting policy (IFRS 16)	–	–	–	–	–	–	–	(57)	(57)	–	(57)
Adjusted balance at 1 July 2019	37 442	2 388 721	12 106	294 316	8 787	(97 150)	41 282	7 809 293	10 494 797	483 339	10 978 136
Total profit for the year	–	–	–	–	–	–	–	2 539 707	2 539 707	–	2 539 707
Total other comprehensive income for the year	–	–	(9 917)	731 293	–	–	137 903	–	859 279	–	859 279
(Loss) / profit attributable to non-controlling interests	–	–	–	(107 733)[3]	–	–	–	(121 765)[2]	(229 498)	229 498	–
Purchase of treasury shares by share trust	(291)	(302 241)	–	–	–	–	–	–	(302 532)	–	(302 532)
Preference share capital issued by OUTsurance Life	–	–	10 000	–	–	–	–	–	10 000	–	10 000
Reserve adjustment of associate entities	–	–	–	–	–	–	7 354	–	7 354	–	7 354
Share options spread transactions	–	–	–	–	–	–	–	3 180	3 180	–	3 180
Share-based payment expense	–	–	–	–	4 527	–	–	–	4 527	–	4 527
Transactions with non-controlling interests of subsidiary	–	–	–	–	–	(7 554)	–	(1 195)	(8 749)	(6 555)	(15 304)
Issue of equity financial instrument	–	–	2 000	–	–	–	–	–	2 000	–	2 000
Ordinary dividend paid	–	–	–	–	–	–	–	(2 529 883)	(2 529 883)	(70 440)	(2 600 323)
Balance as at 30 June 2020	**37 151**	**2 086 480**	**14 189**	**917 876**	**13 314**	**(104 704)**	**186 539**	**7 699 337**	**10 850 182**	**635 842**	**11 486 024**
Total net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2 703 367**	**2 703 367**	**–**	**2 703 367**
Total other comprehensive income for the year	**–**	**–**	**1 662**	**(501 428)**	**–**	**–**	**(73 009)**	**–**	**(572 775)**	**–**	**(572 775)**
Profit / (loss) attributable to non-controlling interests	**–**	**–**	**–**	**73 676[3]**	**–**	**–**	**–**	**(112 278)[2]**	**(38 602)**	**38 602**	**–**
Purchase of treasury shares by share trust	**201**	**(10 150)**	**–**	**–**	**–**	**–**	**–**	**–**	**(9 949)**	**–**	**(9 949)**
Reserve adjustment of associate entities	**–**	**–**	**–**	**–**	**–**	**–**	**(294)**	**–**	**(294)**	**–**	**(294)**
Share options spread transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7 378**	**7 378**	**–**	**7 378**
Share-based payment expense	**–**	**–**	**–**	**–**	**2 249**	**–**	**–**	**–**	**2 249**	**–**	**2 249**
Transactions with non-controlling interests of subsidiary	**–**	**–**	**–**	**–**	**–**	**(13 725)**	**–**	**(1 867)**	**(15 592)**	**(7 764)**	**(23 356)**
Shares issued to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**48 683**	**48 683**
Issue of equity financial instrument	**–**	**–**	**5 000**	**–**	**–**	**–**	**–**	**–**	**5 000**	**–**	**5 000**
Conversion of equity financial instrument	**–**	**–**	**(7 000)**	**–**	**–**	**–**	**–**	**–**	**(7 000)**	**–**	**(7 000)**
Ordinary dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1 999 632)**	**(1 999 632)**	**(44 335)**	**(2 043 967)**
Balance as at 30 June 2021	**37 352**	**2 076 330**	**13 851**	**490 124**	**15 563**	**(118 429)**	**113 236**	**8 296 305**	**10 924 332**	**671 028**	**11 595 360**

[1] *Included in other reserves is the preference share capital issued by OUTsurance Life.*
[2] *Relates to profit or loss.*
[3] *Relates to other comprehensive income.*

Consolidated statement of cash flows

for the year ended 30 June

	Notes	2021 R'000	2020 R'000
OPERATING ACTIVITIES			
Cash generated by operations	36	**4 830 704**	3 798 621
Interest received		**284 408**	446 043
Dividends received		**72 591**	75 265
Interest paid		**(9 294)**	(7 669)
Cashflows on assets backing policyholder liabilities		**(244 223)**	(200 568)
Proceeds on disposal of financial assets[1]		**7 558 195**	8 020 080
Purchase of financial assets[1]		**(7 985 764)**	(7 935 283)
Taxation paid	37	**(1 059 493)**	(916 667)
Ordinary dividends paid		**(1 999 632)**	(2 529 883)
Preference dividends paid	38	**(118 824)**	(139 230)
Dividends paid to non-controlling interest		**(44 335)**	(70 440)
Cash inflow from operating activities		**1 284 333**	540 269
Investing activities			
Acquisition of investment in associate		**(2 657)**	(4 987)
Dividends received from associate		**13 230**	160 230
Property and equipment acquired to maintain and expand operations		**(54 523)**	(79 338)
Proceeds on disposal on intangible assets		**–**	24
Proceeds on disposal of property and equipment		**568**	3 303
Purchase of intangible assets		**(116 974)**	(84 882)
Proceeds from sale of New Zealand insurance business		**–**	77 917
Proceeds on disposal of financial assets[2]		**65 001**	–
Purchase of financial assets[2]		**(61 601)**	(5 056)
Cash (outflow) / inflow from investing activities		**(156 956)**	67 211
Financing activities[3]			
Proceeds from issue of shares		**–**	10 000
Proceeds from issue of equity financial instrument		**5 000**	2 000
Shares issued to non-controlling interest		**41 683**	–
Purchase of treasury shares by share scheme participants		**138 551**	125 271
Purchase of treasury shares by share trust from share scheme participants		**(148 500)**	(427 803)
Repayment of lease liability		**(37 783)**	(33 746)
Borrowings raised		**–**	100 000
Borrowings repaid		**(100 000)**	–
Cash (outflow) from financing activities		**(101 049)**	(224 278)
Increase in cash and cash equivalents		**1 026 328**	383 202
Change in cash and cash equivalents			
Opening balance of cash and cash equivalents		**1 225 950**	781 811
Effect of exchange rate on cash and cash equivalents		**(72 690)**	60 937
Increase in cash and cash equivalents		**1 026 328**	383 202
Closing balance of cash and cash equivalents	25	**2 179 588**	1 225 950

[1] *Related to the management of insurance liabilities operational cash flows and regulatory capital.*
[2] *Related to long-term investments of primarily shareholder capital.*
[3] *The financial liabilities of the Group consist of the preference share arrangements and the lease liabilities. Refer to note 3.3.1 and 27 respectively for the reconciliations thereof.*

Notes to the consolidated financial statement

1. General information

OUTsurance Holdings Limited (the Company), incorporated in South Africa, its subsidiaries and associates (collectively referred to as the Group) is a financial services Group offering insurance and investment products. The Group has short-term insurance operations in South Africa, Australia and Namibia. The South African operation also underwrites long-term insurance and provides investment products.

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

2. Basis of preparation

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act of South Africa, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

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 fair value through other comprehensive income, financial instruments at fair value through profit or loss, including designated, and financial instruments at amortised cost. 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 44. Only accounting policies relating to transactions occurring in the current and prior year have been included.

3. Management of risk and capital

3.1 Risk management framework

The Group has 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 Asset, Liability and Capital Committee (ALCCO), 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 and Audit and Risk and Compliance Committees.

3.2 Insurance risk management

3.2.1 Short-term insurance

(i) Terms and conditions of insurance contracts

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

	South Africa		Australia	
Types of insurance contract written	**Personal**	**Commercial**	**Personal**	**Commercial**
Personal accident	<1.0%	<1.0%	2.1%	–
Liability	–	7.5%	–	87.5%
Motor	64.5%	64.8%	58.0%	12.5%
Property	35.1%	24.3%	39.0%	–
Transportation	<1.0%	3.4%	<1.0%	–

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.1 Short-term insurance *continued*

(i) 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

Provides 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

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

Miscellaneous

Provides cover relating to all other risks that are not covered more specifically under another insurance contract. This class includes pet and motor warranty products as well as certain agricultural products related to livestock.

Motor

Provides 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

Provides 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

Provides cover to risks relating to stock in transit.

Engineering

Provides cover for risks related to engineering projects.

(ii) Insurance risks

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, engineering 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 actual future insured losses exceed their expected values.

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 natural catastrophe events.

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

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.1 Short-term insurance *continued*

(ii) Insurance risks *continued*

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. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

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 programme can be accepted without the necessary facultative cover being arranged. Non-claims bonuses which reward customers 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 is purchased in order to limit losses suffered from individual and aggregate insurance risks.

- OUTsurance:

OUTsurance makes use of two non-proportional reinsurance arrangements in order to mitigate risk.

Risk excess-of-loss cover is utilized for the property and liability risk classes. The deductible, layer limits and number of reinstatements for each layer vary based on class and are governed by the OUTsurance Reinsurance Policy. Additionally, advice from OUTsurance's reinsurance broker and internal investigations are considered. For property risks, any risk in excess of the risk XL top limit of R100m will be placed facultatively. The same is true for liability risks over R50m. The following key measures define OUTsurance's risk appetite when determining reinsurance for single large losses:

- Maximum Event Retention[1] (per Risk) should not exceed 0.18% of the expected annual Gross Earned Premium (GEP) for the particular treaty year;
- Maximum Event Retention[1] (multiple Risks) should not exceed 2% of the expected annual Gross Earned Premium (GEP) for the particular treaty year; and
- The probability of an insufficient number of reinstatements for each layer should be less than 0.5% (1-in-200 year return period).

Limits are also placed on exposure to individual counterparties based on credit rating and jurisdiction equivalency.

[1] *Maximum Event Retention (MER) is defined as the net loss after allowance for reinsurance recoveries including reinstatement premiums payable. Therefore, calculated as the shortfall between the gross claim and the top limit (if any) plus retention plus reinstatement premium.*

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.1 Short-term insurance *continued*

(ii) Insurance risks *continued*

Reinsurance strategy *continued*

Catastrophe excess-of-loss cover is utilized to help manage accumulation risk. The key classes exposing OUTsurance to catastrophe risk include property, motor and engineering of which property is the primary contributor. The deductible, layer limits and number of reinstatements are determined following intensive catastrophe modelling conducted both internally and by OUTsurance's reinsurance broker in conjunction with consideration of the OUTsurance Reinsurance Policy. The following key measures define OUTsurance's risk appetite when determining reinsurance for catastrophes:

- MER (per catastrophe) should not exceed 2% of the expected annual Gross Earned Premium (GEP) for the particular treaty year. Catastrophe cover attaches at a R50 million deductible;
- MER (multiple catastrophes) should not exceed 5% of the expected annual Gross Earned Premium (GEP) for the particular treaty year; and
- The probability of an insufficient number of reinstatements for each layer should be less than 0.5% (1-in-200 year return period).

Limits are also placed on exposure to individual counterparties based on credit rating and jurisdiction equivalency.

Refer to note 3.2.2 for detail on the reinsurance strategy of OUTsurance Life.

- Youi

Youi makes use of proportional and non-proportional reinsurance arrangements in order to mitigate risk.

Individual risk reinsurance is purchased up to the maximum sums insured via quota share and risk excess of loss reinsurance.

Quota Share reinsurance is purchased for:

- New South Wales Comprehensive Third Party Motor (CTP) – 80% is ceded to reinsurers;
- BZI Personal Lines Portfolio – 35% is ceded to reinsurers; and
- BZI SME and Commercial Motor – 25% ceded to reinsurers.

Risk excess of loss cover is utilized for the property and liability risk classes. The deductible, layer limits and number of reinstatements for each layer vary based on class and are governed by the Youi Reinsurance Strategy and Reinsurance Management Strategy. Additionally, advice from Youi's broker and internal investigations are considered.

For property risks, in the event that any risk might exceed the risk XL top limit of $10 million (quota share and Risk Excess) cover would be placed facultatively. The same is true for liability risks over $20 million ($30 million for BZI Home and Motor). The following key measures define Youi's risk appetite when determining reinsurance for single large losses:

- MER (per risk) may not exceed $1 million;
- Per risk excess of loss cover is purchased to protect Youi's net retention under the New South Wales CTP quota share;
- Multiple reinstatements are purchased in advance to minimise the possibility of insufficient cover for a frequency of losses. Unlimited reinstatements are provided for liability classes (including CTP);
- Because the property per risk programme is relatively small, limits are not placed on exposure to individual counterparties other than insomuch as Youi aims to use more than one reinsurer on any one contract; and
- On the long tail liability contract reinsurer participations are monitored by credit rating and APRA authorisation status.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.1 Short-term insurance *continued*

(ii) Insurance risks *continued*

Reinsurance strategy *continued*

Catastrophe excess of loss reinsurance is utilized to help manage accumulation risk. The key classes exposing Youi to catastrophe risk include property, SME commercial property and motor. Property is the primary contributor. The deductible, layer limits and the number of reinstatements are determined following intensive catastrophe modelling conducted by Youi's broker and take into consideration the guidelines set by the regulator for the company's capital adequacy assessment. The following key measures define Youi's risk appetite when determining reinsurance for catastrophes:

- Maximum event retention (per catastrophe) should not exceed $30 million;
- Sufficient catastrophe cover is purchased to cover the Company up to its 1:200 year event as determined by the aforementioned exposure analysis. In purchasing reinsurance, Youi buys additional cover above the 1:200 level as a buffer against, for example, greater than anticipated growth, modelling uncertainty and post loss inflation;
- A single reinstatement is purchased for the catastrophe programme with an additional reinstatement purchased behind the first layer as a capital protection against a frequency of losses;
- Limits are also placed on exposure to individual counterparties by layer and over the whole programme reinsurer participations are monitored by credit rating and APRA authorisation status; and
- Youi manages volatility through the purchase of underlying third and fourth event and aggregate excess of loss reinsurances which cap its net retained natural perils losses greater than $2 million per event at $60 million in aggregate. The aggregate treaty provides $70 million of cover.

The Group only enters into reinsurance agreements with reinsurers which have credit ratings above a certain threshold as approved by the Board in the Group's Reinsurance Policy. Credit rating scales are defined in note 3.3.3.

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 terms of sum assured in Gauteng (2021: 49.0%; 2020: 49.7%), Western Cape (2021: 22.2%; 2020: 21.7%) and KwaZulu-Natal (2021: 10.6%; 2020: 10.6%). The Australian operation (including BZI) is exposed to a concentration of insurance risk in terms of sum insured in Queensland (2021: 28.9%; 2020: 31.2%), New South Wales (2021: 28.4%; 2020: 28.9%) and Victoria (2021: 25.7%; 2020: 23.4%). 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.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.1 Short-term insurance *continued*

(ii) Insurance risks *continued*

Profit sharing arrangements

A profit sharing arrangement exists between the OUTsurance Insurance Company Limited (OUTsurance) 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 bi-annual preference dividend. Where operating losses arise, OUTsurance remains liable for such losses in full, but these losses may be offset against future profit distributions.

3.2.2 Long-term insurance

(i) 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;
- Funeral Plan; and
- Endowment.

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. 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.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.2 Long-term insurance *continued*

(i) Terms and conditions of insurance contracts *continued*

Funeral Plan

The OUTsurance Funeral Plan product is a limited underwritten product and provides the following cover:

- Death cover;
- Stillborn benefit;
- Premium waiver; and
- Repatriation benefit.

Endowment

OUTsurance Life offers a linked endowment policy with a term of 5 years, which is structured as a life insurance policy. The investment risk is referenced to a zero-coupon deposit issued by a large South African bank.

(ii) 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 note 28.5 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; and
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual policy and provide cover in catastrophic events.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.2 Long-term insurance *continued*

(ii) Insurance risk *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 within a period. 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 Head of Actuarial Function.

- 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 customers' 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 customer data, all new customers 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.

  OUTsurance Life makes use of proportional reinsurance in order to mitigate risk given its growing nature and exposure to multiple product lines in the early stages of development. The percentage ceded varies based on product and is determined based on various factors including maturity of the line of business as well as inherent risk exposure for each line. Certain lines of business employ surplus reinsurance over and above conventional quota share reinsurance in order to introduce an upper bound to the risk exposure faced on large policies.

- 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.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.2 Insurance risk management *continued*

3.2.2 Long-term insurance *continued*

(ii) Insurance risk *continued*

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 Head of Actuarial Function are also employed to ensure models are accurately set up. Risk is further mitigated through periodic third line reviews.

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.

Interest rate risk

Interest rate risk is managed by an asset-liability matching strategy which is executed by the use of interest rate derivative structures which are partially collateralised.

Profit sharing arrangements

A profit sharing arrangement has been entered into between OUTsurance Life and Shoprite Investments Limited. In terms of this profit sharing arrangement, a portion of the operating profit generated on the funeral insurance business distributed through the Shoprite distribution network is paid to Shoprite Investments Limited by way of an annual preference dividend. Operating losses incurred are for OUTsurance Life's account.

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.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.1 Financial instruments measured at fair value *continued*

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[1] R'000
30 June 2021				
Financial assets				
Equity securities				
Equity funds	951 550	252 672	–	1 204 222
Listed perpetual preference shares	310 137	–	–	310 137
Collective investment scheme	–	135 201	–	135 201
Unlisted equity	–	–	41 676	41 676
Debt securities				
Unsecured loan	–	–	44 216	44 216
Zero-coupon deposits	–	707 824	–	707 824
Government, municipal and public utility securities	–	260 023	–	260 023
Money market securities <1 year	–	1 502 163	–	1 502 163
Money market securities >1 year	–	1 596 002	–	1 596 002
Zero-coupon deposits backing endowment policies	–	37 181	–	37 181
Convertible loan	–	–	13 168	13 168
Derivative financial instruments				
Collateralised swaps	–	67 933	–	67 933
	1 261 687	4 558 999	99 060	5 919 746
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit or loss	–	–	85 956	85 956
Investment contract liability	–	37 181	–	37 181
Derivative financial instruments				
Interest rate swaps	–	72 375	–	72 375
	–	109 556	85 956	195 512

[1] *The difference between the above note total and the face of the Statement of Financial Position is due to the note illustrating figures gross of the expected credit losses (ECL) provision.*

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.1 Financial instruments measured at fair value *continued*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total[1] R'000
30 June 2020				
Financial assets				
Equity securities				
Equity funds	1 023 145	–	–	1 023 145
Listed perpetual preference shares	303 296	–	–	303 296
Collective investment scheme	–	113 737	–	113 737
Unlisted equity	–	–	13 716	13 716
Debt securities				
Unsecured loan	–	–	42 279	42 279
Zero-coupon deposits	–	834 890	–	834 890
Government, municipal and public utility securities	–	128 048	–	128 048
Money market securities <1 year	–	1 738 673	–	1 738 673
Money market securities >1 year	–	1 358 728	–	1 358 728
Zero-coupon deposits backing endowment policies	–	23 508	–	23 508
Convertible loan	–	–	10 962	10 962
	1 326 441	4 197 584	66 957	5 590 982
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit or loss	–	–	64 648	64 648
Investment contract liability	–	23 508	–	23 508
Derivative financial instruments				
Interest rate swaps	–	105 068	–	105 068
Collateralised swaps	–	45 449	–	45 449
Forward exchange contracts	–	96	–	96
	–	174 121	64 648	238 769

[1] *The difference between the above note total and the face of the Statement of Financial Position is due to the note illustrating figures gross of the expected credit losses (ECL) provision.*

There were no transfers between levels during the year ended 30 June 2021.

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 fifty companies listed on the JSE.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.1 Financial instruments measured at fair value *continued*

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 the following, with a description of their valuation techniques provided:

- **Collective investment schemes:** These instruments are fair valued monthly by multiplying the number of units held by the closing market price which is based on the most recently available observable inputs.
- **Zero-coupon deposits:** These instruments are not traded actively during a financial reporting period. 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. The entire balance of the zero-coupon deposits is exposed to credit risk, refer to note 3.3.3. The zero-coupon deposit has specifically remained classified as fair value through profit or loss under the 'accounting mismatch' rule as these financial assets have specifically been acquired to match the non-claims bonus portion of the policyholder liability.
- **Government, municipal and public utility securities and money market 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 JSE Interest Rate Market. These listed instruments are not as actively traded as Level 1 instruments. The fair value of these instruments is determined by using market observable inputs. The fair value yield, term-to-maturity, coupon payments and maturity value are used to discount the expected cash flows of these instruments to their present value in determining the fair value at the financial year-end.
- **Zero-coupon deposits backing endowment policies and the investment contract liability backing the asset:** These instruments relate to a linked endowment policy. The fair value is based on the quoted interest rates provided in each contract. The Group is not the ultimate counterparty to these endowment policies but rather acts as an agent to the arrangement between the client and third party. As such the asset and liability are designed to set off against each other.
- **Interest rate swaps:** These swap arrangements consist of fixed for floating instruments. The fixed leg is priced at a fixed percentage plus a contractually agreed basis point adjustment and the floating leg is priced at 3 month JIBAR.
- **Collateralised swaps:** The fair value of the collateralised swap arrangement, whereby the R2048 government bond serves as collateral and is the underlying, is determined in the same manner as other money market instruments described above.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.1 Financial instruments measured at fair value *continued*

Level 2 *continued*

The Group makes use of the interest rate swap as well as the collateralised swap arrangement to manage the interest rate risk contained in the non-bonus policyholder liability of OUTsurance Life. Refer to note 3.3.2 for further information with regards to how this arrangement manages interest rate risk.

Whilst the above instruments are not traded on an active market, the variable inputs relating to their valuation are readily available in the marketplace. The remaining inputs have been contractually agreed and are reflective of market related terms and conditions.

- **Forward exchange contracts:** The Group makes use of forward exchange contracts to reduce the impact of the currency risk contained in its open foreign currency exposures. The fair value of forward exchange contracts is determined using the difference between the spot closing exchange rate and the forward exchange rate at the statement of financial position date multiplied by the number of currency units purchased.

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 the following:

- **Unlisted equity:** The fair of the equity investment is determined based on standard valuation techniques where the net asset value is a key input.
- **Unsecured loan:** This is a loan made out to the ASISA Enterprise Development Fund to the value of R49.0 million. This loan relates to funding provided for a BBBEE supplier development scheme that the Group is partaking in. The loan has a five-year term with no contractual interest rate. In calculating the fair value of the loan at 30 June 2021, the interest rate attached to a risk-free government bond with a term based on the remaining contract period at the date of fair value measurement was utilised as the discount rate. This resulted in the value of R49.0 million being discounted at 5.33% (2020: 5.04%), arriving at a fair value of R44.2 million (2020: R42.3 million). The movement from the opening balance to the closing balance of R1.9 million is as a result of fair value gains being made during the year. This discount will unwind over the remaining maturity period.

  The fair value of the loan is sensitive to movements in the interest rate of the risk-free government bond utilised in the calculation. A 1% movement in the interest rate would result in the following fair value being recognised at 30 June 2021:

R'000	Current R'000	1% increase in interest rate R'000	1% decrease in interest rate R'000
30 June 2021			
Fair value	**44 216**	**43 310**	**45 147**
30 June 2020			
Fair value	42 279	41 030	43 574

Notes to the consolidated financial statement *continued*

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 *continued*

- **Convertible loan:** This is a loan with AutoGuru Australia Pty Limited (AutoGuru) which is convertible to ordinary shares at the option of the Group. The only significant unobservable inputs in the calculation are the market value of the AutoGuru shares, as this is an unlisted private company, and the underlying interest rate. Due to the fact that the loan is convertible into shares of AutoGuru, it exposes the Group to equity price risk. As a result of the absence of quoted prices for the shares when the convertible bond was issued it fails the SPPI criteria, therefore the loan is designated as fair value through profit or loss.

  The fair value is determined based on a present value calculation taking into account the term to maturity, underlying interest rate and the share price of AutoGuru. The fair value of R13.2 million (2020: R11.0 million) at 30 June 2021 is derived from an interest rate of 6.6% (2020: 6.7%). This interest rate has been contractually agreed and is adjusted for the prevailing Bank Bill Swap Rate (BBSR) applicable at valuation date. The movement from the opening balance to the closing balance of R2.2 million is as a result of an additional loan of R2.7 million being extended and fair value losses of R0.5 million being recognised during the year. A 1% movement in the interest rate would result in the following fair value being recognised at 30 June 2021:

R'000	Current R'000	1% increase in interest rate R'000	1% decrease in interest rate R'000
30 June 2021			
Fair value	**13 168**	**13 526**	**12 815**
30 June 2020			
Fair value	10 962	11 072	10 853

- **Financial liabilities at fair value through profit and loss:** A specific valuation technique is used to value this financial instrument which represents the accrued profit related to the FirstRand Bank Limited homeowners profit sharing arrangement, as well as, the accrued profit related to the Shoprite funeral profit sharing arrangement.

  Profits arising out of the homeowners profit-sharing arrangement accrue on a monthly basis and are distributed as preference dividends bi-annually to FirstRand Bank Limited. Profits arising out of the funeral profit sharing arrangement accrue on a monthly basis and are distributed as preference dividends annually to Shoprite Investment Limited. The only significant unobservable input in the calculation of the preference dividends 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 by 10%, for instance, the preference dividend will also increase or decrease by 10%.

  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 debt security for the period under review:

	Year ended 30 June	
R'000	**2021**	2020
Opening balance at 1 July	**64 648**	65 222
Preference dividend paid	**(118 824)**	(139 230)
Preference dividend accrued	**140 132**	138 656
Closing balance at 30 June	**85 956**	64 648

Notes to the consolidated financial statement *continued*

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 *continued*

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

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

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 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 requirements. The Group's ALCCO actively monitors equity assets owned by the Group as well as the concentration of these holdings.

	2021 R'000	2020 R'000
Ordinary shares		
Equity funds	**1 204 222**	1 023 145
Unlisted equity	**41 676**	13 716
Perpetual preference shares		
Listed perpetual preference shares	**310 137**	303 296
Collective investment schemes		
Collective investment schemes	**135 201**	113 737
	1 691 236	1 453 894

The Group's largest concentration of equity investments in one particular company comprises 6.4% (2020: 10.9%) of the total assets subject to equity risk. Unlisted equity represents an interest in Blue Zebra Insurance.

At 30 June 2021, the Group's total equity securities were recorded at their fair value of R1 691 million (2020: R1 454 million). A hypothetical decrease or increase of 10% in each individual unit price would decrease or increase profit or loss with a R169.1 million (2020: R145.4 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.

Notes to the consolidated financial statement *continued*

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 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 managers. 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 Group ALCCO.

The Group's exposure to interest rate risk is R12 218 million (2020: R10 310 million), which consists of fixed rate instruments of R6 646 million (2020: R6 651 million) and variable rate instruments of R5 572 million (2020: R3 659 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:

	2021 1% increase R'000	2021 1% decrease R'000	2020 1% increase[1] R'000	2020 1% decrease[1] R'000
Fixed rate instruments				
Cash and cash equivalents	**3 023**	**(3 023)**	1 632	(1 632)
Term deposits	**58 096**	**(58 096)**	57 818	(57 818)
Unsecured loan	**(906)**	**931**	(1 255)	1 301
Government, municipal and public utility securities	**(4 859)**	**5 127**	(1 655)	1 747
Money market securities <1 year	**(694)**	**704**	(1 887)	1 917
Money market securities >1 year	**(1 689)**	**1 771**	(1 735)	1 822
Zero-coupon deposits backing endowment policies	**372**	**(372)**	235	(235)
Convertible loan	**359**	**(352)**	112	(110)
Variable rate instruments				
Cash and cash equivalents	**18 935**	**(18 935)**	10 627	(10 627)
Government, municipal and public utility securities	**(916)**	**948**	(1 476)	1 528
Money market securities <1 year	**(7 348)**	**7 471**	(6 313)	6 418
Money market securities >1 year	**(32 076)**	**33 265**	(31 660)	32 924
	32 297	**(30 561)**	24 443	(22 765)

1 Comparative figures have been recalculated using the methodology employed in the current year to ensure comparability.

The Group's asset portfolio used to match regulatory long-term policyholder liabilities is exposed to interest rate risk. At 30 June 2021, the carrying value and fair value of this portfolio was R707.6 million (2020: R684.4 million). A 100 basis point shift in the market yield curve would result in the following changes in the capital value of this portfolio:

	2021 1% increase R'000	2021 1% decrease R'000	2020 1% increase R'000	2020 1% decrease R'000
Zero-coupon deposits	**(87 090)**	**95 741**	(113 746)	125 235
Derivative financial instruments – asset	**29 856**	**(49 517)**	28 504	42 594
Derivative financial instruments – liability	**4 820**	**36 993**	(25 299)	(178)
	(52 414)	**83 217**	(110 541)	167 651

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.2 Market risk *continued*

Currency 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 and associates whose net assets are exposed to currency translation risk, primarily the Australian Dollar and the Pound Sterling.

The Group's investment in Youi Australia and Youi New Zealand are subsidiary companies of which 84.5% of the shares are owned. These entities are ultimately controlled by the Group. The insurance business in Youi New Zealand was disposed of during the 2020 financial year.

The Group's investment in Main Street 1353 Proprietary Limited (MS1353), which is an investment in an associate (49% of its equity), is also subject to translation risk. The underlying investment in MS1353 is a 29.7% investment in Hastings Consolidated as well as debt funding whose functional currency was the Pound Sterling in the prior year. This debt was converted to South African Rand during the 2021 financial year. As a result of this, the Group's equity accounted earnings from MS1353 has an indirect translation risk due to the translation of Hastings' earnings and debt servicing expenses to Rand (in the prior year).

The Group's investment in AutoGuru Australia Pty Limited, which is an investment in associate (30% of its equity), is also subject to translation risk.

A convertible loan was granted to AutoGuru to the value of AUS$ 1.5 million (2020: AUS$ 1.25 million), which also exposes the Group to currency risk.

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

	Australian Dollar $ exposure		Pound Sterling £ exposure	
	$'000	R'000	£'000	R'000
At 30 June 2021				
Assets	**1 274 758**	**13 633 791**	**223 591**	**4 807 201**
Liabilities	**(882 607)**	**(9 439 658)**	**–**	**–**
Equity	**(392 151)**	**(4 194 133)**	**–**	**–**

	Australian Dollar $ exposure		New Zealand Dollar $ exposure		Pound Sterling £ exposure	
	$'000	R'000	$'000	R'000	£'000	R'000
At 30 June 2020						
Assets	1 070 762	12 808 161	4 153	46 450	228 557	4 913 973
Liabilities	(718 504)	(8 594 542)	(1 915)	(21 420)	(49 000)	(1 053 500)
Equity	(352 259)	(4 213 619)	(2 238)	(25 029)	–	–
Exchange rates:						
Closing rate at 30 June 2021	10.70		9.97		19.69	
Average rate: 1 July 2020 to 30 June 2021	11.44		10.68		20.79	
Closing rate at 30 June 2020	11.96		11.19		21.50	
Average rate: 1 July 2019 to 30 June 2020	10.54		9.99		19.84	

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.2 Market risk *continued*

Currency 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:

	Australian Dollar $		Pound Sterling £	
	2021 10% Rand appreciation	2021 10% Rand depreciation	2021 10% Rand appreciation	2021 10% Rand depreciation
Comprehensive income after tax	**(74 671)**	**74 671**	**(480 720)**	**480 720**
Net asset value	**(419 414)**	**419 414**	**(2 614)**	**2 614**

	Australian Dollar $		New Zealand Dollar $		Pound Sterling £	
	2020 10% Rand appreciation	2020 10% Rand depreciation	2020 10% Rand appreciation	2020 10% Rand depreciation	2020 10% Rand appreciation	2020 10% Rand depreciation
Comprehensive income after tax	(67 274)	67 274	(12 394)	12 394	(11 648)	11 648
Net asset value	(399 320)	399 320	(2 142)	2 142	(386 047)	386 047

Foreign exchange risk is present in respect of intercompany dividends within the Group. In the prior financial year, forward cover in the form of a forward exchange contract and a zero-cost collar was taken out to minimise exposure to foreign currency fluctuations.

Below is a summary of the amounts payable under forward contracts in the prior financial year:

2020	FEC Average rate R	Foreign currency contract amount A$'000	Rand equivalent contract amount R'000	Fair value loss on FEC R'000
AUD FEC – liability	**11.95**	**10 500**	**125 503**	**96**

		Collar		
2020	Option amount AUD	Lower Bound R	Upper Bound R	Closing exchange rate R
AUD Collar	**7 500 000**	**11.83**	**12.20**	**11.96**

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

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 an instrument to discharge its contractual obligations over the expected life of the financial instrument. The key areas where the Group is exposed to credit risk are:

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

The Group limits its counterparty exposures from its money market investments 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 ALCCO against a set Board investment mandate. The mandate is informed by the prudential regulatory capital requirements of each entity.

Notes to the consolidated financial statement *continued*

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:

	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 2021							
Cash and cash equivalents	1 546 352	–	–	605 810	27 426	–	2 179 588
Term deposits	5 809 617	–	–	–	–	–	5 809 617
Collective investment scheme	–	–	–	–	–	135 201	135 201
Unsecured loans	–	–	–	–	–	44 216	44 216
Government, municipal and public utility securities	–	–	–	220 028	19 265	20 730	260 023
Money market securities <1 year	–	–	–	778 392	723 771	–	1 502 163
Money market securities >1 year	–	–	–	1 228 395	367 607	–	1 596 002
Zero-coupon deposits	–	–	–	707 824	–	–	707 824
Zero-coupon deposits backing endowment policies	–	37 181	–	–	–	–	37 181
Unlisted equity	–	–	–	–	–	41 676	41 676
Reinsurers' share of insurance contract provisions	20 388	726 023	34 422	162 956	–	196 471	1 140 260
Insurance and other receivable[1,2]	3 319	18 769	6 063	204	–	3 654 410	3 682 765
Convertible loan	–	–	–	–	–	13 168	13 168
Total	7 379 676	781 873	40 485	3 703 609	1 138 069	4 105 872	17 149 684

[1] *This excludes receivables classified as non-financial assets.*

[2] *The majority of the insurance and other receivables not rated relates to premium debtors that are backed by a corresponding unearned premium reserve liability. The premium debtors are subject to the credit risk management processes applied when a policyholder's credit risk is assessed at inception.*

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

	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 2020								
Cash and cash equivalents	–	687 834	–	–	538 116	–	–	1 225 950
Term deposits	–	5 781 780	–	–	–	–	–	5 781 780
Collective investment scheme	–	–	–	–	–	–	113 737	113 737
Unsecured loans	–	–	–	–	–	–	42 279	42 279
Government, municipal and public utility securities	–	–	–	–	103 779	24 269	–	128 048
Money market securities <1 year	–	–	10 957	36 391	1 687 643	3 682	–	1 738 673
Money market securities >1 year	–	–	82 296	25 477	1 232 611	18 344	–	1 358 728
Zero-coupon deposits	–	–	–	–	834 890	–	–	834 890
Zero-coupon deposits backing endowment policies	–	–	23 508	–	–	–	–	23 508
Unlisted equity	–	–	–	–	–	–	13 716	13 716
Reinsurers' share of insurance contract provisions	118 553	767 783	333 347	118 500	–	–	–	1 338 183
Insurance and other receivables[1,2]	–	39 149	4 841	3 813	713	–	3 403 451	3 451 967
Convertible loan	–	–	–	–	–	–	10 962	10 962
Total	118 553	7 276 546	454 949	184 181	4 397 752	46 295	3 584 145	16 062 421

[1] *This excludes receivables classified as non-financial assets.*

[2] *The majority of the insurance and other receivables not rated relates to premium debtors that are backed by a corresponding unearned premium reserve liability. The premium debtors are subject to the credit risk management processes applied when a policyholder's credit risk is assessed at inception.*

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 ALCCO. Should the service provider not provide a credit rating, the counterparty is shown as unrated.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

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' rating 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.

Impairment of financial assets

Calculation of Expected Credit Losses (ECL)

The ECL allowance is an unbiased, probability-weighted amount determined by evaluating a range of possible outcomes that reflects reasonable and supportable information that is available without undue cost or effort of past events, current conditions and forecasts of forward-looking economic conditions. The ECL model is dependent on the availability of relevant and accurate data to determine whether a significant increase in credit risk occurred since initial recognition, the probability of default (PD), the loss given default (LGD) and the possible exposure at default (EAD). Of equal importance is sound correlation between these parameters and forward-looking economic conditions.

ECL reflects the Group's own expectations of credit losses discounted to its present value. However, when considering all reasonable and supportable information that is available without undue cost or effort in estimating ECL, the Group also considers observable market information about the credit risk of the particular financial instrument or similar financial instruments.

The ECL loss allowances are measured on either of the following bases:

- 12-month ECL: ECL that results from possible default events within the 12 months after the reporting date; and
- Lifetime ECL: ECL that result from all possible default events over the expected life of a financial instrument.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

Impairment of financial assets *continued*

Calculation of ECL *continued*

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Exposures are assessed on a per instrument type basis unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on future cash flows. Where such evidence exists, the exposure is assessed on an individual instrument basis. Financial assets are also grouped according to the type of financial asset. The Group makes use of estimates of PDs, LGDs and EADs to calculate the ECL balance for financial assets.

Depending on the relevant information available, PDs are based on historic default rate factors and linked to national scale credit ratings assigned to the issuing parties.

LGDs are derived from a free cash flow (FCF) forecast taking into account the interest rate spreads attached to the instruments. The FCF is discounted at the discount rates provided by the regulating authority which takes the current and expected macro-economic conditions into account. The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.

EADs are determined with reference to expected amortisation schedules, historical payment patterns and taking into account credit conversion factors as applicable for undrawn or revolving facilities.

The market risk capital calculation prescribed under the current regulatory regime is used as a reference point in the above calculations.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk. The ECL calculation of a financial instrument takes into account both the contractual and available behavioural repayment patterns over the relevant estimation period.

The gross carrying amount of instruments subject to ECL is written off or reduced when there is no reasonable expectation of recovering a financial instrument in its entirety or a portion thereof.

Significant increase in credit risk and default

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers quantitative and qualitative information based on the Group's historical experience, credit assessment and forward-looking information. The Group's assessment of a significant increase in credit risk subsequent to initial recognition is performed through credit quality assessments of the debt instruments as well as that of the issuing party throughout the financial year. This includes the use of market indicators.

The credit quality of debt instruments is assessed on a monthly basis by means of ensuring that the credit rating of an individual instrument has not deteriorated to a point where it breaches the Group's investment policy. The Group's investment policy allows for investments to be made in high quality debt instruments. If the investment policy is breached, the impact on the ECL will be assessed.

The assessment described above is part of the Group's ongoing monitoring of its investment portfolios. When making a quantitative assessment, the Group uses the change in the PD occurring over the expected life of the financial instrument. This requires a measurement of the PD at initial recognition and at the reporting date.

The Group deems that a significant increase in credit risk arises when a debtor is 30 days past due in making a contractual payment.

A financial asset is in default when the financial asset is credit-impaired or if the financial asset is 90 days past due.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

Impairment of financial assets *continued*

Forward looking information

The yield curves and discount rates utilised to project the forward rate spreads on the financial instruments takes macro-economic conditions into account. Macro-economic market conditions are based on the expectations of the debt market such as economic, political and market liquidity risks. These yield curves and discount rates are utilised to calculate the present value of future cash flows taking into account the unsystematic risk for future periods. This, coupled with the credit outlook attached to a specific financial instrument, is utilised to calculate the PD and LGD based on the formulas prescribed by the current regulatory regime.

Analysis of credit risk and allowance for ECL

The following table provides an overview of the allowance for ECL provided for on the types of financial assets held by the Group where credit risk is prevalent:

	Gross carrying amount			
	Subject to 12-month ECL R'000	Subject to lifetime ECL R'000	Allowance for ECL R'000	Net amount R'000
At 30 June 2021				
Cash and cash equivalents	**2 179 588**	**–**	**–**	**2 179 588**
Term deposits	**5 809 617**	**–**	**–**	**5 809 617**
Government, municipal and public utility securities[1]	**239 293**	**20 730**	**(6 085)**	**253 938**
Money market securities <1 year[1]	**1 502 163**	**–**	**(6 824)**	**1 495 339**
Money market securities >1 year[1]	**1 596 002**	**–**	**(7 250)**	**1 588 752**
Insurance and other receivables[2]	**3 682 765**	**–**	**–**	**3 682 765**
Total	**15 009 428**	**20 730**	**(20 159)**	**15 009 999**

[1] *Money market securities were disaggregated into government, municipal and public utility securities and money market securities to correctly display the classes of instruments. Prior year figures have been updated accordingly.*
[2] *Insurance receivables to the value of R3 682.8 million are not subject to ECL.*

	Gross carrying amount			
	Subject to 12-month ECL R'000	Subject to lifetime ECL R'000	Allowance for ECL R'000	Net amount R'000
At 30 June 2020				
Cash and cash equivalents	1 225 950	–	–	1 225 950
Term deposits	5 781 780	–	–	5 781 780
Government, municipal and public utility securities	128 048	–	(795)	127 253
Money market securities <1 year	1 738 673	–	(10 793)	1 727 880
Money market securities >1 year	1 358 728	–	(8 434)	1 350 294
Insurance and other receivables[1]	3 451 967	–	–	3 451 967
Total	13 685 146		(20 022)	13 665 124

[1] *Insurance receivables to the value of R3 452.0 million are not subject to ECL.*

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.3 Credit risk *continued*

Analysis of credit risk and allowance for ECL *continued*
The following table sets out information about the credit quality of financial assets at 30 June 2021 where it carries credit risk. The total carrying amounts represent the maximum exposure to credit risk at the reporting date:

	12-month ECL[1] R'000	Lifetime ECL[2] R'000	Total R'000
2021			
Expected credit losses			
Government, municipal and public utility securities	**1 181**	**4 904**	**6 085**
Money market securities <1 year	**6 824**	**–**	**6 824**
Money market securities >1 year	**7 250**	**–**	**7 250**
Total	**15 255**	**4 904**	**20 159**

	12-month ECL[1] R'000	Lifetime ECL[2] R'000	Total R'000
2020			
Expected credit losses			
Government, municipal and public utility securities	795	–	795
Money market securities <1 year	10 793	–	10 793
Money market securities >1 year	8 434	–	8 434
Total	20 022	–	20 022

[1] *Financial assets subject to 12-month ECL have an investment grade credit rating of AAA to BBB.*
[2] *Financial assets subject to lifetime ECL have a sub-investment grade of BB and lower.*

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 AAA, measured on an international scale. Reinsurance credit exposures are determined using the incurred loss model which was adopted when IFRS 4 came into effect.

Notes to the consolidated financial statement *continued*

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 and insurance contract assets. The liquidity profile assumes that instruments can be traded or settled in the ordinary course of business and in markets with sufficient liquidity. The effects of discounting are considered to be immaterial. The Group has access to a revolving credit facility of R1 billion to provide liquidity to share incentive schemes as market maker where the Group exercises its pre-emptive rights to acquire shares. At 30 June 2021, no funds were drawn from this facility (2020: R100 million was drawn from this facility).

	30 June 2021 R'000	%	30 June 2020 R'000	%
Liquid financial assets				
Realisable within 30 days				
Cash and cash equivalents	**2 179 588**	**12.4%**	1 225 950	7.6%
Collective investment scheme	**135 201**	**0.8%**	113 737	0.7%
Government, municipal and public utility securities[2]	**260 023**	**1.5%**	128 048	0.8%
Money market securities[2]	**3 098 165**	**17.6%**	3 097 401	19.3%
Equity funds	**1 204 222**	**6.9%**	1 023 145	6.4%
Realisable between one and twelve months				
Term deposits	**5 809 617**	**33.2%**	5 781 780	36.0%
Loans and receivables[1]	**3 682 765**	**21.0%**	3 451 967	21.5%
Total liquid financial assets	**16 369 581**		14 822 028	
Illiquid assets				
Realisable in more than twelve months				
Zero-coupon deposits	**707 824**	**4.0%**	834 890	5.2%
Listed perpetual preference shares	**310 137**	**1.8%**	303 296	1.9%
Unsecured loans	**44 216**	**0.3%**	42 279	0.3%
Zero-coupon deposits backing endowment policies	**37 181**	**0.2%**	23 508	0.1%
Convertible loan	**13 168**	**0.1%**	10 962	0.1%
Unlisted equity	**41 676**	**0.2%**	13 716	0.1%
Total illiquid assets	**1 154 202**		1 228 651	
Total financial assets held	**17 523 783**	**100%**	16 050 679	100%
Insurance contract assets				
Realisable within 30 days	**211 796**		298 892	
Realisable between one and twelve months	**733 765**		879 657	
Realisable after more than twelve months	**194 699**		159 634	
Total insurance contract assets held	**1 140 260**		1 338 183	
Total assets (excluding non-monetary assets)	**18 664 043**		17 388 862	

[1] *This constitutes loans and receivables classified as financial assets.*
[2] *Disclosed gross of the ECL provision.*

Notes to the consolidated financial statement *continued*

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 R'000	13 – 36 months R'000	37 – 60 months R'000	>60 months R'000	Total R'000
At 30 June 2021					
Expected discounted cash flows					
Insurance contract liabilities – life	(67 249)	(590 567)	(479 939)	1 981 072	843 317
Insurance contract liabilities – non-life	8 835 635	575 026	28 515	28 316	9 467 492
Derivative financial instruments	2 885	14 013	17 258	(29 714)	4 442
	8 771 271	(1 528)	(434 166)	1 979 674	10 315 251
Contractual undiscounted cash flows[1]					
Financial liabilities at fair value through profit and loss	85 956	–	–	–	85 956
Insurance and other payables	1 401 183	–	–	–	1 401 183
	1 487 139	–	–	–	1 487 139
Other liabilities					
Tax liabilities	132 703	–	–	–	132 703
Insurance and other payables	134 864	–	–	–	134 864
	267 567	–	–	–	267 567
Total liabilities	10 525 977	(1 528)	(434 166)	1 979 674	12 069 957
Liquid asset coverage ratio	1.56				1.36
Financial assets coverage ratio					1.45

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.4 Liquidity risk *continued*

Maturity profile of liabilities

	0 – 12 months R'000	13 – 36 months R'000	37 – 60 months R'000	>60 months R'000	Total R'000
At 30 June 2020					
Insurance contract liabilities – life	(132 692)	(482 551)	(410 927)	1 561 698	535 528
Insurance contract liabilities – non-life	8 484 138	549 644	20 188	11 563	9 065 533
Derivative financial instruments	3 173	16 720	23 687	107 033	150 613
	8 354 619	83 813	(367 052)	1 680 294	9 751 674
Contractual undiscounted cash flows[1]					
Financial liabilities at fair value through profit and loss	64 648	–	–	–	64 648
Insurance and other payables	1 108 180	–	–	–	1 108 180
	1 172 828	–	–	–	1 172 828
Other liabilities					
Tax liabilities	72 880	–	–	–	72 880
Financial liabilities at amortised cost	100 000	–	–	–	100 000
Insurance and other payables	47 724	–	–	–	47 724
	220 604	–	–	–	220 604
Total liabilities	9 748 051	83 813	(367 052)	1 680 294	11 145 106
Liquid asset coverage ratio	1.52				1.33
Financial assets coverage ratio					1.44

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

3.4 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 regulatory solvency capital requirements for each entity and the Group;
- 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.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.4 Capital management *continued*

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 consists of retained earnings, contributed share capital and distributable reserves.

The table below summarises the Solvency Coverage Ratio for each of the regulated Group companies and the actual solvency achieved:

Solvency coverage ratio[1]	Jurisdiction	2021	2020	Target
Group		**2.2**	2.5	1.4
Short-term insurance				
OUTsurance Insurance Company Limited	South Africa	**1.8**	1.9	1.2
OUTsurance Insurance Company of Namibia Limited	Namibia	**2.3**	2.3	1.2
Youi Holdings Group	Australia	**3.0**	3.5	2.0
Long-term insurance				
OUTsurance Life Insurance Company Limited	South Africa	**2.7**	3.0	1.5

[1] *Solvency Coverage Ratio, which is defined as the ratio of regulatory admissible net assets to the solvency capital requirement.*

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

Group and South African operations

The Financial Soundness for Insurers and Financial Soundness for Groups prudential standards prescribe certain measures by which insurers and Groups measure their eligible own funds and prescribe the manner in which the solvency capital requirement (SCR) needs to be calculated. The Group and solo entities apply the standard formula approach to determine the SCR.

The prescribed SCR is the level of eligible own funds required to ensure the value of assets will exceed technical provisions and other liabilities at a 99.5% level of certainty over a one-year time horizon. The SCR is calculated based on the following key risk categories:

- Non-life underwriting risk;
- Life underwriting risk;
- Market risk; and
- Operational risk.

Notes to the consolidated financial statement *continued*

3. Management of risk and capital *continued*

3.4 Capital management *continued*

Group and South African operations *continued*

OUTsurance Holdings Limited is regulated as an Insurance Group. The deduction and aggregation method is used to assess capital adequacy on a group-wide basis. This method sums the solo capital requirements and aims to calculate the relevant adjustments to avoid double or multiple gearing of capital. Excess or deficits of capital existing at the level of each entity, including entities in other jurisdictions in the Group, i.e. on a solo basis, are aggregated (net of intragroup transactions) in order to measure the own funds surplus (or deficit) at a Group level.

Australian operations – Short-term insurance operations

The Australian Prudential Regulation Authority (APRA) regulates the capital requirements of Australian entities 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
- Less aggregation benefit.

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 and Youi Holdings Pty Limited (Australia);
- 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;
- Life insurance: This segment provides long-term insurance products to individuals. Life insurance business is conducted in OUTsurance Life Insurance Company Limited; and
- Central and new business development: This segment relates to all the other segments within the Group that have not been specified above as well as costs that cannot be allocated to specific segments due to their overarching nature.

For risk classes included in the Personal and Commercial insurance segments refer to note 3.2.1(i). For insurance products issued in the Life insurance segment refer to note 3.2.2(i).

The information in the segment report is presented on the same basis as reported to and managed by management. It is aggregated based on the qualitative and quantitative significance of the business units. Reporting adjustments are those accounting reclassifications and entries required to produce IFRS compliant results. Specific details of these adjustments are included as footnotes.

The material revenues of the Group are derived from gross written premiums for insurance policies issued.

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.

Notes to the consolidated financial statement *continued*

4. Segment information *continued*

4.1 Market segmentation *continued*

	Short-term insurance OUTsurance Personal[1] R'000	Short-term insurance OUTsurance Commercial R'000	Short-term insurance Youi Group R'000	Long-term insurance OUTsurance Life R'000	Central and new business develop-ment R'000	Group Total R'000
Segment income statement information						
Year end 30 June 2021						
Gross written premium	7 694 411	1 713 033	10 512 782	649 861	–	20 570 087
Outward reinsurance premiums	(104 123)	(31 412)	(1 458 576)	(64 557)	–	(1 658 668)
Change in provision for unearned premium	(4 077)	(8 956)	(847 115)	(131)	–	(860 279)
Earned premium, net of reinsurance	7 586 211	1 672 665	8 207 091	585 173	–	18 051 140
Other income	–	–	14 405	–	47 370	61 775
Policyholder benefits on insurance contracts net of reinsurance	(3 665 586)	(959 316)	(4 426 852)	(201 830)	1 923	(9 251 661)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(249 091)	–	(249 091)
Marketing, acquisition and administration expenses[2,3]	(1 514 134)	(631 574)	(2 779 851)	(322 137)	(195 330)	(5 443 026)
Fair value adjustment to financial liabilities	(137 936)	–	–	(2 196)	–	(140 132)
Underwriting result	2 268 555	81 775	1 014 793	(190 081)	(146 037)	3 029 005
Investment income on technical reserves	60 248	14 894	47 320	165 483	–	287 945
Operating profit	2 328 803	96 669	1 062 113	(24 598)	(146 037)	3 316 950
Equity accounted earnings						67 842
Operating profit including associate earnings						3 384 792
Net investment income on shareholder investment capital[2]						433 913
Profit before tax						3 818 705

Notes to the consolidated financial statement *continued*

4. Segment information *continued*

4.1 Market segmentation

	Short-term insurance OUTsurance		Short-term insurance	Long-term insurance		
	Personal[1] R'000	Commercial R'000	Youi Australia Group R'000	OUTsurance Life R'000	Central and new business develop–ment R'000	Group Total R'000
Segment income statement information						
Year end 30 June 2020						
Gross written premium	7 343 181	1 513 139	7 941 699	551 308	–	17 349 327
Outward reinsurance premiums	(103 377)	(23 440)	(599 605)	(47 986)	–	(774 408)
Change in provision for unearned premium	(1 455)	(4 819)	(415 873)	(1)	–	(422 148)
Earned premium, net of reinsurance	7 238 349	1 484 880	6 926 221	503 321	–	16 152 771
Other income	–	–	6 603	–	19 055	25 658
Policyholder benefits on insurance contracts net of reinsurance	(3 359 695)	(936 301)	(3 726 074)	(121 469)	(2 440)	(8 145 979)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(33 702)	–	(33 702)
Marketing, acquisition and administration expenses[2,3]	(1 547 960)	(537 366)	(2 314 683)	(275 978)	(91 031)	(4 767 018)
Fair value adjustment to financial liabilities	(138 656)	–	–	–	–	(138 656)
Underwriting result	2 192 038	11 213	892 067	72 172	(74 416)	3 093 074
Investment income on technical reserves	103 810	23 836	78 193	(66 547)	–	139 292
Operating profit	2 295 848	35 049	970 260	5 625	(74 416)	3 232 366
Equity accounted earnings						122 244
Impairment of associate						(2 636)
Operating profit including associate earnings						3 351 974
Net investment income on shareholder investment capital[2]						71 411
Profit before tax						3 423 385

[1] *Includes Homeowners cover book sourced from the FirstRand Bank Limited.*

[2] *Marketing, acquisition and administration expenses excludes investment management expenses of R8.4 million (2020: R7.9 million), which are included in net investment income on shareholders investment capital.*

[3] *Marketing, acquisition and administration expenses includes amortisation and depreciation. These items are not deemed material for management decision making.*

Excluded from operating profit in Youi for the 2020 financial year, is an amount of R9.5 million related to the profit from Youi New Zealand's discontinued operations for the period. Refer to the discontinued operations note 35 for further detail.

Notes to the consolidated financial statement *continued*

4. Segment information *continued*

4.2 Geographical segmentation

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

	Southern Africa		Australia		
	OUTsurance R'000	OUTsurance Life R'000	Youi Group R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segment balance sheet information					
Year end 30 June 2021					
Segment assets					
Property and equipment	121 891	–	692 048	216 669	1 030 608
Financial assets	5 229 674	1 266 949	6 103 966	(959 318)	11 641 271
Cash and cash equivalents	284 137	148 800	1 546 352	200 299	2 179 588
Other assets	620 475	233 261	5 291 406	3 785 041	9 930 183
Total segment assets	6 256 177	1 649 010	13 633 772	3 242 691	24 781 650
Segment Equity					
Share capital	25 000	445 002	2 318 897	(675 217)	2 113 682
Retained earnings	3 240 038	201 978	1 892 034	2 962 255	8 296 305
Other reserves and non-controlling interests	3 065	787	(16 801)	1 198 322	1 185 373
Total segment equity	3 268 103	647 767	4 194 130	3 485 360	11 595 360
Segment liabilities					
Insurance contract liabilities	1 941 396	843 448	7 525 966	(1)	10 310 809
Other liabilities	1 046 678	157 795	1 913 676	(242 668)	2 875 481
Total segment liabilities	2 988 074	1 001 243	9 439 642	(242 669)	13 186 290
Total segment equity and liabilities	6 256 177	1 649 010	13 633 772	3 242 691	24 781 650

Notes to the consolidated financial statement *continued*

4. Segment information *continued*

4.2 Geographical segmentation *continued*

	Southern Africa		Australia		
	OUTsurance R'000	OUTsurance Life R'000	Youi Australia R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segment balance sheet information					
Year end 30 June 2020					
Segment assets					
Property and equipment	91 996	–	824 148	231 404	1 147 548
Financial assets	5 152 773	1 117 220	5 993 900	(911 153)	11 352 740
Cash and cash equivalents	185 268	141 167	686 532	212 983	1 225 950
Other assets	696 327	163 323	5 339 080	3 385 707	9 584 437
Total segment assets	6 126 364	1 421 710	12 843 660	2 918 941	23 310 675
Segment Equity					
Share capital	25 000	445 002	2 614 207	(960 578)	2 123 631
Retained earnings	3 153 125	182 360	1 630 587	2 733 265	7 699 337
Other reserves	2 386	(197)	(6 240)	1 667 107	1 663 056
Total segment equity	3 180 511	627 165	4 238 554	3 439 794	11 486 024
Segment liabilities					
Insurance contract liabilities	2 081 403	535 528	6 984 130	–	9 601 061
Other liabilities	864 450	259 017	1 620 976	(520 853)	2 223 590
Total segment liabilities	2 945 853	794 545	8 605 106	(520 853)	11 824 651
Total segment equity and liabilities	6 126 364	1 421 710	12 843 660	2 918 941	23 310 675

The Group also has exposure in Namibia. Refer to note 20 for relevant financial information.

5. Gross insurance premium written

	2021 R'000	2020 R'000
Short-term insurance		
Premium written	**19 901 126**	16 779 094
Policyholder fees written	**19 100**	18 925
	19 920 226	16 798 019
Long-term insurance		
Premium received	**638 397**	538 660
Policyholder fees received	**11 464**	12 648
	649 861	551 308
	20 570 087	17 349 327

Notes to the consolidated financial statement *continued*

6. Non-insurance related income

	2021 R'000	2020 R'000
Government grant received	**31 671**	24 713
Commission income	**8 697**	286
Fees received from investment advice and administration services	**2 095**	659
Software subscription fees	**19 312**	–
	61 775	25 658

The Group qualifies for a job-creation incentive associated with call centre activities of Youi and Hastings offshored to South Africa. The incentive is accounted for based on the actual incentive qualified for during the year under review. In order to satisfy the requirements of the grant a minimum number of jobs must be created and maintained for previously unemployed individuals.

7. Investment income

	2021 R'000	2020 R'000
Investment income:	**115 765**	131 890
Interest – financial assets at fair value through profit or loss	**43 174**	56 625
Dividends – listed equities	**72 591**	75 265
Interest income on financial assets using the effective interest rate method	**241 234**	389 418
Interest – financial assets measured at amortised cost	**60 046**	127 801
Interest – other financial assets	**181 188**	261 617
	356 999	521 308

Notes to the consolidated financial statement *continued*

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

	Fair value designated though profit or loss R'000	Fair value through other comprehensive income R'000	Total R'000
2021			
Net realised gain / (loss) on financial assets	**459**	**(810)**	**(351)**
Net unrealised fair value gain	**383 004**	**–**	**383 004**
Expected credit loss through OCI	**–**	**(137)**	**(137)**
Fair value adjustments on financial assets before OCI	**383 463**	**(947)**	**382 516**
Net unrealised fair value losses through OCI	**–**	**2 309**	**2 309**
	383 463	**1 362**	**384 825**
2020			
Net realised (loss) / gain on financial assets	(8 765)	736	(8 029)
Net unrealised fair value loss	(283 115)	–	(283 115)
Expected credit loss through OCI	–	(3 866)	(3 866)
Fair value adjustments on financial assets before OCI	(291 880)	(3 130)	(295 010)
Net unrealised fair value losses through OCI	–	(13 803)	(13 803)
	(291 880)	(16 933)	(308 813)

Other than unlisted preference shares, fair value gains and losses on assets measured at fair value through profit or loss and designated fair value financial assets are determined with reference to quoted market prices at reporting date.

Notes to the consolidated financial statement *continued*

9. Policyholder benefits on insurance contract net of reinsurance

	2021			2020		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Short-term insurance						
Claims paid	**(9 554 410)**	**1 493 350**	**(8 061 060)**	(8 545 909)	1 099 687	(7 446 222)
Change in claims provisions	**(169 469)**	**(319 521)**	**(488 990)**	(587 077)	508 925	(78 152)
Non-claims bonuses on insurance contracts	**(499 780)**	**–**	**(499 780)**	(500 136)	–	(500 136)
	(10 223 659)	**1 173 829**	**(9 049 830)**	(9 633 122)	1 608 612	(8 024 510)
Long-term insurance						
Life claims	**(274 495)**	**98 353**	**(176 142)**	(153 817)	50 733	(103 084)
Disability claims	**(6 882)**	**1 261**	**(5 621)**	(6 927)	1 308	(5 619)
Retrenchment claims	**(3 443)**	**558**	**(2 885)**	(2 271)	336	(1 935)
Critical illness claims	**(10 197)**	**2 242**	**(7 955)**	(13 616)	3 052	(10 564)
Non-claims bonuses on insurance contracts	**(9 228)**	**–**	**(9 228)**	(267)	–	(267)
	(304 245)	**102 414**	**(201 831)**	(176 898)	55 429	(121 469)
Total claims incurred	**(10 527 904)**	**1 276 243**	**(9 251 661)**	(9 810 020)	1 664 041	(8 145 979)

Refer to note 28 for the breakdown of the gross movement in the claims provisions for both short-term and long-term insurance.

Notes to the consolidated financial statement *continued*

10. 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:

	2021 R'000	2020 R'000
Depreciation		
Buildings	**62 531**	57 226
Computer and office equipment	**39 141**	40 471
Furniture and fittings	**11 126**	10 448
Motor vehicles	**16 128**	15 605
Amortisation		
Purchased computer software	**8 494**	8 458
Internally generated computer software	**11 807**	1 914
Total depreciation	**149 227**	134 122
Employee benefits[2]		
Salaries excluding retirement funding	**3 022 320**	2 766 087
Medical aid contributions	**132 316**	120 631
Retirement funding	**226 070**	212 287
Service cost relating to employee benefits	**6 041**	95 783
Share-based payments	**162 260**	44 756
Total employee benefits	**3 549 007**	3 239 544
Other disclosable items		
Audit fees	**17 440**	19 180
External audit fees	**12 781**	12 692
Other fees / services	**4 659**	6 488
Short-term lease expenditure[2]	**3 562**	8 173
Loss on sale of property, plant and equipment	**7 090**	1 307
Research and development costs relating to internally generated intangible assets[2]	**2 152**	1 423
Consulting and legal fees for professional services	**128 124**	129 882
Investment fees paid	**8 354**	7 917
Foreign exchange loss / (profit)	**5 729**	(27 788)
Acquisition costs[1,2]	**221 474**	72 710
Release of deferred acquisition costs[2]	**(105 953)**	(31 896)
Marketing and management expenses[2]	**1 465 183**	1 220 370
Total other disclosable expenses	**1 753 155**	1 401 278
Total marketing and administration expenses	**5 451 389**	4 774 944

[1] *Acquisition expenses include both standard commission and lead generation fees paid to external parties.*
[2] *Refer to note 42 for the details of the restatement of comparative figures.*

Notes to the consolidated financial statement *continued*

11. Finance charges

	2021 R'000	2020 R'000
Interest paid – operational financing		
Interest paid on revolving credit facility	**5 865**	3 373
Interest charge on lease liabilities	**3 372**	4 187
Other interest	**57**	109
	9 294	7 669

12. Taxation

	2021 R'000	2020 R'000
Normal taxation		
Current tax		
Current year	**(1 107 978)**	(1 070 332)
Prior year (under) / over provision	**(8 050)**	2 045
	(1 116 028)	(1 068 287)
Deferred tax		
Current year	**1 711**	82 313
Prior year under provision	**–**	(2 062)
	1 711	80 251
Total normal taxation	**(1 114 317)**	(988 036)
Withholding taxation incurred	**(893)**	(123)
Foreign tax on investments	**(128)**	–
Total taxation charge	**(1 115 338)**	(988 159)
Tax rate reconciliation		
Normal tax on companies	**1 069 237**	987 802
Non-temporary differences	**36 687**	(12 885)
Fair value adjustment	**8 184**	(2 814)
Non-taxable income	**(12 179)**	(33 577)
Other permanent differences	**–**	(140)
Capital gains tax	**83**	8 329
Foreign tax rate differential	**21 598**	19 232
Exempt dividends	**(15 817)**	(19 202)
Equity accounted earnings	**(18 996)**	(34 228)
Fair value adjustments to financial liabilities	**38 896**	38 824
Non-allowable expenses	**14 918**	10 691
Prior year (under) / over provision	**(1 286)**	17
Withholding taxation incurred	**893**	123
Deferred tax asset not utilised	**9 807**	13 102
Amount calculated at effective rate	**1 115 338**	988 159

Notes to the consolidated financial statement *continued*

13. Earnings per share

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

13.1 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.

	2021 R'000	2020 R'000
Earnings attributable to ordinary shareholders (R'000)	**2 591 089**	2 417 942
Weighted average number of shares in issue ('000)	**3 718 751**	3 730 904
Basic earnings per share (cents)	**69.68**	64.81

13.2 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 31.

	2021	2020
Earnings attributable to ordinary shareholders (R'000)	**2 591 089**	2 417 942
Diluted earnings attributable to the Youi Group (R'000)	**(24 584)**	(1 295)
Total diluted earnings attributable to ordinary shareholders (R'000)	**2 566 505**	2 416 647
Weighted average number of shares in issue ('000)	**3 718 751**	3 730 904
Dilution impact of share incentive scheme ('000)	**12 171**	1 118
Diluted weighted average number of shares in issue ('000)	**3 730 922**	3 732 022
Diluted earnings per share (cents)	**68.79**	64.75

Notes to the consolidated financial statement *continued*

14. 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:

	2021	2020
Earnings attributable to ordinary shareholders	**2 591 089**	2 417 942
Adjusted for:		
Profit on sale of Youi New Zealand insurance business	**–**	(103 021)
Minority share of sale of insurance business	**–**	15 968
Impairment of associate	**–**	2 636
Loss on dilution of associate	**1 786**	7 029
Loss on sale of property and equipment	**7 090**	1 307
Tax effect of adjustments	**(2 031)**	(303)
Headline earnings attributable to ordinary shareholders (R'000)	**2 597 934**	2 341 558
Weighted average number of shares in issue ('000)	**3 718 751**	3 730 904
Headline earnings per share – basic (cents)	**69.86**	62.76
Headline earnings attributable to ordinary shareholders (R'000)	**2 597 934**	2 341 558
Diluted headline earnings attributable to Youi Group (R'000)	**(24 742)**	(1 117)
Diluted headline earnings attributable to ordinary shareholders (R'000)	**2 573 192**	2 340 441
Diluted weighted average number of shares in issue ('000)	**3 730 922**	3 732 022
Headline earnings per share – diluted (cents)	**68.97**	62.71

15. Dividend per share

	2021	2020
Total dividends paid during the year (R'000)	**1 999 632**	2 529 883
Total dividends paid gross of treasury shares (R'000)	**2 040 013**	2 564 263
Total dividends paid on treasury shares (R'000)	**(40 381)**	(34 380)
Total dividends declared (R'000)	**2 241 356**	2 040 013
Total dividends declared – interim (R'000)	**938 330**	938 330
Total dividends declared – final (R'000)	**1 303 026**	1 101 683
Number of ordinary shares in issue ('000)	**3 798 908**	3 798 908
Dividends declared per share (cents)	**59.00**	53.70
Dividend paid per share (cents)[1]	**53.70**	67.50

[1] *Gross of treasury shares.*

Notes to the consolidated financial statement *continued*

16. Property and equipment

	Land and buildings R'000	Computer equipment R'000	Furniture fittings and office equipment R'000	Motor vehicles R'000	Total R'000
Year ended 30 June 2021					
Opening net book amount	**985 758**	**115 552**	**41 179**	**5 059**	**1 147 548**
Additions	**1 354**	**57 034**	**6 037**	**–**	**64 425**
Disposals	**(138)**	**(2 310)**	**(5 210)**	**–**	**(7 658)**
Foreign exchange adjustments	**(79 372)**	**(2 558)**	**(1 672)**	**(346)**	**(83 948)**
Depreciation charge	**(38 354)**	**(39 103)**	**(11 126)**	**(1 176)**	**(89 759)**
Closing net book amount	**869 248**	**128 615**	**29 208**	**3 537**	**1 030 608**
At 30 June 2021					
Cost	**1 104 349**	**448 297**	**94 437**	**7 335**	**1 654 418**
Accumulated depreciation	**(235 101)**	**(319 682)**	**(65 229)**	**(3 798)**	**(623 810)**
Net book amount	**869 248**	**128 615**	**29 208**	**3 537**	**1 030 608**

	Land and buildings R'000	Computer equipment R'000	Computer software[1] R'000	Furniture fittings and office equipment R'000	Motor vehicles R'000	Total R'000
Year ended 30 June 2020						
Opening net book amount	881 884	96 843	24 954	33 686	860	1 038 227
Additions	7 681	55 684	–	18 285	5 057	86 707
Disposals	(373)	(949)	–	(3 076)	(15)	(4 413)
Reclassification	–	–	(24 954)	–	–	(24 954)
Foreign exchange adjustments	132 481	4 406	–	2 732	(28)	139 591
Depreciation charge	(35 915)	(40 432)	–	(10 448)	(815)	(87 610)
Closing net book amount	985 758	115 552	–	41 179	5 059	1 147 548
At 30 June 2020						
Cost	1 191 227	438 330	–	116 379	7 761	1 753 697
Accumulated depreciation	(205 469)	(322 778)	–	(75 200)	(2 702)	(606 149)
Net book amount	985 758	115 552	–	41 179	5 059	1 147 548

[1] *The purchased computer software costs were reclassified to intangible assets in the prior year.*

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. The Australian head office for the Youi Group is situated on the Sunshine Coast. Both these properties are owner-occupied.

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

Refer to note 39 for the current and non-current analysis of property and equipment.

Notes to the consolidated financial statement *continued*

17. Intangible assets

Internally developed software relates to a project to redevelop the core insurance technology of the Group's insurance operations and the banking platform developed by CloudBadger. These intangible assets will be amortised once the software development is substantially completed and used in production.

	Internally developed computer software R'000	Purchased computer software R'000	Computer software under development R'000	Total R'000
Year ended 30 June 2021				
Opening net book amount	**73 595**	**21 835**	**17 714**	**113 144**
Additions	**51 218**	**4 160**	**61 949**	**117 327**
Reclassification	**7 804**	**–**	**(7 804)**	**–**
Foreign exchange adjustments	**(4 214)**	**(352)**	**–**	**(4 566)**
Amortisation charge	**(11 807)**	**(8 494)**	**–**	**(20 301)**
Closing net book amount	**116 596**	**17 149**	**71 859**	**205 604**
At 30 June 2021				
Cost	**130 033**	**131 902**	**71 859**	**333 794**
Accumulated amortisation	**(13 437)**	**(114 753)**	**–**	**(128 190)**
Net book amount	**116 596**	**17 149**	**71 859**	**205 604**

	Internally developed computer software R'000	Purchased computer software R'000	Computer software under development[1] R'000	Total R'000
Year ended 30 June 2020				
Opening net book amount	13 704	–	–	13 704
Additions	57 586	4 462	17 714	79 762
Disposals	–	(24)	–	(24)
Reclassification	–	24 954	–	24 954
Foreign exchange adjustments	4 219	901	–	5 120
Amortisation charge	(1 914)	(8 458)	–	(10 372)
Closing net book amount	73 595	21 835	17 714	113 144
At 30 June 2020				
Cost	75 546	148 199	17 714	241 459
Accumulated amortisation	(1 951)	(126 364)	–	(128 315)
Net book amount	73 595	21 835	17 714	113 144

[1] *A portion of the computer software under development was reclassified to internally developed computer software for the prior financial year.*

Notes to the consolidated financial statement *continued*

18. Right-of-use assets

Right-of-use assets are calculated in accordance with IFRS 16, which was adopted by the Group with effect from 1 July 2019.

	Properties[1] R'000	Motor vehicles[2] R'000	Office equipment R'000	Total R'000
Year ended 30 June 2021				
Opening net book amount	**57 636**	**25 195**	**142**	**82 973**
Additions	**7 057**	**2 454**	**–**	**9 511**
Depreciation	**(24 177)**	**(14 952)**	**(38)**	**(39 167)**
Terminations / cancellations	**(183)**	**–**	**–**	**(183)**
Foreign currency adjustments	**(3 460)**	**(1 469)**	**(6)**	**(4 935)**
Closing net book amount	**36 873**	**11 228**	**98**	**48 199**
At 30 June 2021				
Cost	**74 517**	**34 028**	**173**	**108 718**
Accumulated depreciation	**(37 644)**	**(22 800)**	**(75)**	**(60 519)**
Net book amount	**36 873**	**11 228**	**98**	**48 199**

[1] *Property leases relate to the use of regional offices.*

	Properties[1] R'000	Motor vehicles[2] R'000	Office equipment R'000	Total R'000
Year ended 30 June 2020				
Opening net book amount	–	–	–	–
Additions on adoption of IFRS 16	67 360	22 631	165	90 156
Adjusted balance at 1 July 2019	67 360	22 631	165	90 156
Additions	11 175	13 907	–	25 082
Depreciation	(21 311)	(14 790)	(39)	(36 140)
Terminations / cancellations	(7 491)	(547)	–	(8 038)
Foreign currency adjustments	7 903	3 994	16	11 913
Closing net book amount	57 636	25 195	142	82 973
At 30 June 2020				
Cost	77 371	38 567	184	116 122
Accumulated depreciation	(19 735)	(13 372)	(42)	(33 149)
Net book amount	57 636	25 195	142	82 973

[1] *Property leases relate to the use of regional offices.*
[2] *Vehicle leases are for use by operational staff.*

Notes to the consolidated financial statement *continued*

19. Subsidiaries

The Company had the following subsidiaries at 30 June 2021:

Subsidiary	Nature of business	Country of Incorporation	Issued ordinary capital 2021 R'000	Issued ordinary capital 2020 R'000	Effective holdings 2021	Effective holdings 2020
OUTsurance Insurance Company Limited	Short-term insurer	South Africa	**25 000**	25 000	**100%**	100%
OUTsurance Life Insurance Company Limited	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) Limited	Holdings company	South Africa	**1 169 086**	1 169 086	**100%**	100%
OUTsurance Shared Services (Pty) Ltd	Administration company	South Africa	**50 100**	50 100	**100%**	100%
OUTvest Nominees RF (Pty) Limited	Nominee	South Africa	**1**	1	**100%**	100%
OUTvest (Pty) Limited	Online digital advice and administration services	South Africa	**165 000**	127 500	**100%**	100%
CloudBadger Technologies (Pty) Limited	Technology company	South Africa	**134 683**	86 000	**65.2%**	100%
Youi NZ Pty Limited	Administration company	New Zealand	**69 930**	69 930	**84.8%**	84.6%
Youi Holdings Pty Limited	Holdings company	Australia	**1 521 738**	1 521 738	**84.8%**	84.6%
Youi Pty Limited (Australia)	Short-term insurer	Australia	**1 188 792**	1 188 792	**84.8%**	84.6%
Youi Properties Pty Limited	Property company	Australia	**10**	10	**84.8%**	84.6%
OUTsurance Properties (Pty) Limited	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.

CloudBadger Technologies (Pty) Limited (CloudBadger) was previously known as Bateleur Technologies (Pty) Limited. During the year 34.8% of the ordinary shares of CloudBadger was sold to non-controlling third parties.

The total non-controlling interest for the financial year is R671.0 million (2020: R635.8 million) which is attributable to the minority shareholders of Youi Holdings Pty Limited (Youi Holdings) and CloudBadger. Refer to note 4 for further details surrounding Youi's financial performance.

Reconciliation of non-controlling interest:

	Youi Holdings 2021 R'000	Youi Holdings 2020 R'000	CloudBadger 2021 R'000	CloudBadger 2020 R'000
Opening balance of non-controlling interest	**635 842**	483 339	**–**	–
Profit attributable to non-controlling interest	**114 973**	121 765	**(2 695)**	–
Shares issued to non-controlling interest	**–**	–	**48 683**	–
Foreign currency translation reserve attributable to non-controlling interest	**(73 676)**	107 733	**–**	–
Dividends paid	**(44 335)**	(70 440)	**–**	–
Equity transactions with non-controlling interests	**(7 764)**	(6 555)	**–**	–
Closing balance of non-controlling interest	**625 040**	635 842	**45 988**	–

Notes to the consolidated financial statement *continued*

19. Subsidiaries *continued*

Involvement with unconsolidated structured entities

One of the Group's subsidiaries, OUTvest (Pty) Limited (OUTvest), offers an online advice and investment platform which works exclusively with designed investment portfolios which include four collective investment schemes offered by Coreshares Index Tracker Managers (Coreshares). OUTsurance Insurance Company Limited (OUTsurance) was invested, on behalf of OUTvest, in these four collective investment schemes during the year under review.

20. Investment in associates

	2021 R'000	2020 R'000
Investment in associate		
Main Street 1353 (Pty) Limited	**3 627 173**	3 639 662
OUTsurance Insurance Company of Namibia Limited	**46 696**	49 607
Other	**42 567**	43 201
	3 716 436	3 732 470
Reconciliation of investment in associate		
Opening balance	**3 732 470**	3 622 848
Ordinary shares purchased in associate	**2 657**	4 987
Equity accounted earnings	**67 842**	122 244
Impairment of investment in associate	**–**	(2 636)
Share of equity accounted reserve of associate	**(73 303)**	145 257
Dividends received from associates	**(13 230)**	(160 230)
Closing balance	**3 716 436**	3 732 470

The Group effectively owns a 49.0% share in the ordinary shares of OUTsurance Insurance Company of Namibia Limited (OUTsurance Namibia), a company incorporated and domiciled in Namibia.

There is only one other shareholder of OUTsurance Namibia, FirstRand Namibia Limited, who has the majority voting rights over the operating activities of OUTsurance Namibia. Even though the Group is performing some of the operational activities there is a service level agreement in place which has been approved by the OUTsurance Namibia board, where FirstRand Namibia has the majority voting right. The Group earns a market related fee based on the services performed therefore the Group does not control OUTsurance Namibia.

The Group owns a 28.48% share in the ordinary shares of AutoGuru Australia Pty Limited (AutoGuru). AutoGuru is an online car service booking platform operating in Australia.

The Group owns a 27.7% share in the ordinary shares of Coreshares Holdings (Pty) Limited (Coreshares). During the year, the Group acquired an additional 2.1% share in the ordinary shares of Coreshares. Coreshares is an emerging passive investment management business in South Africa.

The Group performs an impairment assessment of its associate investments on an annual basis. The assessments are based on discounted cash flow models with company forecasts used as inputs. These forecasts can be adjusted to allow for our own assessment of expected performance.

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

Notes to the consolidated financial statement *continued*

20. Investment in associates *continued*

The Group owns a 49% interest in Main Street 1353 (Pty) Ltd (MS1353) which in turn has an associate investment in Hasting Group Holdings plc (Hastings).

During the year under review the Group, through its investment in MS1353, restructured its investment in Hastings. MS1353 swapped its current 29.7% shareholding in Hastings for 29.7% shares in Hastings Consolidated (previously known as Dorset Bidco) and purchased an additional 0.3% shares in Hastings Consolidated at fair value of R121.6 million.

The Group funded a portion of the purchase price through a loan of R88.2 million to MS1353, which was also used to cover certain transaction costs. This amount has been repaid to the Group in full.

Hastings Consolidated is a newly established company through which MS1353, together with Sampo Oyj Group (Sampo), privatised Hastings and delisted the company. Sampo has a 70% stake in Hastings Consolidated.

In substance MS1353 retained its 29.7% share in Hastings through the share swap as they only changed the vehicle through which the shares are held; therefore, no additional identifiable assets were recognised for the existing 29.7%.

A purchase price allocation was performed on the additional 0.3% (2 157 085 shares) acquired by MS1353 and additional intangible assets worth R33.4 million were recognised in MS1353 relating to the additional shares purchased in Hastings Consolidated. The effective date of the acquisition was 16 November 2020.

MS1353 retained significant influence through its representation on the board of Hastings Consolidated. Sampo controls the operating activities of Hastings Consolidated with the majority vote.

MS1353 has an option to purchase an additional 10% of the shares of Hastings Consolidated from Sampo. This option expires on 16 May 2022. The fair value of the option is currently deemed to be immaterial.

Notes to the consolidated financial statement *continued*

20. Investment in associates *continued*

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

	OUTsurance Namibia		MS1353		Other	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Statement of financial position						
Current assets	**102 720**	119 510	**158 133**	112 047	**51 558**	52 776
Non-current assets	**47 457**	33 782	**9 810 613**	10 028 516	**50 686**	60 280
Current liabilities	**(17 638)**	(10 504)	**(140 344)**	(144 173)	**(94 469)**	(81 809)
Non-current liabilities	**(178)**	(1 189)	**(2 934 000)**	(3 076 500)	**(7 963)**	(19 797)
Technical provisions	**(37 454)**	(40 750)	**–**	–	**–**	–
Equity	**94 907**	100 849	**6 894 402**	6 919 890	**(188)**	11 450
Statement of profit and loss and other comprehensive income						
Revenue	**152 201**	164 401	**244 638**	356 127	**75 542**	84 430
After tax profit or loss	**21 059**	28 935	**124 112**	485 127	**(11 723)**	(8 265)
Cash Flow statement						
Cash inflow / (outflow) from operating activities	**7 457**	9 202	**201 751**	433 101	**3 575**	(5 748)
Cash inflow / (outflow) from investing activities	**(436)**	(913)	**(204 788)**	–	**(682)**	–
Cash inflow / (outflow) from financing activities	**(983)**	–	**(7 720)**	(405 689)	**3 323**	13 172
(Decrease) / Increase in cash and cash equivalents	**6 038**	8 289	**(10 757)**	27 412	**6 216**	7 424
Opening balance of cash and cash equivalents	**39 040**	30 751	**111 904**	84 479	**10 614**	3 190
Effect of exchange rate movement	**–**	–	**(7)**	13	**–**	–
Closing balance of cash and cash equivalents	**45 078**	39 040	**101 140**	111 904	**16 830**	10 614

Reconciliation of carrying value:

	OUTsurance Namibia		MS1353	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Opening net assets	**100 849**	99 215	**6 919 892**	6 684 701
Profit for the period	**21 377**	28 935	**124 112**	237 712
Other comprehensive (loss) / income	**(319)**	(301)	**(149 602)**	297 479
Dividend	**(27 000)**	(27 000)	**–**	(300 000)
Closing net assets	**94 907**	100 849	**6 894 402**	6 919 892
Interest in associates (49%)	**46 504**	49 415	**3 378 257**	3 390 747
Preference shares	**(104)**	(104)	**–**	–
Other reserves	**296**	296	**248 916**	248 915
Carrying value	**46 696**	49 607	**3 627 173**	3 639 662

Refer to note 39 for the current and non-current analysis of investments in associates.

Notes to the consolidated financial statement *continued*

21. Financial assets

The Group financial assets are summarised below:

	2021 R'000	2020 R'000
Mandatorily measured at fair value designated through profit or loss	**1 699 909**	1 474 648
Debt securities		
Zero-coupon deposits backing endowment policies	**37 181**	23 508
Convertible loan	**13 168**	10 962
Equity securities		
Listed perpetual preference shares	**310 137**	303 296
Exchange traded funds	**1 204 222**	1 023 145
Collective investment schemes	**135 201**	113 737
Designated at fair value designated through profit or loss	**752 040**	877 169
Debt securities		
Zero-coupon deposits	**707 824**	834 890
Unsecured loans	**44 216**	42 279
Designated at fair value through other comprehensive income	**3 379 705**	3 219 143
Debt securities		
Government, municipal and public utility securities	**260 023**	128 048
Money market securities <1year	**1 502 163**	1 738 673
Money market securities >1 year	**1 596 002**	1 358 728
Expected credit loss	**(20 159)**	(20 022)
Equity securities		
Unlisted equity	**41 676**	13 716
Amortised cost	**5 809 617**	5 781 780
Debt securities		
Term deposits	**5 809 617**	5 781 780
Total financial assets	**11 641 271**	11 352 740

Notes to the consolidated financial statement *continued*

21. Financial assets *continued*

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

	Fair value through profit or loss R'000	Fair value through other compre-hensive income R'000	Amortised cost R'000	Total R'000
Year ended 30 June 2021				
Movement Analysis				
Balance at beginning of year	**2 351 817**	**3 219 143**	**5 781 780**	**11 352 740**
Additions (purchases and issues)	**271 328**	**2 471 573**	**6 215 069**	**8 957 970**
Disposals (sales and redemptions)	**(405 812)**	**(2 316 985)**	**(5 530 375)**	**(8 253 172)**
Unrealised fair value adjustments	**264 434**	**2 309**	**–**	**266 743**
Transfer from cash and cash equivalents[1]	**–**	**3 056**	**–**	**3 056**
Transfer to derivative financial instruments[2]	**–**	**4 251**	**–**	**4 251**
Foreign exchange difference	**(29 818)**	**(3 505)**	**(656 857)**	**(690 180)**
Expected credit loss	**–**	**(137)**	**–**	**(137)**
Balance at the end of the year	**2 451 949**	**3 379 705**	**5 809 617**	**11 641 271**
Year ended 30 June 2020				
Movement Analysis				
Balance at beginning of year	2 035 365	3 027 100	5 195 221	10 257 686
Additions (purchases and issues)	410 107	2 701 747	5 094 581	8 206 435
Disposals (sales and redemptions)	–	(2 493 663)	(5 541 468)	(8 035 131)
Unrealised fair value adjustments	(120 122)	(13 803)	–	(133 925)
Foreign exchange difference	26 467	1 628	1 033 446	1 061 541
Expected credit loss	–	(3 866)	–	(3 866)
Balance at the end of the year	2 351 817	3 219 143	5 781 780	11 352 740

[1] *A fixed deposit included in the Group's fixed income portfolios has been transferred to financial assets from cash and cash equivalents.*
[2] *The interest rate swaps included in the Group's fixed income portfolios have been transferred to the derivative financial instruments.*

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 39 for the current and non-current analysis of investment securities.

21.1 Critical accounting estimates – ECL

In determining the ECL allowances for financial instruments carrying credit risk, the following significant judgements and estimates were considered:

- Judgement was applied in identifying the qualitative and quantitative triggers and thresholds used to identify significant increases in credit risk since initial recognition of the financial assets. Depending on the availability of reasonable and supportable information without undue cost or effort, significant increases in credit risk is identified through, amongst others, market curve movements, credit quality of the instrument and issuing party, and portfolio assessments.
- The Group applies judgement in identifying default and credit-impaired financial assets. In making this judgement, the Group considers whether the balance is in legal review, debt review or under administration or expert judgement. Financial assets are credit impaired when one or more events with a detrimental impact on the expected cash flows have taken place.
- Management relies on the discount rates observed on the zero-coupon bond curve as published by the Johannesburg Stock Exchange to discount all cash flows to their present value. These discount rates are considered to be reflective of the current market conditions as well as those expected in the future.
- Management deems the instrument type aggregation to be the most appropriate manner to calculate the allowance for ECL taking undue costs and effort into account.

Notes to the consolidated financial statement *continued*

22. Derivative financial instruments

The Group utilises derivative financial instruments for the following:

- to reduce the impact of the interest rate risk contained in the policyholder liabilities in its long-term insurance business;
- to reduce the impact of the currency risk contained in its open foreign currency exposures; and
- to provide price certainty related to future equity investments.

The Group undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with which it deals and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Group.

The following table provides a detailed breakdown of the Group's derivative financial instruments outstanding at year-end.

	Assets R'000	Liabilities R'000	Net derivatives R'000
At 30 June 2021			
Interest rate swap	**393 984**	**(466 359)**	**(72 375)**
Effect of assets relating to the floating rate swap	**393 984**	**–**	**393 984**
Effect of liability relating to the fixed rate swap	**–**	**(466 359)**	**(466 359)**
Collateralised swap	**–**	**67 933**	**67 933**
Total	**393 984**	**(398 426)**	**(4 442)**

	Assets R'000	Liabilities R'000	Net derivatives R'000
At 30 June 2020			
Interest rate swap	283 570	(388 638)	(105 068)
Effect of assets relating to the floating rate swap	283 570	–	283 570
Effect of liability relating to the fixed rate swap	–	(388 638)	(388 638)
Collateralised swap	–	(45 449)	(45 449)
Forward exchange contracts	125 503	(125 599)	(96)
Total	409 073	(559 686)	(150 613)

Notes to the consolidated financial statement *continued*

22. Derivative financial instruments *continued*

	Net derivatives	
	2021 R'000	2020 R'000
Movement analysis		
Opening balance	**(150 613)**	10 277
Additions (purchases and issuings)	**31 853**	2 102
Fair value adjustments	**118 569**	(162 992)
Transfer from financial assets[1]	**(4 251)**	–
Closing balance	**(4 442)**	(150 613)

[1] *The interest rate swaps included in the Group's fixed income portfolios have been transferred from financial assets.*

Of the R72.4 million (2020: R105.1 million) net position of the derivative financial liability related to the interest rate swap, R3.4 million (2020: R3.1 million) is recoverable within 12 months from reporting date. The collateralised swap is recoverable in more than 12 months.

The collateralised swap arrangement is intended to match payments due to policyholders in the future, after a specified date. The portion of the policyholder liability that this arrangement has been matched to is R323.7 million at 30 June 2021 (2020: R548.8 million).

Currency derivatives fair values are calculated using standard market calculation conventions with reference to the relevant closing spot exchange rates and forward foreign exchange rates.

On 12 May 2020 Youi purchased a 4% equity investment in Blue Zebra Insurance Pty Limited (BZI) for a consideration of A$1.1 million. The fair value of the BZI investment is supported by an equal Put Option agreement with another shareholder who acquired 29.22% of BZI at the same valuation price as Youi's investment. In addition Youi has a Call Option to acquire additional shares in BZI over the next 3 years. As at 30 June 2021 this option is not considered to be substantive and the fair value is determined to be nil. No option premium was payable by Youi to participate in this option.

23. Insurance and other receivables

	2021 R'000	2020 R'000
Receivables arising from insurance and reinsurance contracts		
Due from policyholders	**3 202 763**	3 076 515
Due from reinsurers	**213 834**	212 264
Other receivables		
Other receivables and prepayments	**309 006**	249 170
Total receivables	**3 725 603**	3 537 949

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.

Included in other receivables and prepayments are amounts due by related parties. Refer to note 40 for further details thereof.

Since insurance and other receivables have short-term maturities, the carrying amount approximates the fair value. Refer to note 39 for the current and non-current analysis of insurance and other receivables.

Notes to the consolidated financial statement *continued*

24. 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 relate to the same fiscal authority.

	2021 R'000	2020 R'000
Deferred tax assets		
Provision relating to staff costs	**413 627**	353 604
Fair value adjustment	**19 800**	23 720
Service costs on employee benefits	**2 978**	17 606
Operating lease charges	**16 339**	1 128
Difference between accounting and tax values of assets	**5 529**	3 189
Special transfer credit	**19 965**	20 147
Expected losses adjustment	**5 531**	5 541
Financial assets at fair value through other comprehensive income[1]	**718**	1 101
Pretrade expenditure	**326**	–
Other	**654**	–
Assessed loss	**253**	303
Adjustment relating to offset	**–**	(131 188)
Total deferred tax assets	**485 720**	295 151
Deferred tax liabilities		
Fair value adjustment	**(6 748)**	(104)
Fair value through profit or loss financial assets	**(14 305)**	–
Fair value unrealised on investment in equity instruments	**(61 886)**	(17 429)
Deferred acquisition costs	**(175 439)**	(167 606)
Prepayments	**(11 327)**	(8 189)
Adjustment relating to offset	**–**	131 188
Total deferred tax liabilities	**(269 705)**	(62 140)
Reconciliation of movement in deferred tax assets		
Opening balance of deferred tax assets	**295 151**	179 327
Prior year adjustment for expected credit losses	**–**	(121)
Adjusted opening balance of deferred tax assets	**295 151**	179 206
Foreign exchange difference	**(36 731)**	50 281
Transfer to share-based payment reserve	**42**	–
Prior year adjustment	**–**	(2 062)
Unrealised fair value OCI[1]	**(382)**	690
Fair value through profit or loss financial assets	**(264)**	–
Deferred tax charge for the year	**96 716**	67 036
Adjustment relating to offset	**131 188**	–
Closing balance of deferred tax assets	**485 720**	295 151
Reconciliation of movement in deferred tax liabilities		
Opening balance of deferred tax liabilities	**(62 140)**	(56 134)
Foreign exchange difference	**18 628**	(24 479)
Deferred tax charge for the year	**(95 005)**	15 277
Unrealised fair value OCI[1]	**–**	3 196
Adjustment relating to offset	**(131 188)**	–
Closing balance of deferred tax liability	**(269 705)**	(62 140)

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

Notes to the consolidated financial statement *continued*

24. Deferred taxation *continued*

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 amounting to R209 million (2020: R209 million) which relates to the individual policyholder tax fund in OUTsurance Life Insurance Company has not been recognised.

Refer to note 39 for the current and non-current analysis of deferred taxation.

25. Cash and cash equivalents

	2021 R'000	2020 R'000
Cash at bank and on hand	**2 088 653**	1 185 596
Short-dated money market instruments	**94 441**	40 354
Transfer to financial assets[1]	**(3 506)**	–
	2 179 588	1 225 950

[1] *A fixed deposit included in the Group's fixed income portfolios has been transferred to financial assets from cash and cash equivalents.*

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.

26. 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.

No shares were issued in the current or prior year.

	2021 R'000	2020 R'000
Authorised share capital		
3 999 998 000 (2020: 3 999 998 000) ordinary shares at R0.01 each	**39 999 980**	39 999 980
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 (fully paid up)		
Opening balance of ordinary shares in issue: 3 798 908 308 at R0.01 each	**37 989 083**	37 989 083
Treasury shares held by the OUTsurance Holdings Share Trust 63 446 710 (2020: 83 703 295)	**(636 584)**	(837 584)
Closing balance of ordinary shares in issue	**37 352 499**	37 151 499

	2021 R'000	2020 R'000
Share premium		
Ordinary shares		
Issued share premium	**2 617 306**	2 617 306
Treasury shares held by the OUTsurance Holdings Share Trust	**(540 976)**	(530 826)
	2 076 330	2 086 480

Notes to the consolidated financial statement *continued*

27. Lease liabilities

	2021 R'000	2020 R'000
Balance at beginning of the year	**88 689**	–
Addition on adoption of IFRS 16	**–**	90 525
Adjusted opening balance at the beginning of the year	**88 689**	90 525
Cash movements		
Lease payments	**(41 155)**	(37 933)
Non-cash movements		
New leases entered into and lease extensions during the year	**9 336**	25 082
Termination of leases	**–**	(5 678)
Interest	**3 372**	4 187
Foreign exchange adjustments	**(5 502)**	12 506
Balance at the end of the year	**54 740**	88 689

The following table summarises the contractual maturity dates for lease liabilities. The maturity analysis is represented on a discounted contractual cash flow basis.

30 June 2021	Within 1 year R'000	1 – 5 years R'000	More than 5 years R'000	Total R'000
Lease liability	**28 757**	**23 268**	**2 715**	**54 740**

30 June 2020	Within 1 year R'000	1 – 5 years R'000	More than 5 years R'000	Total R'000
Lease liability	36 904	46 250	5 535	88 689

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2021 R'000	2020 R'000
Short-term leases	**3 562**	8 173

Short-term leases are leases that have a duration of 12 months or less from date of inception. At 30 June 2021 the Group was committed to short-term leases and the total commitment at that date was R0.1 million (2020: R3.8 million).

Low-value leases are immaterial.

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities

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

	2021			2020		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Short term insurance contracts						
Claims provisions	**3 181 392**	**(762 160)**	**2 419 232**	3 249 268	(1 185 788)	2 063 480
Unearned premium provision	**5 743 839**	**(200 901)**	**5 542 938**	5 292 647	(33 894)	5 258 753
Insurance contract non-claims bonuses provision	**542 261**	**–**	**542 261**	523 618	–	523 618
Long term insurance contracts						
Policyholder liabilities	**843 317**	**(177 199)**	**666 118**	535 528	(118 501)	417 027
Closing balance	**10 310 809**	**(1 140 260)**	**9 170 549**	9 601 061	(1 338 183)	8 262 878

28.1 Analysis of movement in short-term insurance contract liabilities

	2021			2020		
	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	**3 249 268**	**(1 185 788)**	**2 063 480**	2 346 603	(530 657)	1 815 946
Current year	**2 553 534**	**(488 374)**	**2 065 160**	2 422 013	(952 267)	1 469 746
Claims incurred	**9 383 788**	**(948 755)**	**8 435 033**	8 774 642	(1 546 262)	7 228 380
Claims paid	**(7 523 216)**	**508 866**	**(7 014 350)**	(7 102 043)	670 014	(6 432 029)
Claims handling expenses raised	**437 133**	**–**	**437 133**	432 680	–	432 680
Risk margins raised	**255 829**	**(48 485)**	**207 344**	316 734	(76 019)	240 715
Prior year	**(2 384 065)**	**807 895**	**(1 576 170)**	(1 831 042)	443 342	(1 387 700)
Claims incurred	**90 391**	**(249 443)**	**(159 052)**	(107 391)	(1 178)	(108 569)
Claims paid	**(2 031 194)**	**984 484**	**(1 046 710)**	(1 439 971)	429 673	(1 010 298)
Claims handling expenses released	**(114 661)**	**–**	**(114 661)**	(54 740)	–	(54 740)
Risk margins released	**(328 601)**	**72 854**	**(255 747)**	(228 940)	14 847	(214 093)
Foreign exchange movement	**(237 345)**	**104 107**	**(133 238)**	348 823	(173 041)	175 782
Discontinued operations	**–**	**–**	**–**	(37 129)	26 835	(10 294)
Closing balance	**3 181 392**	**(762 160)**	**2 419 232**	3 249 268	(1 185 788)	2 063 480

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

28.1 Analysis of movement in short-term insurance contract liabilities *continued*

	2021			2020		
	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	**5 292 647**	**(33 894)**	**5 258 753**	4 152 121	(55 672)	4 096 449
UPP raised	**10 967 763**	**(1 458 525)**	**9 509 238**	8 384 640	(599 610)	7 785 030
UPP earned	**(9 924 992)**	**1 276 033**	**(8 648 959)**	(7 932 629)	569 747	(7 362 882)
Foreign exchange difference	**(591 579)**	**15 485**	**(576 094)**	810 553	51 584	862 137
Discontinued operations	**–**	**–**	**–**	(122 038)	57	(121 981)
Closing balance	**5 743 839**	**(200 901)**	**5 542 938**	5 292 647	(33 894)	5 258 753
Analysis of movement in insurance contract non-claims bonuses						
Opening balance	**523 618**	**–**	**523 618**	470 347	–	470 347
Charge to profit or loss	**499 780**	**–**	**499 780**	500 136	–	500 136
Non-claims bonuses paid during the year	**(481 137)**	**–**	**(481 137)**	(446 865)	–	(446 865)
Closing balance	**542 261**	**–**	**542 261**	523 618	–	523 618

	2021 R'000	2020 R'000
Analysis of movement in deferred acquisition costs (DAC)		
Opening balance	**463 420**	360 029
DAC raised	**998 974**	864 594
DAC charged to statement of profit or loss	**(893 021)**	(832 698)
Foreign exchange difference	**(55 980)**	78 631
Discontinued operations	**–**	(7 136)
Closing balance	**513 393**	463 420

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

28.2 Critical accounting estimates and adjustments relating to short-term insurance

Claims provisions

Each claim is recorded at a detailed level such that the various components making up the total claim amount can be separated out and projected. The estimation of provisions requires the subdivision of the data into groups of claims exhibiting similar characteristics. However, a balance needs to be obtained between the additional accuracy of having more homogenous groupings and having sufficient data for a credible analysis.

Once claims have been appropriately mapped, various methodologies are applied to determine the expected ultimate claim amount. Methodologies will differ depending on the company, claim type and cash-flow type. In summary, the following methodologies are used:

- Development Factor Method (DFM);
- Cape Cod Method (CC);
- Bornhuetter-Ferguson Method (BF);
- Loss Ratio Method (LR); and
- Holding incurred amounts.

In essence, each method attempts to predict the progression of claims incurred and/or reported through a combination of various development factors, loss ratios and dependency factors. The method chosen depends on the materiality and data credibility for the various sub-classes as well as correlations between various sub-classes. When determining the various sub-components of the calculation it is assumed at a high level that past claims development can be used as a reasonable guide for future expected claim development. Additionally, it is assumed (in some cases) that the earliest loss year is fully run-off and/or can be estimated with confidence. Where it is not fully run-off a tail factor is assumed. In all cases judgement is applied in order to appropriately allow for expected future experience.

Allocated loss adjustment expenses (ALAE) for costs directly attributable to claims are loaded on claims explicitly and included in the analysis of claims data. An unallocated loss adjustment expense (ULAE) for costs indirectly attributable to claims management is also allowed for by expressing total claims-related management expenses as a proportion of gross claims paid, for the 12 months preceding the calibration date.

The inherent uncertainty in future projections requires an additional layer of protection known as a risk margin in order to meet future obligations with a satisfactory level of confidence. Insurer-specific parameters (ISPs) are used in order to determine the risk margin held above the best estimate for the motor and property classes of business. For smaller classes standardised reserve risk factors are used.

	South African Short-term operations		Australian Short-term operations		Total Short-term operations	
	2021 R'000	2020 R'000	**2021 R'000**	2020 R'000	**2021 R'000**	2020 R'000
70th Percentile	**736 770**	987 425	**1 477 388**	955 811	**2 214 158**	1 943 236
75th Percentile	**751 016**	1 012 609	**1 499 721**	984 605	**2 250 737**	1 997 214
80th Percentile	**766 879**	1 040 653	**1 524 590**	1 016 668	**2 291 469**	2 057 321

Unexpired Premium Provision on insurance contracts

Premium income (per policy, date, product type, etc.) is captured on the system and an Unearned Premium Provision (UPP) is calculated automatically according to the 365th method. The 365th method assumes a uniform distribution to the exposure of risk over an annual period. This method places an appropriate value on the liabilities concerned according to the incidence of risk for the policies covered. The only exception to the above is the Contractor's All Risk Engineering risks (CAS risks), where an earnings curve is deployed and utilized due to the fact that the exposure may be up to 3 years. The CAS book is very small and comprises an immaterial portion of the book

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

28.2 Critical accounting estimates and adjustments relating to short-term insurance *continued*

Bonus provision 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. The provision takes account of the various types of no-claims bonuses available to clients. 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.

28.3 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 policyholder liability R'000	Reinsurers' share of policyholder liability R'000	Net policyholder liability R'000	Negative rand reserve R'000	Net policyholder liability incl negative rand reserve R'000
2021					
Analysis of change in policyholder liabilities					
Opening balance					
Policyholder Liability	647 319	(98 561)	548 758	(169 808)	378 950
Claims provision[1]	58 017	(19 940)	38 077	–	38 077
	705 336	(118 501)	586 835	(169 808)	417 027
Transfer to policyholder liabilities under insurance contract					
Unwind of discount rate and release of profits	52 133	15 674	67 807	–	67 807
Experience variance	23 338	(3 938)	19 400	–	19 400
Modelling methodology changes	(709)	144	(565)	–	(565)
Change in non-economic assumptions	(56 727)	13 857	(42 870)	–	(42 870)
Change in economic assumptions	213 878	(29 651)	184 227	–	184 227
New business	6 833	(6 140)	693	–	693
Change in claims provision	31 466	(14 577)	16 889	–	16 889
Change in negative rand reserve	–	–	–	(42 215)	(42 215)
Unearned premium reserve	(131)	–	(131)	–	(131)
COVID-19 adjustment	79 923	(34 067)	45 856	–	45 856
	350 004	(58 698)	291 306	(42 215)	249 091
Closing balance					
Policyholder Liability	965 857	(142 682)	823 175	(212 023)	611 152
Claims provision[1]	89 483	(34 517)	54 966	–	54 966
	1 055 340	(177 199)	878 141	(212 023)	666 118

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

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

	Gross policyholder liability R'000	Reinsurers' share of policyholder liability R'000	Net policyholder liability R'000	Negative rand reserve R'000	Net policyholder liability incl negative rand reserve R'000
2020					
Analysis of change in policyholder liabilities					
Opening balance					
Policyholder Liability	589 818	(85 200)	504 618	(160 872)	343 746
Claims provision[1]	58 996	(19 417)	39 579	–	39 579
	648 814	(104 617)	544 197	(160 872)	383 325
Transfer to policyholder liabilities under insurance contract					
Unwind of discount rate and release of profits	138 275	8 633	146 908	–	146 908
Experience variance	24 649	(20 272)	4 377	–	4 377
Modelling methodology changes	62 751	(15 081)	47 670	–	47 670
Change in non-economic assumptions	(10 465)	839	(9 626)	–	(9 626)
Change in economic assumptions	(212 737)	31 374	(181 363)	–	(181 363)
New business	623	(546)	77	–	77
Change in claims provision	(979)	(523)	(1 502)	–	(1 502)
Change in negative rand reserve	–	–	–	(8 936)	(8 936)
COVID-19 adjustment	54 405	(18 308)	36 097	–	36 097
	56 522	(13 884)	42 638	(8 936)	33 702
Closing balance					
Policyholder Liability	647 319	(98 561)	548 758	(169 808)	378 950
Claims provision	58 017	(19 940)	38 077	–	38 077
	705 336	(118 501)	586 835	(169 808)	417 027

[1] *All claims related provisions have been combined into a single claims provision. As a result of this, the Incurred But Not Reported claims, Outstanding Claims Provision and Unearned Premium Provision have been combined into the claims provision for disclosure purposes.*

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

28.4 Critical accounting estimates and adjustments relating to long- term insurance claims

Policyholder liabilities

The following compulsory margins were applied in the valuation of the policyholder liability at 30 June 2021:

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*

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 rand reserves over and above the allowance of negative rand reserves calibrated to the costs directly attributable to acquiring a policy.

Demographic assumptions

The best estimate assumptions in respect of dread disease & disability, mortality and retrenchment rates were set taking into consideration the rates provided by the reinsurers, actual past experience and modified by expected future trends. These rates have further been reviewed and approved by the Head of Actuarial Function.

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 estimated discounted mean term at the valuation date is 10.5% (2020: 11.4%).

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 estimated discounted mean term at the valuation date is 5.8% (2020: 7.6%).

Taxation

The 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 provisions

In addition to the discounted cash flow liability, a claims provision was held. This claims provision includes an estimate of outstanding claims as at year end, as well as an estimate of incurred but not yet reported claims calculated using a claims runoff model based on recent experience and best estimates.

Negative rand reserve

The level of day one profits allowed in the form of negative rand reserves not zerorised is determined with reference to the costs directly attributable to acquiring a policy. The negative rand reserve is then run off (amortised) over a linear amortisation period of 4 years, which is closely aligned to the Discounted Payback Period.

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

28.5 Sensitivity of policyholder liability

The following sensitivities are provided on insurance risk assumptions:

Assumption	Margin	
Lapses	10%	increase / decrease
Investment return	1%	increase / decrease
Morbidity / 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 R746.7 million (2020: R900.5 million), are not eliminated in order to derive sensitivity scenarios which are more closely aligned with economic reality.

No elimination of negative rand reserves	Change in variable	Increase / (decrease) in policyholder liabilities R'000	Increase / (decrease) in policyholder liabilities %
At 30 June 2021			
Lapses	+10%	(6 078)	(2%)
	-10%	11 941	3%
Investment return	+1%	(77 848)	(22%)
	-1%	113 537	33%
Mortality / Morbidity / Disability / Retrenchment	+10%	195 654	56%
	-10%	(198 401)	(57%)
Mortality / Morbidity / Disability / Retrenchment	+5%	98 160	28%
	-5%	(98 846)	(28%)
Expenses	+10%	53 597	15%
	-10%	(53 597)	(15%)

Notes to the consolidated financial statement *continued*

28. Insurance contract liabilities *continued*

28.5 Sensitivity 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 2020			
Lapses	+10%	308	0%
	-10%	1 894	1%
Investment rate environment	+1%	(7 408)	(2%)
	-1%	28 941	8%
Mortality / Morbidity / Disability / Retrenchment	+10%	156 139	44%
	-10%	(157 592)	(45%)
Mortality / Morbidity / Disability / Retrenchment	+1%	78 246	22%
	-1%	(78 609)	(22%)
Expenses	+10%	43 559	12%
	-10%	(43 559)	(12%)

29. Insurance and other payables

	2021 R'000	2020 R'000
Insurance related payables		
Due to intermediaries	**2 020**	2 066
Due to reinsurers	**352 609**	117 876
Other payables	**13 144**	9 730
Non-insurance related payables		
Trade creditors	**93 454**	102 794
Other payables and accruals	**544 586**	386 231
Indirect tax on debtors	**453 029**	461 695
Indirect tax liability	**77 205**	75 512
Total payables	**1 536 047**	1 155 904

The carrying amount of payables approximates the fair value. Refer to note 39 for the current and non-current analysis of payables.

30. 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 in the employ of companies within the Group.

The value of the discretionary bonus is determined through employees' performance which is linked to a balanced scorecard that is approved by the Remuneration Committee of the Group. The balanced scorecard is determined for each business unit annually.

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.

Notes to the consolidated financial statement *continued*

30. Employee benefits *continued*

	2021 R'000	2020 R'000
Leave pay liability	**240 651**	234 969
Non-discretionary bonus liability	**38 872**	38 656
Discretionary bonus liability	**183 117**	140 963
Total liability	**462 640**	414 588
Intellectual property bonus asset	**7 711**	4 092
Total asset	**7 711**	4 092
Reconciliation of leave pay liability		
Opening balance	**234 969**	167 071
Charge for the year	**109 639**	60 094
Liability utilised	**(88 830)**	(13 952)
Foreign translation difference	**(15 127)**	21 756
Closing balance	**240 651**	234 969
Reconciliation of non-discretionary bonus liability		
Opening balance	**38 656**	74 545
Charge for the year	**75 859**	74 716
Liability utilised	**(75 643)**	(72 522)
Reclassification	**–**	(38 083)
Closing balance	**38 872**	38 656
Reconciliation of discretionary liability		
Opening balance	**140 963**	–
Charge for the year	**154 141**	135 263
Liability utilised	**(105 066)**	(40 611)
Reclassification	**–**	38 083
Foreign translation difference	**(6 921)**	8 228
Closing balance	**183 117**	140 963
Reconciliation of intellectual property bonus asset		
Opening balance	**4 092**	87 089
Additions	**7 993**	42 910
Accrual[1]	**–**	(28 050)
Settlements	**1 947**	(1 949)
Service cost for the year	**(6 321)**	(95 908)
Closing balance	**7 711**	4 092

[1] *Accruals raised consist of amounts to be paid within the next 12 months.*

Refer to note 39 for the current and non-current analysis of employee benefits.

Notes to the consolidated financial statement *continued*

31. Share based payments

The various Group share schemes are as follows:

- OUTsurance Holdings cash-settled share scheme
- Youi Holdings equity-settled share scheme
- Divisional Incentive cash-settled Scheme
- CloudBadger cash-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 Limited cash-settled share scheme

In terms of the current trust deed, 12% of the issued share capital of the company is potentially available to employees under the scheme. The OUTsurance Holdings Share Trust and employees currently hold 7.6% (2020: 7.6%) 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 issuances 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 repriced at each reporting date.

Market data consists of the following:

- Since OUTsurance Holdings Limited is not listed, 'expected volatility' is derived with reference to similar listed peers and 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.

Youi Holdings Pty Limited equity-settled share scheme

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. Scheme participants currently own 15.5% (2020: 15.5%) of the issued ordinary shares of Youi Holdings (Pty) Limited.

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Description and valuation methodology of the schemes *continued*

Youi Holdings Pty Limited equity-settled share scheme *continued*

Valuation methodology

The fair value of share options is determined at grant date and expensed over the vesting period. The fair value of options at grant date is determined by the use of the Black-Scholes 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 expense is recognised.

The 'option duration' is the number of years before the options expire. Market data consists of the following:

- Since Youi Holdings Pty Limited is not listed, 'expected volatility' is derived with reference to similar listed peers and 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.
- The average 'annual employee turnover' estimates the number of participants in the option schemes that will leave before the options have vested.

Divisional Incentive cash-settled Scheme

With effect 1 July 2019, a new Divisional Incentive Scheme (DIS) was implemented with the objective to incentivise senior management based on the success of new and emerging business units which are in the South African and Australian operations. These new and emerging business units include OUTsurance Business, OUTsurance Life, OUTvest and Youi Business and are considered to be growth catalysts for the Group over the next decade. The Youi incentive scheme was launched during the current year.

The scheme is designed to closely align management and shareholders by mirroring an equity participation in these business units.

The mechanics of the DIS are as follows:

- The DIS is exposed to the net economic value created by the Business Unit. This gain is calculated as the difference between increase in the valuation of the Business Unit and a capital charge levied, on a cumulative basis, on the valuation of the Business Unit at 1 July 2019. The capital charge is referenced to weighted average cost of capital and reduced for any dividend distributions deemed to have been made from the business unit. Subsequent capital contributions also attract the capital charge.
- Notional Incentive Units have been created to reference individual participation in each of the Business Units. These Notional Incentive Units are valued bi-annually in accordance with the net measurement above. The Notional Incentive Units are valued by means of a Black-Scholes option pricing model. The eventual strike price at each of the vesting dates is variable in nature. In order to derive this value a Monte Carlo simulation has been designed to create a normal distribution of eventual strike prices. The normal distribution allows for a mean value of the eventual strike prices to be estimated which was included in the Black-Scholes option pricing model.
- The scheme vests as follows:
  - 50% of the Notional Incentive Units vest on the 5th anniversary
  - 25% of the Notional Incentive Units vest on the 6th anniversary
  - 25% of the Notional Incentive Units vest on the 7th anniversary

Participants may elect to defer the exercise of the vested Notional Incentive Units up the 10th anniversary of the DIS.

Upon exercise, participants will receive either OUTsurance Holdings or Youi Holdings ordinary shares depending on the gain released and their participation in the Business Units.

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Description and valuation methodology of the schemes *continued*

Divisional Incentive cash-settled scheme *continued*

These shares will be held for a year before it can be disposed of at the ruling market value of the shares on date of disposal. The following conditions apply:

- Minimum Group and Company normalised earnings hurdles as vesting conditions.
- The DIS allows for the claw-back of vested gains where warranted by the conduct of the participants.

The scheme is accounted for as a cash-settled scheme for the purposes of IFRS 2 at a Group level. This accounting approach results in the cost of the scheme being expensed through profit or loss over the lifetime thereof. A corresponding liability is recognised until settlement.

The respective subsidiaries participating in the DIS are allocated the cost associated with the Business Units represented by such entities.

To determine IFRS 2 charge for the financial year ending 30 June 2021, the following input assumptions were used for the Business Units which have commenced trading:

	2021			
	OUTsurance Business	OUTsurance Life / OUTvest	Youi CTP	Youi BZI
Risk-free rate[1]	6.22% - 9.39%	6.22% - 9.39%	0.30% - 1.31%	0.30% - 1.31%
Volatility	20%	12%	30%	30%
Dividend yield	10%	0%	0%	0%
Employee exit rate	10%	10%	10%	10%

	2020	
	OUTsurance Business	OUTsurance Life / OUTvest
Risk-free rate[1]	9.24%	9.24%
Volatility	15%	15%
Dividend yield (0% yield as cost of capital charge will be reduced by dividends distributed)	0%	0%
Employee exit rate	10%	10%

[1] *The vesting date that is being calculated will determine which risk-free rate is used within the disclosed range.*

CloudBadger cash-settled share scheme

The scheme comprises the Option Scheme and the Notional Share Scheme. The purpose of the Scheme is to retain and incentivise Employees by giving them the opportunity to:

- acquire shares in the Company, in terms of the Option Scheme; and
- participate in the growth in value of the Company's shares, in terms of the Notional Share Scheme.

In terms of the current scheme agreement, 24.99% of the issued share capital of the Company is potentially available to employees under the scheme.

Under the cash-settled scheme, participants receive notional shares in terms of the Notional Share Scheme and, if applicable, Options in terms of the Option Scheme. The value of a Notional Share on a Vesting Date (or at any other point in time) will be equal to the market value of a CloudBadger Technologies (Pty) Limited Ordinary Share as at the immediately preceding Valuation Date. Participants will receive the after-tax gain in the market value of a vested notional share over the vesting period as a cash payment.

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Description and valuation methodology of the schemes *continued*

CloudBadger cash-settled share scheme *continued*

Valuation methodology

The cash-settled scheme issuances are valued using a Black-Scholes option pricing model with all notional shares (share appreciation rights) and options, if applicable, vesting in four equal tranches, with 25% of the total number of Notional Shares and, if applicable, Options vesting on the first, second, third and fourth anniversaries of the Award. The scheme is cash-settled and will thus be repriced at each reporting date.

Market data consists of the following:

- Since CloudBadger Technologies (Pty) Limited is not listed, 'expected volatility' is derived with reference to similar listed peers, as well as taking into account the specific circumstances affecting the growth of the Company.
- 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 yield assumption is set to zero as the Company has no history of paying a dividend.

Employee statistic assumptions:

- The number of rights granted is reduced by the expected staff turnover over the vesting period.

	2021 R'000	2020 R'000
Cash settled share-based payment liability	**224 134**	90 620
Total liability	**224 134**	90 620
Reconciliation of cash settled share-based payment liability		
Opening balance	**90 620**	83 555
Charge to profit or loss for the year	**156 707**	38 908
Liability settled	**(23 193)**	(31 843)
Closing balance	**224 134**	90 620

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

	2021 R'000	2020 R'000
Equity settled share scheme[1]		
Youi Holdings equity-settled scheme	**5 553**	5 685
Charge to Statement of Changes in Equity	**5 553**	5 685
Cash settled share schemes		
Youi Holdings Divisional Incentive cash-settled scheme	**6 182**	–
OUTsurance Holdings cash-settled scheme	**63 385**	18 563
OUTsurance Holdings Divisional Incentive cash-settled scheme	**46 659**	20 290
CloudBadger cash-settled scheme	**40 481**	218
Charge to Statement of Profit or Loss	**156 707**	39 071

1 *Refer to the Statement of Changes in Equity for a reconciliation of the opening and closing balances.*

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Share options

	2021			
			CloudBadger cash-settled scheme	
	OUTsurance Holdings cash-settled scheme	Youi Holdings equity-settled scheme	Equity options	Notional shares
Number of options in force at the beginning of the year	97 960 347	72 300 000	172 060	77 221
Adjustment to number of options in force at the beginning of the year	200 000	-	-	-
	98 160 347	72 300 000	172 060	77 221
Number of options / notional units granted during the year	60 005 688	22 600 000	14 000	-
Number of options delivered during the year	(23 910 000)	(933 333)	(13 300)	-
Number of options cancelled / forfeited during the year	(8 330 000)	(8 633 333)	-	-
Number of options / notional units in force at the end of the year	125 926 035	85 333 334	172 760	77 221
Range of strike prices / notional units of closing balance	R10.08 to R10.34	$0.41 to $0.49	R61.75 to R126.40	R61.75
Price per ordinary share[1] / notional unit	R10.91	$0.55	R237.50	R237.50
Number of scheme participants	194	89	17	15
Weighted average remaining vesting period (years)	1.22	2.17	2.05	2.00

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

	2021			
	OUTsurance Holdings Divisional Incentive cash-settled scheme			
	OUTsurance Business	OUTsurance Life / OUTvest	Youi CTP	Youi Commercial
Number of options in force at the beginning of the year	925 000	920 000	–	–
	925 000	920 000	–	–
Number of options / notional units granted during the year	75 000	75 000	930 000	890 000
Range of strike prices of options / notional units granted during the year	R311.61 - R548.12	R167.12 - R293.73	$1.02 - $1.12	$1.85 - $2.04
Range of fair value of options granted during the year	R258.56	R138.64	$1.01	$1.84
Number of options / notional units in force at the end of the year	1 000 000	995 000	930 000	890 000
Range of strike prices / notional units of closing balance	R311.61 - R548.12	R167.12 - R293.73	$1.02 - $1.12	$1.85 - $2.04
Price per ordinary share[1] / notional unit	R258.56	R138.64	$1.01	$1.84
Number of scheme participants	37	32	20	20
Weighted average remaining vesting period (years)	3.84	3.84	3.84	3.84

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

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Share options

	2020					
			OUTsurance Holdings Divisional Incentive cash-settled scheme		CloudBadger cash-settled scheme	
	OUTsurance Holdings cash-settled scheme	Youi Holdings equity-settled scheme	OUTsurance Business	OUTsurance Life / OUTvest	Equity options	Notional shares
Number of options in force at the beginning of the year	73 410 000	41 800 000	–	–	–	–
Adjustment to number of options in force at the beginning of the year	40 000	–	–	–	–	–
	73 450 000	41 800 000	–	–	–	–
Number of options / notional units granted during the year	44 665 347	39 550 000	925 000	920 000	172 060	77 221
Range of strike prices of options / notional units granted during the year	R10.34	$0.47	R289.34	R140.48	R61.75	R61.75
Number of options delivered during the year	(17 120 000)	–	–	–	–	–
Number of options cancelled / forfeited during the year	(3 035 000)	(9 050 000)	–	–	–	–
Number of options / notional units in force at the end of the year	97 960 347	72 300 000	925 000	920 000	172 060	77 221
Range of strike prices / notional units of closing balance	R9.30 to R10.34	$0.41 to $0.47	R289.34	R140.48	R61.75	R61.75
Price per ordinary share[1] / notional unit	R9.79	$0.41 to $0.47	R221.80	R131.95	R35.25	R35.25
Number of scheme participants	177	77	27	26	17	15
Weighted average remaining vesting period (years)	1.35	1.88	5.25	5.25	2	2

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

Notes to the consolidated financial statement *continued*

31. 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:

	2021	2020
Number of treasury shares and market value		
Number of shares in portfolio at the beginning of the year ('000)	**83 704**	54 639
Number of shares purchased during the year ('000)	**14 199**	41 180
Number of shares released during the year ('000)	**(34 456)**	(12 115)
Number of shares held in portfolio at the end of the year ('000)	**63 447**	83 704
Market value per share held in portfolio at year-end (Rand)[1]	**10.91**	9.79
Market value of portfolio at year-end ('000)	**692 207**	819 462
Cost price of treasury shares		
Cost price of shares held in portfolio at the beginning of the year (R'000)	**531 664**	229 132
Cost price of shares purchased during the year (R'000)	**148 500**	427 803
Cost price of shares released during the year (R'000)	**(138 551)**	(125 271)
Cost price of shares held in portfolio at the end of the year (R'000)	**541 613**	531 664
Loans to the share trust		
Value of loans made to the trust at the beginning of the year (R'000)	**531 664**	229 132
Value of loans made to the trust at the end of the year (R'000)	**541 613**	531 664

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

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Youi Holdings Share Trust

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

	2021 AUD	2020 AUD
Number of treasury shares and market value		
Number of shares in portfolio at the beginning of the year ('000)	**2 809**	–
Number of shares purchased during the year ('000)	**4 605**	2 809
Number of shares released during the year ('000)	**(200)**	–
Number of shares held in portfolio at the end of the year ('000)	**7 214**	2 809
Market value per share held in portfolio at year-end (AUD $)	**0.519**	0.485
Market value of portfolio at year-end (A$'000)	**3 744**	1 362
Cost price of treasury shares		
Cost price of shares held in portfolio at the beginning of the year (A$'000)	**1 399**	–
Cost price of shares purchased during the year (A$'000)	**2 282**	1 399
Cost price of shares released during the year (A$'000)	**(98)**	–
Cost price of shares held in portfolio at the end of the year (A$'000)	**3 583**	1 399
Loans to the share trust		
Value of loans made to the trust at the beginning of the year (A$'000)	**1 399**	–
Value of loans made to the trust at the end of the year (A$'000)	**3 583**	1 399

Share scheme expenditure

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

	OUTsurance Holdings cash-settled scheme	
	2021	2020
Share price	**R11.37**	R9.79
Exercise price range	**R11.37**	R9.79
Remaining duration	**0 to 3 years**	0 to 3 years
Expected volatility	**22.00%**	22.00%
Risk free interest rate	**7.55%**	7.65%
Dividend yield	**4.80%**	7.00%

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Share scheme expenditure *continued*

The following assumptions were applied in the calculation of the DIS units:

	2021 Divisional incentive cash-settled scheme			
	OUTsurance Business	OUTsurance Life / OUTvest	Youi CTP	Youi BZI
Share price	R258.56	R138.64	$1.01	$1.84
Exercise price	R311.61 - R548.12	R167.12 - R293.73	$1.02 - $1.12	$1.85 - $2.04
Remaining duration	3 - 5 years	3 - 5 years	3 - 5 years	3 - 5 years
Expected volatility (reduced by 13% capital charge)	20.00%	12.00%	30.00%	30.00%
Risk free interest rate	6.22% - 9.39%	6.22% - 9.39%	0.30% - 1.31%	0.30% - 1.31%
Dividend yield (0% yield as cost of capital charge will be reduced by dividends distributed)	10.00%	–	–	–
Annual employee turnover	10.00%	10.00%	10.00%	10.00%

	2020 Divisional Incentive cash-settled scheme	
	OUTsurance Business	OUTsurance Life / OUTvest
Share price	R310.28	R152.69
Exercise price	R310.28	R152.69
Remaining duration	4 - 6 years	4 - 6 years
Expected volatility (reduced by 13% capital charge)	15.00%	15.00%
Risk free interest rate	9.24%	9.24%
Dividend yield (0% yield as cost of capital charge will be reduced by dividends distributed)	–	–
Annual employee turnover	10.00%	10.00%

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

	2021 CloudBadger cash-settled scheme	
	Equity options	Notional shares
Share price	R237.50	R31.25
Exercise price	R61.75 to R126.50	R61.75
Remaining duration	2.05 years	3 years
Expected volatility	35.00%	40.00%
Risk free interest rate	4.00%	5.15%
Annual employee turnover	15.00%	10.00%

The fair value of the equity options and notional shares range from R2.56 to R3.50 per share.

Notes to the consolidated financial statement *continued*

31. Share based payments *continued*

Share scheme expenditure *continued*

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

	Youi Holdings equity-settled scheme	
	2021	2020
Share price	**$0.49**	$0.47
Exercise price	**$0.49**	$0.47
Remaining duration	**3**	5
Expected volatility	**13.00%**	15.00%
Risk free interest rate	**0.43%**	6.92%
Dividend yield	**5.74%**	6.00%

32. Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance and OUTsurance Life for the profit sharing arrangements. Profits arising from these arrangements are distributed by way of preference dividends payable bi-annually in February and August by OUTsurance and annually in August by OUTsurance Life. 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.

	2021 R'000	2020 R'000
Shareholders for preference dividends on profit share arrangement	**85 956**	64 648
	85 956	64 648

Refer to note 3.3.1 for a reconciliation of the opening and closing balance.

Refer to note 39 for the current and non-current analysis of shareholders for preference dividends.

Notes to the consolidated financial statement *continued*

33. Financial liabilities at amortised cost

	2021 R'000	2020 R'000
Loan facility	–	100 000
	–	100 000

The rate of interest charged on each loan is calculated on the relevant quarterly JIBAR plus a margin of 100bps.

During the current financial year OUTsurance Holdings repaid the full amount of the previously accessed facility of R100 million of the funds available from 'Facility A', before entering into a new agreement with the previous counterparty as well as an additional one (two lenders).

The RCF agreement stipulates the availability of a new revolving credit facility to OUTsurance Holdings Limited to the value of R1 billion. The rate of interest charged on any draw down of the facility is calculated on the relevant quarterly JIBAR plus a margin of 160bps. Interest is split and payable equally to each lender.

During the current financial year, there was no amount drawn down on the new facility. The facility expires in May 2022.

34. Investment Contract Liability

	2021 R'000	2020 R'000
Balance at beginning of the year	**23 508**	–
Investment contract receipts	**12 470**	20 924
Fair value adjustments	**(1 169)**	1 783
Interest income	**2 372**	801
Balance at end of the year	**37 181**	23 508

The investment contract liability relates to the endowment products sold by the Group.

Notes to the consolidated financial statement *continued*

35. Discontinued operations

On 25 September 2019 OUTsurance Holdings Limited agreed to transfer the New Zealand insurance portfolio business to Tower Insurance Limited, New Zealand's third largest general insurer for consideration of N$12.6 million. Following regulatory approval by the Reserve Bank of New Zealand, the transfer was effected on 31 December 2019.

The associated assets and liabilities were consequently presented as discontinued operations in the prior financial year.

The sale provides an opportunity for Youi to unlock value on favourable terms and, going forward, will allow the Youi group to focus on its Australian business where the greater scale and diversity of the market offers more growth opportunities for a challenger brand like Youi.

Statement of profit or loss and other comprehensive income

	2020 R'000
Gross insurance premium	105 832
Outward reinsurance premiums	(89 138)
Net premiums	16 694
Change in provision for unearned premiums	8 157
Earned premiums, net of reinsurance	24 851
Commission income	33 217
Interest income on financial assets using the effective interest rate method	713
Income	58 781
Policyholder benefits on insurance contract net of reinsurance	(13 728)
Gross policyholder benefits under insurance contracts	(54 295)
Reinsurers' share of insurance contract claims	40 567
Marketing and administration expenses	(43 407)
Result of operating activities	1 646
Finance charges	(186)
Profit on sale of business unit	103 021
Net profit for the year from discontinued operations	104 481

There were no items that affected other comprehensive income and therefore the reconciliation of other comprehensive income has not been disclosed.

Cash flows from discontinued operations

	2020 R'000
Cash inflow from operating activities	1 765
Cash inflow from investing activities	77 325
Effect of exchange rates on cash and cash equivalents	(13)
Increase in cash and cash equivalents	79 077

Notes to the consolidated financial statement *continued*

36. Reconciliation of cash generated by operations

The table below provides a reconciliation of cash generated by operations:

	2021 R'000	2020 R'000
Comprehensive income for the year before tax	**3 818 705**	3 527 866
Adjustments for:		
Depreciation	**128 926**	123 750
Amortisation of intangibles	**20 301**	10 372
Change in ROUA and lease liability	**183**	3 385
Equity accounted earnings from associate	**(67 842)**	(122 244)
Net gain on sale of subsidiary	**–**	(103 021)
Share-based payments - equity settled schemes	**9 627**	7 707
Net fair value adjustments on financial assets	**(382 516)**	295 010
Transactions with non-controlling interest	**(23 356)**	(15 304)
Impairment of associate	**–**	2 636
Profit on disposal of fixed assets	**7 090**	1 307
Fair value adjustment on financial liabilities	**140 132**	138 656
Provision for non-claims bonuses on insurance contracts for the year	**499 780**	500 136
Non-claims bonuses on insurance contracts paid	**(481 137)**	(446 865)
Finance charges	**9 294**	7 669
Interest received	**(284 408)**	(446 043)
Dividends received	**(72 591)**	(75 265)
Change in unearned premium provision	**284 185**	511 707
Change in deferred acquisition costs	**(49 973)**	(34 358)
Change in claims reserves	**355 752**	69 431
Change in policyholder liability under long-term insurance contracts	**249 091**	33 702
Employee benefit service cost	**6 321**	106 630
Increase in share-based payment liability	**133 514**	7 065
Intellectual property payments / provisions	**(7 993)**	(14 860)
Intellectual property settlements received	**(1 947)**	1 949
Increase in employee benefits	**48 052**	111 792
Translation differences	**299 025**	(78 090)
Cash generated by operations before working capital changes	**4 638 215**	4 124 720
Change in working capital	**192 489**	(326 099)
(Increase) in receivables	**(187 654)**	(318 604)
Increase / (Decrease) in payables	**380 143**	(7 495)
Cash generated by operations	**4 830 704**	3 798 621

Notes to the consolidated financial statement *continued*

37. Taxation paid

The table below provides a recalculation of tax cash flow paid:

	2021 R'000	2020 R'000
Taxation payable – opening balance	**(55 825)**	95 918
Charge to profit or loss	**(1 115 338)**	(988 159)
Adjustment for deferred tax charge	**(1 709)**	(80 251)
Taxation payable – closing balance	**113 379**	55 825
Taxation paid	**(1 059 493)**	(916 667)

38. Preference dividends paid

	2021 R'000	2020 R'000
Preference dividends unpaid at the beginning of the year	**(64 648)**	(65 222)
Preference dividend charged to the statement of profit or loss in respect of profit share arrangements	**(140 132)**	(138 656)
Preference dividend unpaid at the end of the year	**85 956**	64 648
Preference dividend paid	**(118 824)**	(139 230)

Notes to the consolidated financial statement *continued*

39. 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	Shareholders equity R'000
30 June 2021				
Assets				
Deferred income tax	485 720	–	485 720	–
Investment in associates	3 716 436	–	3 716 436	–
Intangible assets	205 604	–	205 604	–
Right of use assets	48 199	–	48 199	–
Property and equipment	1 030 608	–	1 030 608	–
Employee benefits	7 711	7 711	–	–
Reinsurers' share of insurance contract provisions	1 140 260	945 560	194 700	–
Deferred acquisition costs	513 393	513 393	–	–
Financial assets				–
Fair value through profit or loss	2 451 949	1 339 421	1 112 528	–
Fair value through other comprehensive income	3 379 705	3 338 029	41 676	–
Amortised cost	5 809 617	5 809 617	–	–
Derivative financial instruments - assets	67 933	67 933	–	–
Insurance and other receivables	3 725 603	3 725 603	–	–
Tax receivable	19 324	19 324	–	–
Cash and cash equivalents	2 179 588	2 179 588	–	–
Total assets	24 781 650	17 946 179	6 835 471	–
Liabilities and equity				
Total shareholders' equity	10 924 332	–	–	10 924 332
Non-controlling interest	671 028	–	–	671 028
Deferred income tax	269 705	–	269 705	–
Insurance contract liabilities	10 310 809	8 768 386	1 542 423	–
Derivative financial instrument	72 375	2 885	69 490	–
Investment contract liability	37 181	–	37 181	–
Lease Liability	54 740	28 750	25 990	–
Share based payment liability	224 134	33 394	190 740	–
Employee benefits	462 640	428 137	34 503	–
Financial liabilities at fair value though profit or loss	85 956	85 956	–	–
Tax liabilities	132 703	132 703	–	–
Insurance and other payables	1 536 047	1 536 047	–	–
Total equity and liabilities	24 781 650	11 016 258	2 170 032	11 595 360

Notes to the consolidated financial statement *continued*

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

	Carrying amount R'000	Current R'000	Non-current R'000	Shareholders equity R'000
30 June 2020				
Assets				
Deferred income tax	295 151	–	295 151	–
Investment in associates	3 732 470	–	3 732 470	–
Intangible assets	113 144	–	113 144	–
Right-of-use assets	82 973	–	82 973	–
Property and equipment	1 147 548	–	1 147 548	–
Employee benefits	4 092	4 092	–	–
Reinsurers' share of insurance contract provisions	1 338 183	1 178 554	159 629	–
Deferred acquisition costs	463 420	463 420	–	–
Financial assets				
Fair value through profit or loss	2 351 817	53 338	2 298 479	–
Fair value through other comprehensive income	3 219 143	1 826 794	1 392 349	–
Amortised cost	5 781 780	5 781 780	–	–
Insurance and other receivables	3 537 949	3 537 949	–	–
Tax receivable	17 055	17 055	–	–
Cash and cash equivalents	1 225 950	1 225 950	–	–
Total assets	23 310 675	14 088 932	9 221 743	–
Liabilities and equity				
Total shareholders' equity	10 850 182	–	–	10 850 182
Non-controlling interest	635 842	–	–	635 842
Deferred income tax	62 140	–	62 140	–
Insurance contract liabilities	9 601 061	8 351 442	1 249 619	–
Investment contract liability	23 508	–	23 508	–
Lease liability	88 689	36 904	51 785	–
Share-based payment liability	90 620	26 390	64 230	–
Employee benefits	414 588	381 035	33 553	–
Financial liabilities at fair value though profit or loss	64 648	64 648	–	–
Derivative financial instrument	150 613	3 173	147 440	–
Tax liabilities	72 880	72 880	–	–
Financial liabilities held at amortised cost	100 000	–	100 000	–
Insurance and other payables	1 155 904	1 155 904	–	–
Total equity and liabilities	23 310 675	10 092 376	1 732 275	11 486 024

Notes to the consolidated financial statement *continued*

40. 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) Limited.
- Associate companies of the parent company which include Discovery Holdings Limited, Momentum Metropolitan Holdings Limited and Main Street 1353 (Pty) Limited, Coreshares Index Tracker Managers (RF) (Pty) Limited and Autoguru Australia (Pty) Limited.
- Key management personnel such as the OUTsurance Holdings Limited Board of directors, 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 and its wholly owned subsidiaries owned 89.1% (2020: 89.1%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 1.7% (2020: 2.2%), OUTsurance Equity Trust 1.6% (2020: 1.1%) and management 7.6% (2020: 7.6%) of the issued share capital.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 19.

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

Associates

Details of investments in associates are disclosed in note 20.

Notes to the consolidated financial statement *continued*

40. Related party transactions *continued*

For the year under review, the OUTsurance Holdings Group entered into arms-length transactions with related parties:

	2021 R'000	2020 R'000
Transactions with related parties		
Discovery Health		
Medical aid premiums paid	**122 686**	111 577
Momentum Metropolitan		
Medical aid premiums paid	**9 515**	9 781
Pension fund contribution	**113 312**	110 050
Group life premiums paid	**10 920**	10 143
Disability fee paid	**11 092**	10 349
Firness International (Pty) Limited		
Ordinary dividends paid	**1 638 207**	2 285 262
Main Street 1353 (Pty) Limited		
Dividend received	**–**	(147 000)
OUTsurance Insurance Company of Namibia Limited		
Dividend received	**(13 230)**	(13 230)
Administration fees received	**(20 838)**	(29 905)
Discovery Holdings Limited		
Investment income received	**(3 939)**	(5 068)
Year end balances with related parties		
Discovery Holdings Limited		
Preference share investment	**41 495**	33 775
Coreshares Index Tracker Managers (RF) Pty Ltd		
Collective Investment Scheme	**135 201**	113 737
Autoguru Australia (Pty) Limited		
Convertible loan	**13 168**	10 962
OUTsurance Insurance Company of Namibia Limited		
Administration fees receivable	**–**	2 583
Key management personnel		
Remuneration		
Salaries and bonuses	**102 442**	89 552
Non-executive directors fees	**4 842**	18 753
Non-executive directors fees subsidiaries	**8 364**	7 734
Other short-term employee benefits	**5 172**	2 620
Share-based payments	**24 125**	9 931
	144 945	128 590
Insurance related transactions		
Premiums received	**2 612**	2 269
Claims paid	**(650)**	(862)

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.

OUTsurance International (Pty) Ltd (OUTsurance International) issued a guarantee to the Common Wealth Bank of Australia for the loan obtained by the Youi ESOP trust to fund the shares issued to employees. OUTsurance International has full recourse against employees who default on their loan repayments. As part of the guarantee OUTsurance International also provided a cash collateral in advance to the value of 20% of the loan facility amount. The cash collateral is included in cash and cash equivalents. The fair value of the guarantee of R2.0 million is deemed to be immaterial.

Insurance transactions are conducted at arm's length.

Notes to the consolidated financial statement *continued*

40. 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 R'000	Other benefits R'000	Benefit derived from share incentive scheme R'000	Total R'000
2021						
Non-executive directors						
P Cooper[1]	337	–	–	–	–	337
AW Hedding	423	–	–	–	–	423
JJT Madavo	313	–	–	–	–	313
G Marx	604	–	–	–	–	604
K Pillay	491	–	–	–	–	491
PR Pretorius	313	–	–	–	–	313
H Bosman[2, 3]	562	9 828	–	1 331	–	11 721
T Moabi	446	–	–	–	–	446
M Ramathe	313	–	–	–	–	313
B Hanise	578	–	–	–	–	578
R Ndlovu[3]	376	–	–	–	–	376
WT Roos	313	–	–	–	–	313
Executive directors and prescribed officers						
Executive directors						
MC Visser	–	6 045	5 743	–	679	12 467
Prescribed officers						
JH Hofmeyr	–	4 781	4 542	–	679	10 002
DH Matthee	–	4 781	4 542	–	679	10 002
Total	5 069	25 435	14 827	1 331	2 037	48 699

Notes to the consolidated financial statement *continued*

40. Related party transactions *continued*

	Services as directors R'000	Cash package R'000	Performance related bonus R'000	Other benefits R'000	Benefit derived from share incentive scheme R'000	Total R'000
2020						
Non-executive directors						
P Cooper[1]	838	–	–	–	–	838
LL Dippenaar[4]	892	–	–	–	–	892
AW Hedding	482	–	–	–	–	482
JJT Madavo	320	–	–	–	–	320
G Marx	607	–	–	–	–	607
K Pillay	378	–	–	–	–	378
PR Pretorius	333	–	–	–	–	333
H Bosman[2, 3]	370	11 277	–	1 569	–	13 216
T Moabi	320	–	–	–	–	320
M Ramathe	333	–	–	–	–	333
B Hanise	367	–	–	–	–	367
R Ndlovu[3]	333	–	–	–	–	333
WT Roos	333	–	–	–	–	333
Executive directors and prescribed officers						
Executive directors						
MC Visser	–	4 945	–	–	1 116	6 061
Prescribed officers						
JH Hofmeyr	–	4 681	–	–	1 116	5 797
DH Matthee[6]	–	4 681	–	–	1 023	5 704
Total	5 906	25 584	–	1 569	3 255	36 314

[1] *Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2021: R226 180) (2020: R306 083). As of 30 September 2020, P Cooper resigned from OUTsurance Holdings Ltd, OUTsurance Insurance Company Ltd, OUTsurance International (Pty) Ltd and OUTsurance Life Insurance Company Ltd.*

[2] *Paid by Rand Merchant Investment Holdings for services as an executive director of Rand Merchant Investment Holdings.*

[3] *Directors fees are paid to representative companies.*

[4] *Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2021: Rnil) (2020: R312 083). LL Dippenaar resigned 1 July 2020.*

Notes to the consolidated financial statement *continued*

40. Related party transactions *continued*

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

OUTsurance Holdings share incentive schemes

	Strike price Rands	Vesting date from	Vesting date to	Settle-ment type	Opening balance 1 July 2020 R'000	Forfeited this year R'000	Taken up this year R'000	Granted in current year R'000	**Closing balance 30 June 2021 R'000**	Benefit derived R'000
MC Visser	9.30	01 / 07 / 2017	01 / 07 / 2020	Cash	700	–	(700)	–	**–**	679
	10.08	01 / 09 / 2018	01 / 09 / 2021	Cash	935	–	–	–	**935**	–
	10.34	01 / 09 / 2019	01 / 09 / 2022	Cash	2 418	–	–	–	**2 418**	–
	10.27	01 / 09 / 2020	01 / 09 / 2023	Cash	–	–	–	2 902	**2 902**	–
JH Hofmeyr	9.30	01 / 07 / 2017	01 / 07 / 2020	Cash	700	–	(700)	–	**–**	679
	10.08	01 / 09 / 2018	01 / 09 / 2021	Cash	740	–	–	–	**740**	–
	10.34	01 / 09 / 2019	01 / 09 / 2022	Cash	1 579	–	–		**1 579**	–
	10.27	01 / 09 / 2020	01 / 09 / 2023	Cash	–	–	–	1 946	**1 946**	–
DH Matthee	9.30	01 / 07 / 2017	01 / 07 / 2020	Cash	700	–	(700)	–	**–**	679
	10.08	01 / 09 / 2018	01 / 09 / 2021	Cash	740	–	–	–	**740**	–
	10.34	01 / 09 / 2019	01 / 09 / 2022	Cash	1 913	–	–		**1 913**	–
	10.27	01 / 09 / 2020	01 / 09 / 2023	Cash	–	–	–	2 295	**2 295**	–

The above individuals have been granted rights to participate in the Divisional Incentive Scheme as follows:

- MC Visser
  - 7.5% participation in the OUTsurance Business and OUTsurance Life / OUTvest schemes.
  - 7.5% participation in the Youi schemes.
- JH Hofmeyr
  - 7.5% participation in the OUTsurance Business and OUTsurance Life / OUTvest schemes.
  - 7.5% participation in the Youi schemes.
- DH Matthee
  - 12.5% participation in the OUTsurance Business and OUTsurance Life / OUTvest schemes.
  - 2.5% participation in the Youi schemes.

Notes to the consolidated financial statement *continued*

40. Related party transactions *continued*

RMI Holdings share appreciation rights scheme

	Strike price Rands	Exercise date	Opening balance 1 July 2020 R'000	Forfeited this year R'000	Taken up this year R'000	Granted in current year R'000	Closing balance 30 June 2021 R'000	Benefit derived R'000
HL Bosman	28.74	02 / 04 / 2017	631	–	–	–	**631**	–
	28.74	02 / 04 / 2018	631	–	–	–	**631**	–
	28.74	02 / 04 / 2019	631	–	–	–	**631**	–
	41.25	14 / 09 / 2018	27	–	–	–	**27**	–
	41.25	14 / 09 / 2019	27	–	–	–	**27**	–
	41.25	14 / 09 / 2020	26	–	–	–	**26**	–
	43.41	14 / 09 / 2019	167	–	–	–	**167**	–
	43.41	14 / 09 / 2020	167	–	–	–	**167**	–
	43.41	14 / 09 / 2021	167	–	–	–	**167**	–
	39.92	19 / 09 / 2020	179	–	–	–	**179**	–
	39.92	19 / 09 / 2021	180	–	–	–	**180**	–
	39.92	19 / 09 / 2022	180	–	–	–	**180**	–
	39.47	14 / 09 / 2021	249	–	–	–	**249**	–
	39.47	14 / 09 / 2022	249	–	–	–	**249**	–
	39.47	14 / 09 / 2023	250	–	–	–	**250**	–
	30.91	14 / 09 / 2022	130	–	–	–	**130**	–
	30.91	14 / 09 / 2023	130	–	–	–	**130**	–
	30.91	14 / 09 / 2024	131	–	–	–	**131**	–
	29.37	05 / 10 / 2023	–	–		355	**355**	–
	29.37	05 / 10 / 2024	–	–		355	**355**	–
	29.37	05 / 10 / 2025	–	–	–	355	**355**	–

Mr JH Hofmeyr has 42 000 share options related to the CloudBadger share incentive scheme of which 13 300 has been exercised in 2021 at no gain. The remaining options are 28 700. Mr Hofmeyr holds 5 000 000 unvested options in the Youi Holdings scheme.

Notes to the consolidated financial statement *continued*

41. Impact of COVID-19 and going concern position

The considerations provided below relate to the Group and its major operating entities, being OUTsurance, OUTsurance Life and Youi.

Operational impact

The Group continues to deliver a resilient operation and financial performance within the ongoing pandemic environment. Systems and processes continue to operate successfully on a combined work-from-home and work-from-office operational model. The Group is well equipped to continue working remotely and maintain operations in a protracted pandemic scenario.

It is likely that an increasing number of employees will return to the office as the vaccination programme progresses.

New business volumes, lapse experience and overall service levels continued to perform in line with expectations and budget. Motor claims frequency continues to revert to more normal levels as the lockdown conditions have become less restrictive compared to 2020.

OUTsurance Life has been subject to much higher mortality experience linked to the pandemic. Management continues to roll-forward COVID-19 specific provisions for increased mortality. The vaccination programme is expected to reduce the pandemic related mortality rate in the coming months.

Financial impact

The solvency position of the Group has remained highly resilient since the outbreak of the pandemic. The strong solvency position overlaid with the high rate of capital production, provides capacity to absorb financial shocks and supports the continued payment of ordinary dividends.

The geographically diverse nature of the Group mitigates against the risk of depreciation of the Rand and provides a diverse earnings base in hard currency.

The regulatory capital position of the short-term insurance operations is highly correlated to the size of the in-force book. Financial scenarios which result in a reduction in the customer base is therefore unlikely to result in solvency pressure.

The risk margins applied to the insurance liabilities of OUTsurance and Youi remain prudent compared to historic norms. Business Interruption claims related to Tourist Attraction Losses have been settled which reduces the overall reserving uncertainty compared to the prior year.

Extensive stress testing has been performed for the operating entities and the Group as part of the annual Own Risk and Solvency Assessment (ORSA) which demonstrates the resilience of the respective solvency positions.

The Group performs an impairment assessment of it's associate investments on an annual basis. These assessments are based on discounted cash flow models with company forecasts that have considered the impact of COVID-19.

The Group's financial instruments recovered the fair value lost due to the market collapse that occurred during March 2020 as a result of the COVID-19 pandemic by 30 June 2021, specifically those losses related to equity instruments. Across all of the instrument types held by the Group the fair values have increased or remained stable since the previous financial year-end.

The Group's expected credit losses (ECL) provision has also remained stable since 30 June 2021 but management is continuously monitoring the credit quality of the counterparties that it is exposed to.

Notes to the consolidated financial statement *continued*

41. Impact of COVID-19 and going concern position *continued*

Financial impact *continued*

The target solvency capital ratio of the Group is informed by various stress scenarios which cover financial and operational risk scenarios which are deemed appropriate given the nature of each business. The Group has limited exposure to the equity markets within the context of earnings and its balance sheet.

The Group continuously assessed the solvency capital requirement during the COVID-19 pandemic. The Group achieved a solvency coverage ratio of 2.2 at year end, exceeding the target ratio of 1.4. Refer to note 3.4 for further detail on capital management.

The liquidity note (note 3.3.4) demonstrates the strong liquidity position of the Group at 30 June 2021. The liabilities of the Group remain adequately covered by the liquid assets. The liquidity of the financial markets is being monitored. The majority of the financial assets of the Group and the operating entities are largely invested in highly liquid money markets and bank deposits. Liquidity stress testing performed as part of the ORSA illustrates that the liquidity of the short-term insurance operations is adequate to support a 1 in 200 year catastrophe event.

Going concern

The Group and its operating entities have considered various stress scenarios related to the pandemic. These risk scenarios indicate that the pandemic will not change the going concern status of the Group and its operating entities. The Group and its operating entities trade from strong capital positions and is expected to remain financially resilient under various financial and operational stress scenarios.

Notes to the consolidated financial statement *continued*

42. Restatement of comparatives

30 June 2020	Amount as previously reported R'000	Amount as restated R'000	Difference R'000	Explanation for restatement
Consolidated statement of profit or loss and other comprehensive income				
Acquisition expenses	(40 814)	–	(40 814)	• Acquisition expenses included in marketing and administration expenses. This line item was moved in order for the Group's acquisition expenses to be disclosed in a single line item.
Marketing and administration expenses	(4 734 130)	(4 774 944)	40 814	• Acquisition expenses included in marketing and administration expenses. This line item was moved in order for the Group's acquisition expenses to be disclosed in a single line item.
Acquisition expenses note			–	
Acquisition expenses incurred	(40 814)	–	(40 814)	• Acquisition expenses note included in marketing and administration expenses note. This note was moved in order for the Group's acquisition expenses to be disclosed in a single line item.
Marketing and administration note				
Marketing and management expenses	(1 612 053)	(1 220 370)	(391 683)	• Cost to company (CTC) bonus expense reclassified from marketing and management expenses to salaries excluding retirement funding expense. DIS expense reclassified from marketing and management expenses to share-based payment expenses. Marketing and management expenses classified to internally generated intangible assets for services rendered in the development of the asset. Expenses relating to short-term leases were moved into their own short-term lease expenditure line from marketing and management expenses. Marketing and administration expenses have been reclassified to the release of the deferred acquisition costs.
Salaries excluding retirement funding	(2 404 238)	(2 766 087)	361 849	• CTC bonus expense reclassified from marketing and management expenses to salaries excluding retirement funding expense. Furthermore, a portion of this expense was reclassified to research and development. Deferred acquisition costs related to salary expenses have also been reclassified to the acquisition costs line item. These reclassifications were made in order to reflect the nature of the expense and the reason for it being incurred.
Medical aid contributions	(120 646)	(120 631)	(15)	• Medical aid contributions have been reclassified to research and development costs relating to internally generated intangible assets. These reclassifications were made in order to reflect the nature of the expense and the reason for it being incurred.
Retirement funding	(212 326)	(212 287)	(39)	• Retirement funding costs have been reclassified to research and development costs relating to internally generated intangible assets. These reclassifications were made in order to reflect the nature of the expense and the reason for it being incurred.
Share-based payments	(24 464)	(44 756)	20 292	• DIS expense reclassified from marketing and management expenses to share-based payment expenses.
Release of deferred acquisition costs	–	31 896	(31 896)	• Expenses related to salary costs and marketing and administration expenses have been reclassified to the release of the deferred acquisition costs.
Research and development costs relating to internally generated intangible assets	–	(1 423)	1 423	• Marketing and management expenses, medical aid contributions, salaries excluding retirement funding and retirement funding classified to internally generated intangible assets for services rendered in the development of the asset.
Short-term lease expenditure	–	(8 173)	8 173	• Expenses relating to short-term leases were moved into their own short-term lease expenditure line from marketing and management expenses.
Acquisition expenses incurred	–	(72 710)	72 710	• Expenses related to salary costs and marketing and administration expenses have been reclassified to acquisition costs.
	(9 189 485)	(9 189 485)	–	

Notes to the consolidated financial statement *continued*

43. Events after the reporting period

The Group has exercised its call option to purchase 109 375 000 Youi Holdings original shares from Howard Aron, a former executive of Youi Holdings. The option was exercised on 5 August 2021 and will be payable in October 2021. The strike price per share is A$ 0.55 per share and fixed at R10.71 per Australian Dollar with an FEC instrument. The Group's effective ownership in Youi Holdings will increase from 84.5% to 89.6% as a result of this transaction.

No other 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.

44. Summary of significant accounting policies

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

44.1 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.

44.1.1 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.

44.1.2 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.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.1 Consolidated financial statements *continued*

44.1.3 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.

44.1.4 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.

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

44.1.5 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.

44.2 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.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.3 Recognition and measurement of insurance contracts

44.3.1 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 of equipment, theft, fire, weather-related events, fraud, third party claims, accidents 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 and take-on fees charged in the ordinary course of the underwriting of short-term insurance policies.

Premium receivable

Premium receivable constitutes premiums for which the collection date has passed but the premium has not yet been received.

The majority of the premium receivable balance relates to premiums under a one-year contract boundary for which a corresponding unearned premium provision has been raised.

The balance of premiums receivable for collections due, after eliminating the premium debtor referred to above (with the corresponding unearned premium reserve), is immaterial. The Group has formalised procedures in place to collect or recover these amounts. Full impairment is made for non-recoverability as soon as management is uncertain as to the recovery.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.3 Recognition and measurement of insurance contracts *continued*

44.3.1 Short-term insurance *continued*

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 customer, where the customer 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.

Claims provisions
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, claims 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.

Commission and insurance related fee income
Insurance related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums and 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 and is recognised on the placement of these treaties.

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. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following events:

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.3 Recognition and measurement of insurance contracts *continued*

44.3.1 Short-term insurance *continued*

Reinsurance *continued*

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments; or
- It is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

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.

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 customer in the event that the customer 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 customer 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 customer 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.

44.3.2 Long-term insurance

Benefits are provided under long-term policies for life protector, underwritten life and funeral plan. 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 note 28.3.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.3 Recognition and measurement of insurance contracts *continued*

44.3.2 Long-term insurance *continued*

Policyholder liabilities *continued*

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 28.3.

Refer to note 28.4 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 related fee income

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 represents annual policy fees and where applicable, cancellation fees. This income is recognised when these actions have been fulfilled in the course of providing and administering insurance products.

Insurance contract claims incurred and outstanding

Insurance contract claims incurred relate to claims payments on long-term insurance contracts, which include death, disability, critical illness and retrenchment, and is 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 is a provision 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 statement *continued*

44. Summary of significant accounting policies *continued*

44.3 Recognition and measurement of insurance contracts *continued*

44.3.2 Long-term insurance 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.

44.3.3 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 costs, which are all deferred, are 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 level of day one profits allowed in the form of negative rand reserves not zerorised is determined with reference to the costs directly attributable to acquiring a policy. The amount of directly attributable acquisition costs calculated is compared to the negative reserve available on each individual policy. Where the amount of directly attributable acquisition costs is greater than the negative reserve available on the policy, the available negative reserve is recognised in full. Where the amount of directly attributable acquisition costs is less than the negative reserve, the negative reserve recognised is limited to the amount of directly attributable acquisition costs.

44.4 Accounting for profit sharing arrangements

A profit sharing arrangement has been entered into between OUTsurance 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 bi-annual preference dividend. Operating losses incurred are for the Group's account. The Group 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 44.3 above.

A profit sharing arrangement has been entered into between the OUTsurance Life and Shoprite Investments Limited. In terms of this profit sharing arrangement, a portion of the operating profit generated on the funeral insurance business distributed through the Shoprite distribution network is paid to Shoprite Investments Limited by way of an annually preference dividend. Operating losses incurred are for the Group's account.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.5 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.

44.6 Foreign Currency

44.6.1 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 hyperinflationary environment.

44.6.2 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.

44.6.3 Group companies

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.

- 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.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.7 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	2 to 11 years
Fittings and office equipment	5 to 13 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.

44.8 Intangible assets

44.8.1 Computer software development costs

Costs associated with research activities and maintaining computer software are recognised as an expense as incurred.

Costs that are directly attributable to identifiable software products controlled by the Group are recognised as intangible assets if certain criteria are met. These costs comprise of all directly attributable costs necessary to create, produce and prepare the asset for its intended use.

Development costs are recognised as an intangible asset when all of the following criteria are met:

- The technical feasibility of the development can be demonstrated.
- The Group is able to demonstrate its intention and ability to complete and use the software.
- It can be demonstrated how the software product will generate probable future economic benefits.
- It can be demonstrated that adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs are recognised as assets from the point where the recognition criteria above are satisfied, and are amortised once the asset is ready for use, on a straight line basis over the expected useful life.

The carrying amount of intangible assets are reviewed for impairment if there is an indication of impairment.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.8 Intangible assets *continued*

44.8.1 Computer software development costs *continued*

The intangibles are subsequently measured at cost less accumulated amortisation and impairment.

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

Purchased computer software	2 to 7 years
Internally generated computer software	5 to 10 years

44.9 Leases

44.9.1 General

Agreements where the counterparty retains control of the underlying asset are classified as leases.

Leases are recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest (the incremental borrowing rate) on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease is included if the Group is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost-saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis discounted using the lessee's incremental borrowing rate.

The incremental borrowing rate utilised by the Group for the various lease assets is as follows:

- Properties – a risk-free rate with a market risk premium / spread added to it.
- Vehicles – the prime lending rate.
- Equipment – the prime lending rate.

In determining the incremental borrowing rate, the expiry date of each individual lease contract is considered in setting the forward risk-free rate applicable on the date of the termination of the lease to valuation date.

44.9.2 Lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments, but excluding payments for service components), less any lease incentives receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.
- The lease liability is measured using the effective interest method. It is remeasured:
- when there is a change in future lease payments arising from a change in an index or rate;
- if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.9 Leases *continued*

44.9.2 Lease liabilities *continued*

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

44.9.3 Right-of-use assets

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and adjusted for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Depreciation
Subsequent to initial measurement, a right-of-use asset is depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter. However, if ownership of the underlying asset transfers to the group at the end of the lease term, the right-of-use assets are depreciated on a straight- line basis over the remaining economic life of the asset.

This depreciation is recognised as part of general marketing and administration expenses.

44.9.5 Short-term leases and low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

44.9.6 Derecognition

When the Group or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised. On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancelation costs in profit or loss.

44.10 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 been recognised before.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.11 Financial instruments

44.11.1 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.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on trade-date being the date on which the group commits to purchase or sell the asset.

The Group classifies its financial assets in the following measurement categories:

- financial assets at fair value through profit or loss (FVPL);
- financial assets at fair value through other comprehensive income (FVOCI); and
- financial assets at amortised cost.

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss (FVPL); and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition. Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing financial assets. In such a case, all affected financial assets are reclassified prospectively from the reclassification date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus, in the case of an asset not at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Group assesses the business model in which a financial asset is held at a portfolio level. Information considered in determining the applicable business model includes:

- policies and objectives for the relevant portfolio;
- how the performance and risks of the portfolio are managed, evaluated and reported to management; and
- the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent solely payments of principal and interest (SPPI).

Principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time, e.g. on repayment of the principal. Interest is defined as consideration primarily for the time value of money, the credit risk of the principal outstanding, other basic lending risks and costs and a profit margin.

In assessing whether contractual cash flows are SPPI compliant, contractual terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including:

- contingent events that could change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- non-recourse arrangements; and
- features that modify the time value of money (e.g. periodic reset of interest rates).

A prepayment feature meets the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include compensation for early termination of the contract.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.11 Financial instruments *continued*

44.11.1 General *continued*

For a financial asset acquired at a premium or discount to its contractual nominal amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued contractual interest (which may include compensation for early termination of the contract) is considered SPPI compliant if the fair value of the prepayment feature is insignificant on initial recognition.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective i.e. instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends are recognised in profit or loss when the Group's right to receive payments is established.

44.11.2 Financial instruments at fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets cash flows represent solely payments of principal and interest, are measured at FVOCI, if these financial assets are not designated at FVPL.

Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other movements in the carrying amount are taken through OCI. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss.

Financial assets classified as FVOCI comprise various debt investments in money market and capital market instruments, including government bonds.

44.11.3 Financial instruments at fair value through profit or loss (FVPL)

Financial assets not classified at amortised cost or FVOCI are measured at FVPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Net gains or losses, including any interest or dividend income and foreign exchange gains and losses are recognised in profit or loss.

Financial assets classified as FVPL comprise:

- Collective investment schemes
- Unsecured loans
- Ordinary shares
- Debt instruments
- Perpetual preference shares
- Zero coupon deposits
- Derivative financial instruments

Financial liabilities classified as FVPL are measured at fair value. Net gains and losses including interest expense and foreign exchange gains and losses are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments in net investment hedges.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.11 Financial instruments *continued*

44.11.4 Financial instruments measured at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method, if these financial assets are not designated at FVPL.

Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss.

Financial assets classified as amortised cost comprise:

- Redeemable preference shares
- Other receivables
- Term deposits
- Loan facility

Financial liabilities are measured at amortised cost using the effective interest method. Net gains and losses including interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss.

44.11.5 Derivatives

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group uses derivatives for the following reasons:

- to offset the interest rate risk inherent in some of the life insurance products underwritten by the Group. The Group has elected not to apply hedge accounting to the asset-liability matching strategy;
- to offset the exchange rate exposure inherent in certain Group cross-border transactions;
- to offset the equity price risk contained in certain future acquisition of associates; and
- to enter into an option contract with a third party for the exchange of a fixed number of shares for a fixed monetary amount of cash.

44.11.6 Impairment

The Group recognises loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortised cost
- debt investments measured at FVOCI
- financial guarantee contracts

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- financial assets that are determined to have low credit risk at the reporting date;
- financial assets where credit risk has not increased significantly since initial recognition; and
- financial assets which are callable on demand or within a period of 12 months from reporting date.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument. 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.12 Financial instruments *continued*

44.11.6 Impairment *continued*

At each reporting date, the Group assesses whether financial assets measured at amortised cost and FVOCI are credit impaired. The Group writes off a financial instrument when the entity has no reasonable expectation of recovery of the outstanding balance of the instrument. Determining when to write off financial assets is a matter of judgement and incorporates both quantitative and qualitative information. Evidence that a financial asset is credit-impaired includes:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- a restructuring of an amount due to the Group on terms that would not otherwise be considered by the Group;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In assessing whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the markets assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of credit- worthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to the country as well as the intention, communicated in public statements, of governments and agencies to access those mechanisms, including an assessment of the depth of the mechanisms and the capacity to fulfil the required criteria.

Loss allowances for ECL on financial assets measured at amortised cost is deducted from the gross carrying amount of the financial assets. Loss allowances for ECL on debt investments measured at FVOCI is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position.

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospects of recovery by the Group. Financial assets that are written off may still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

44.11.7 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 in a transaction in which:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial 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.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.12 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.

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.

44.13 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.

44.14 Other reserves

Other reserves recognised by the Group include:

Comprehensive income reserve

The Group has certain debt investments (from the segregated portfolios) measured at FVOCI. For these investments, changes in fair value are accumulated within the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognised or impaired.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income, as described in the accounting policies, and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Share based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees;
- the grant date fair value of deferred shares granted to employees but not yet vested; and
- the issue of shares held by Employee Share Trust to employees.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.14 Other reserves *continued*

Equity accounted reserve

This is the Group's proportionate share of the equity reserve of MS1353 (an associate of the Group) which is equity accounted for. The reserve mainly relates to the cash flow hedge for a forward exchange contract entered into by MS1353.

Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

44.15 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 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 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.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.16 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. 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. 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 are 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, are 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.

44.17 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.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.17 Share-based payments *continued*

Cash-settled share-based payment transactions

The Group operates the following cash-settled share-based payment schemes:

- a compensation plan for employees of OUTsurance, OUTsurance Life and CloudBadger for notional shares (share appreciation rights); and
- a Divisional Incentive Scheme for Notional Incentive Units to incentivize senior management based on the success of new and emerging business units which are in the South African and Australian operations.

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.

44.18 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.

44.19 Investment income

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.

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.

44.20 Revenue

The Group derives it's main source of revenue from gross written premiums as referred to in note 5. Other immaterial sources of revenue within the Group, disclosed as 'other income' in note 6, are as follows:

Revenue from investment advice and investment administration services

Ongoing advice and administration fees are calculated and recognised as revenue on a daily basis.

Revenue from software subscription fees

CloudBadger is a software-as-a-service business providing modern financial services software. The business earns software subscription revenue and related project fees on a monthly basis.

44.20.1 Revenue recognition

Ongoing advice and administration fees in OUTvest fees are calculated and recognised as revenue in terms of IFRS 15 on a daily basis. The fees are recognised on an earned basis calculated as a percentage of the assets under management, measured at a client level.

Software subscription fees in CloudBadger are calculated and recognised as revenue in terms of IFRS 15 on a monthly basis.

44.21 Government grants

Grants from the Government are recognised at 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 over the period necessary to match them with the costs they are intended to compensate.

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.22 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

44.23 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
Amendment to IFRS 3, 'Business combinations' Definition of a business	1 January 2020 (Published October 2018)	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce. *The new standard has not impacted the Group due to it not entering into any business combinations during the financial year. This will be incorporated into the accounting process should such a transaction be entered into in the future.*
IAS 1 – Presentation of Financial Statements	1 January 2020	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs: • use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting; • clarify the explanation of the definition of material; and • incorporate some of the guidance in IAS 1 about immaterial information. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." *Management has incorporated the updated definition into its decision-making processes and applies it when considering whether a matter is material or not.*

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted:

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 these standards and therefore implementation date is effective date, unless otherwise stated.

Number	Effective date	Executive summary and impact on the Group
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022 (Published January 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). *The Group will incorporate this amendment when effective. At this stage the expectation is that it will not result in the current / non-current classification of liabilities to be materially affected.*
Amendment to IFRS 3, 'Business combinations'	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date. *Whilst no business combinations have been entered into in the current financial year this guidance will be followed should such a transaction arise in the future after it has become effective.*
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract. *The onerous assessment will be performed according to these principles once the amendment becomes effective. This assessment will be performed over and above the onerous assessment required for insurance contracts under IFRS 17.*

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted *continued*

Number	Effective date	Executive summary and impact on the Group
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	These amendments include minor changes to: • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. *Whilst the Group does have transactions triggering the above accounting standards these changes are not expected to materially affect the current manner of accounting once effective.*
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (Published May 2017)	The IASB issued IFRS 17 Insurance Contracts in May 2017 as well as amendments to the standard on 25 June 2020. IFRS 4, the current accounting standard, allows insurers to use their local GAAP, whereas IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements across the industry. IFRS 17 prescribes a comprehensive model, the general model, which requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from the general model, the standard provides, as a simplification, the premium allocation approach ("PAA"). This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. The liability for remaining coverage is similar to the current unearned premium reserve profile recognised over time. The principles of the general model remains applicable to the liability for incurred claims. *Due to the short term nature of the majority of contracts issued by the Group, the PAA model will be applied to short term insurance contracts and the general model will be applied to measure the life insurance contracts with a coverage period longer than one year.* *The Group has established an IFRS 17 project team, consisting of actuaries, accountants, data specialists and IT experts who manages and facilitates the implementation of IFRS 17 with oversight from the Audit, Risk and Compliance committee as well as senior management.*

Notes to the consolidated financial statement *continued*

44. Summary of significant accounting policies *continued*

44.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted *continued*

Number	Effective date	Executive summary and impact on the Group
		Developments in the IFRS 17 implementation project: • *The Group continuously assesses the impact of the design decisions and relevant accounting policy choices;* • *The design of the general ledger for short-term insurance, is currently being tested by the project team;* • *The Group have done the first-round parallel run for the contracts qualifying for the PAA model. The results are being evaluated and the updates will be incorporated in the internal reporting process of the next financial period starting 1 July 2021;* • *The Group has processed the IFRS 17 results from the CSM engine for the first 3 cohorts. Once the amendments are incorporated from the testing phase, the process will continue to produce financial information for the remaining cohorts; and* • *The Group has also commenced with an in-depth training programme to upskill the wider support functions.* *Due to the ongoing developments with regards to the implementation programme, the financial impact has not been fully assessed yet and will become clearer as progress is made.*

Company audited annual financial statements

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

Company statement of profit or loss and other comprehensive income

for the year ended 30 June

	Notes	2021 R'000	2020 R'000
Investment income	4	**2 147 934**	2 859 379
Reversal of impairment loss / (impairment loss) on investment in subsidiary	8	**72 029**	(10 719)
Impairment loss on investment in associate	9	**–**	(24 972)
Income		**2 219 963**	2 823 688
Marketing and administration expenses	5	**(5 922)**	(3 598)
Result of operating activities		**2 214 041**	2 820 090
Finance charges	6	**(35 331)**	(42 902)
Profit before taxation		**2 178 710**	2 777 188
Taxation	7	**(2 860)**	6 778
Net profit for the year		**2 175 850**	2 783 966

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.

Company statement of financial position

at 30 June

	Notes	2021 R'000	2020 R'000
ASSETS			
Deferred income tax	12	**5 594**	7 995
Investment in subsidiaries	8	**2 106 751**	1 997 222
Investment in associates	9	**3 400 054**	3 397 396
Loans and receivables	10	**558 087**	531 664
Cash and cash equivalents	11	**2 476**	63 732
TOTAL ASSETS		**6 072 962**	5 998 009
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	13	**37 989**	37 989
Share premium	13	**2 617 306**	2 617 306
Retained earnings		**2 774 289**	2 638 453
TOTAL EQUITY		**5 429 584**	5 293 748
LIABILITIES			
Redeemable preference share liability	14	**600 000**	600 000
Tax liabilities		**10**	48
Financial liabilities at amortised cost	15	**–**	100 000
Other payables	16	**43 368**	4 213
TOTAL LIABILITIES		**643 378**	704 261
TOTAL EQUITY AND LIABILITIES		**6 072 962**	5 998 009

Company 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 2019	37 989	2 617 306	2 418 750	5 074 045
Total profit for the year	–	–	2 783 966	2 783 966
Ordinary dividend paid	–	–	(2 564 263)	(2 564 263)
Balance as at 30 June 2020	37 989	2 617 306	2 638 453	5 293 748
Total profit for the year	**–**	**–**	**2 175 850**	**2 175 850**
Ordinary dividend paid	**–**	**–**	**(2 040 014)**	**(2 040 014)**
Balance as at 30 June 2021	**37 989**	**2 617 306**	**2 774 289**	**5 429 584**

Company statement of cash flows

for the year ended 30 June

	Notes	2021 R'000	2020 R'000
OPERATING ACTIVITIES			
Cash generated by operations	17	**16 724**	1 054
Interest received		**1 617**	4 351
Dividends received		**2 146 317**	2 855 027
Interest paid		**(35 331)**	(42 902)
Taxation paid	18	**(497)**	(1 250)
Ordinary dividends paid		**(2 040 014)**	(2 564 263)
Cash inflow from operating activities		**88 816**	252 017
INVESTING ACTIVITIES			
Purchase of additional shares in subsidiary		**(37 500)**	(77 500)
Purchase of additional shares in associate		**(2 658)**	(4 985)
Cash outflow from investing activities		**(40 158)**	(82 485)
FINANCING ACTIVITIES			
Purchase of treasury shares by share scheme participants		**138 551**	125 271
Purchase of treasury shares by share trust from share scheme participants		**(148 465)**	(427 804)
Borrowings (repaid) / raised		**(100 000)**	100 000
Cash outflow from financing activities		**(109 914)**	(202 533)
Decrease in cash and cash equivalents		**(61 256)**	(33 001)
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents		**63 732**	96 733
Decrease in cash and cash equivalents		**(61 256)**	(33 001)
Closing balance of cash and cash equivalents	11	**2 476**	63 732

Notes to the company financial statements

1. General information

OUTsurance Holdings Limited (the Company) is an unlisted company incorporated and domiciled in South Africa and is a subsidiary of Rand Merchant Investment Holdings Limited.

2. Basis of preparation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act of South Africa, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

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 consolidated 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 and mitigated.

Risk and governance oversight is provided by the OUTsurance Holdings Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Asset, Liability and Capital Committee (ALCCO), 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 and Audit and Risk and Compliance Committees.

3.2 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk including interest rate 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 therefore 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. The Company's financial assets are exposed to interest rate risk as a significant portion of the Company's assets are invested in interest rate sensitive cash instruments. 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 Group's ALCCO.

The Company's exposure to interest rate risk is R2.5 million (2020: R63.7 million), which consists of variable rate instruments.

Notes to the company financial statements *continued*

3. Management of risk and capital *continued*

3.2 Financial risk management *continued*

3.2.1 Market risk *continued*

Interest rate risk *continued*

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:

	2021 1% increase R'000	2021 1% decrease R'000	2020 1% increase R'000	2020 1% decrease R'000
Cash and cash equivalents	**25**	**(25)**	637	(637)
	25	**(25)**	637	(637)

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 over the expected life of the financial instrument. The key areas where the Company is exposed to credit risk are:

- Financial instruments;
- 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 Group's ALCCO against a set Board investment mandate. The mandate is informed by the prudential regulatory capital requirements of each entity.

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

	BB R'000	Not rated R'000	Total R'000
At 30 June 2021			
Loans and receivables	**109**	**557 978**	**558 087**
Cash and cash equivalents	**2 476**	**–**	**2 476**
Total	**2 585**	**557 978**	**560 563**
At 30 June 2020			
Loans and receivables	–	531 664	531 664
Cash and cash equivalents	63 732	–	63 732
Total	63 732	531 664	595 396

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 Group's ALCCO. Should the service provider not provide a credit rating, the counterparty is shown as unrated.

Notes to the company financial statements *continued*

3. Management of risk and capital *continued*

3.2 Financial risk management *continued*

3.2.2 Credit risk *continued*

The ratings are defined as follows:

Long-term 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.

3.2.3 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 its 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 or settled in the ordinary course of business and in markets with sufficient liquidity. The effects of discounting are considered to be immaterial.

	30 June 2021		30 June 2020	
	R'000	%	R'000	%
Liquid financial assets				
Realisable within 30 days				
Cash and cash equivalents	**2 476**	**0.4%**	63 732	10.7%
Realisable between one and twelve months				
Loans and receivables[1]	**558 087**	**99.6%**	531 664	89.3%
Total liquid financial assets	**560 563**		595 396	
Total financial assets held	**560 563**	**100%**	595 396	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.

Notes to the company financial statements *continued*

3. Management of risk and capital *continued*

3.3 Financial risk management *continued*

3.3.4 Liquidity risk *continued*

	0 – 12 months R'000	Total R'000
At 30 June 2021		
Contractual undiscounted cash flows		
Redeemable preference share liability	**600 000**	**600 000**
	600 000	**600 000**
Other liabilities		
Other payables	**43 368**	**43 368**
	43 368	**43 368**
Total liabilities	**643 368**	**643 368**
Liquid asset coverage ratio	**0.87**	**0.87**
Financial assets coverage ratio		**0.87**

The liquidity ratio will be in excess of 1.0 once the subsidiaries' final dividends have been received after year-end. The outstanding payables do not fall due before the receipt of the dividends.

	0 – 12 months R'000	Total R'000
At 30 June 2020		
Contractual undiscounted cash flows		
Financial liabilities at amortised cost	100 000	100 000
Redeemable preference share liability	600 000	600 000
	700 000	700 000
Other liabilities		
Other payables	4 213	4 213
	4 213	4 213
Total liabilities	704 213	704 213
Liquid asset coverage ratio	0.85	0.85
Financial assets coverage ratio		0.85

4. Investment income

	2021 R'000	2020 R'000
Investment income on financial assets using the effective interest rate method		
Interest – financial assets measured at amortised cost	**1 617**	4 352
Dividends from subsidiaries and associates	**2 146 317**	2 855 027
	2 147 934	2 859 379

Notes to the company financial statements *continued*

5. 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:

	2021 R'000	2020 R'000
Audit fees	**771**	–
External audit fees	**771**	–
Consulting and legal fees for professional services	**4 208**	1 931
Marketing and management expenses	**943**	1 667
Total marketing and administration expenses	**5 922**	3 598

6. Finance charges

	2021 R'000	2020 R'000
Interest paid	**35 331**	42 902
	35 331	42 902

7. Taxation

	2021 R'000	2020 R'000
Normal taxation		
Current tax	**(459)**	(1 217)
Total normal taxation charge	**(459)**	(1 217)
Deferred tax		
Current year	**(2 401)**	7 995
Total deferred taxation charge	**(2 401)**	7 995
Total taxation charge	**(2 860)**	6 778
Tax rate reconciliation		
Normal tax on companies	**610 039**	777 613
Non-temporary differences	**(607 179)**	(784 391)
Securities transfer tax	**233**	456
Exempt dividends	**(600 969)**	(799 408)
(Reversal of impairment loss) / impairment loss on subsidiary	**(17 767)**	600
Impairment loss on associate	**–**	1 398
Non-deductible expenses	**11 324**	12 563
Amount calculated at effective rate	**2 860**	(6 778)

Notes to the company financial statements *continued*

8. Subsidiaries

	2021 R'000	2020 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**	435 002
Capitalised share-based payments	**218**	218
	435 220	435 220
Outsurance Properties (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	**50 100**	100
Issue of ordinary shares	**–**	50 000
	50 100	50 100
OUTvest (Pty) Ltd		
Ordinary shares at cost	**127 500**	100 000
Issue of ordinary shares	**37 500**	27 500
	165 000	127 500
CloudBadger Technologies (Pty) Ltd		
Ordinary shares at cost	**13 971**	86 000
Reversal of impairment / (impairment)	**72 029**	(72 029)
	86 000	13 971
Total investment in subsidiary companies	**2 106 751**	1 997 222

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.

During the current year the previous year's impairments to the carrying value of CloudBadger Technologies (Pty) Ltd (previously Bateleur Technologies) were reversed due to increased certainty around the recoverability of the investment. This is as a result of investments in CloudBadger by third parties as well as the fact that the company entered into revenue contracts during the financial year. The reversal of impairment resulted in the carrying amount of the investment being revised back to the initial cost of the investment. This resulted in a cumulative reversal of impairment of R72.0 million, the full impairment previously recognised.

During the year 34.8% of the ordinary shares of CloudBadger were sold to non-controlling third parties resulting in the dilution of the Company's investment in subsidiary to 65.2%.

Notes to the company financial statements *continued*

8. Subsidiaries *continued*

Summarised financial information on subsidiaries with non-controlling interests

	Youi Holdings		CloudBadger	
	2021 R'000	2020 R'000	**2021 R'000**	2020 R'000
Statement of financial position				
Current assets	**11 455 833**	10 339 643	**45 961**	178
Non-current assets	**1 221 296**	1 288 817	**45 554**	15 138
Current liabilities	**(1 577 697)**	(1 252 195)	**(6 793)**	(1 127)
Non-current liabilities	**(335 979)**	(368 774)	**(40 699)**	(218)
Technical provisions	**(6 569 312)**	(5 768 933)	**–**	–
Equity	**4 194 141**	4 238 558	**44 023**	13 971
Statement of profit or loss and other comprehensive income				
Gross written premium	**10 512 780**	8 052 661	**–**	–
After tax comprehensive income / (loss)	**746 728**	758 022	**(16 631)**	(12 719)
Cash flow statement				
Cash inflow / (outflow) from operating activities	**1 048 294**	803 171	**(3 296)**	(17 747)
Cash (outflow) / inflow from investing activities	**(20 266)**	20 161	**(13 630)**	(14 985)
Cash (outflow) / inflow from financing activities	**(30 423)**	(499 410)	**46 683**	2 000
Effect of exchange rates on cash and cash equivalents	**(137 773)**	73 384	**–**	–
Increase / (decrease) in cash and cash equivalents	**859 832**	397 306	**29 757**	(30 732)
Opening balance of cash and cash equivalents	**686 521**	289 215	**154**	30 886
Closing balance of cash and cash equivalents	**1 546 353**	686 521	**29 911**	154

The details of subsidiary companies are as follows:

			Effective holdings	
Subsidiary	Nature of business	Country of Incorporation	**2021**	2020
OUTsurance Insurance Company Limited	Short-term insurer	South Africa	**100%**	100%
OUTsurance International Holdings (Pty) Limited	Holdings company	South Africa	**100%**	100%
OUTsurance Life Insurance Company Limited	Long-term insurer	South Africa	**100%**	100%
OUTsurance Properties (Pty) Limited	Property company	South Africa	**100%**	100%
Youi (Pty) Ltd (South Africa)	Administration company	South Africa	**100%**	100%
Youi Holdings Pty Limited	Holdings company	Australia	**84.8%**	84.6%
Youi Pty Limited (Australia)	Short-term insurer	Australia	**84.8%**	84.6%
OUTsurance Shared Services (Pty) Ltd	Service company	South Africa	**100%**	100%
OUTvest (Pty) Limited	Online digital advice and administration services	South Africa	**100%**	100%
OUTvest Nominees RF (Pty) Limited	Nominee	South Africa	**100%**	100%
CloudBadger Technologies (Pty) Limited	Technology company	South Africa	**65.2%**	100%
Youi NZ Pty Limited	Administration company	New Zealand	**84.8%**	84.6%
Youi Properties Pty Limited	Property company	Australia	**84.8%**	84.6%

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.

Notes to the company financial statements *continued*

9. Investment in associates

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

There is only one other shareholder of OUTsurance Namibia, FirstRand Namibia Limited, who has the majority voting rights over the operating activities of OUTsurance Namibia. Even though the OUTsurance Group (the Group) is performing some of the operational activities there is a service level agreement in place which has been approved by the OUTsurance Namibia board, where FirstRand Namibia has the majority voting right. The Group earns a market related fee based on the services performed therefore the Group does not control OUTsurance Namibia.

The Company owns a 49% interest in Main Street 1353 (Pty) Ltd (MS1353) which in turn has an associate investment in Hasting Group Holdings plc (Hastings).

During the year under review the Company, through its investment in MS1353, restructured its investment in Hastings. MS1353 swapped its current 29.7% shareholding in Hastings for 29.7% shares in Hastings Consolidated (previously known as Dorset Bidco) and purchased an additional 0.3% shares in Hastings Consolidated at fair value of R121.6 million.

The Company funded a portion of the purchase price through a loan of R88.2 million to MS1353, which was also used to cover certain transaction costs. This amount has been repaid to the Company in full.

Hastings Consolidated is a newly established company through which MS1353, together with Sampo Oyj Group (Sampo), privatised Hastings and delisted the company. Sampo has a 70% stake in Hastings Consolidated.

In substance MS1353 retained its 29.7% share in Hastings through the share swap as they only changed the vehicle through which the shares are held; therefore, no additional identifiable assets were recognised for the existing 29.7%.

A purchase price allocation was performed on the additional 0.3% (2 157 085 shares) acquired by MS1353 and additional intangible assets worth R33.4 million were recognised in MS1353 relating to the additional shares purchased in Hastings Consolidated. The effective date of the acquisition was 16 November 2020.

MS1353 retained significant influence through its representation on the board of Hastings Consolidated. Sampo controls the operating activities of Hastings Consolidated with the majority vote.

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

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

	2021 R'000	2020 R'000
Investment in associates		
OUTsurance Insurance Company of Namibia Limited	**4 900**	4 900
Main Street 1353 (Pty) Limited	**3 333 319**	3 333 319
Other[1]	**61 835**	59 177
	3 400 054	3 397 396

1 During the current financial year the Company purchased an additional R2.7 million worth of shares in Coreshares.

Notes to the company financial statements *continued*

9. Investment in associates *continued*

	OUTsurance Namibia		MS1353		Other	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Statement of financial position						
Current assets	**102 720**	119 510	**158 133**	112 047	**51 558**	52 776
Non-current assets	**47 457**	33 782	**9 810 613**	10 028 516	**50 686**	60 280
Current liabilities	**(17 638)**	(10 504)	**(140 344)**	(144 173)	**(94 469)**	(81 809)
Non-current liabilities	**(178)**	(1 189)	**(2 934 000)**	(3 076 500)	**(7 963)**	(19 797)
Technical provisions	**(37 454)**	(40 750)	**–**	–	**–**	–
Equity	**94 907**	100 849	**6 894 402**	6 919 890	**(188)**	11 450
Statement of profit or loss and other comprehensive income						
Revenue	**152 201**	164 401	**244 638**	356 127	**75 542**	84 430
After tax profit or loss	**21 059**	14 178	**124 112**	237 712	**(11 723)**	(8 265)
Cash Flow statement						
Cash inflow / (outflow) from operating activities	**7 457**	9 202	**201 751**	433 101	**3 575**	(5 748)
Cash outflow from investing activities	**(436)**	(913)	**(204 788)**	–	**(682)**	–
Cash (outflow) / inflow from financing activities	**(983)**	–	**(7 720)**	(405 689)	**3 323**	13 172
Increase / (decrease) in cash and cash equivalents	**6 038**	8 289	**(10 757)**	27 412	**6 216**	7 424
Opening balance of cash and cash equivalents	**39 040**	30 751	**111 904**	84 479	**10 614**	3 190
Effect of exchange rate movement on cash balances	**–**	–	**(7)**	13	**(1 140)**	–
Closing balance of cash and cash equivalents	**45 078**	39 040	**101 140**	111 904	**15 690**	10 614

Refer to note 19 for the current and non-current analysis of investments in associates.

Impairment of associate

During the previous financial year, the carrying value for the investment in Autoguru was assessed for impairment by determining if this value was within the value-in-use range calculated with reference to an applicable Discounted Cash Flow valuation model. This impairment test resulted in a R25.0 million reduction in the carrying value of the investment in Autoguru. At 30 June 2021 there are no indicators that this impairment loss should be reversed or that a further impairment needs to be recognised.

Notes to the company financial statements *continued*

10. Loans and receivables

	2021 R'000	2020 R'000
Other receivables		
Loan accounts with group companies	**16 400**	–
Loan to share trust	**541 578**	531 664
Other receivables and prepayments	**109**	–
Total receivables	**558 087**	531 664

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.

Refer to related party note 20 for further details of the loan accounts with group companies.

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.

	2021 R'000	2020 R'000
Opening balance	**531 664**	229 131
Repayment of loan	**(138 551)**	(125 271)
Cash advanced to share trust	**148 465**	427 804
Closing balance	**541 578**	531 664

11. Cash and cash equivalents

	2021 R'000	2020 R'000
Cash at bank and on hand	**2 476**	63 732
	2 476	63 732

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.

12. Deferred taxation

	2021 R'000	2020 R'000
Deferred tax assets		
Fair value adjustments	**5 594**	7 995
Total deferred tax assets	**5 594**	7 995
Reconciliation of movement in deferred tax assets		
Opening balance of deferred tax assets	**7 995**	–
Deferred tax charge for the year	**(2 401)**	7 995
Closing balance of deferred tax assets	**5 594**	7 995

The Company 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.

Refer to note 19 for the current and non-current analysis of deferred taxation.

Notes to the company financial statements *continued*

13. Share capital

	2021 R	2020 R
Authorised share capital		
3 999 998 000 (2020: 3 999 998 000) ordinary shares at R0.01 each	**39 999 980**	39 999 980
1 000 variable rate non cumulative non-redeemable preference shares of R0.01 each	**10**	10
1 000 "A" variable rate, cumulative redeemable preference shares with no par or nominal value	**–**	–
Issued ordinary share capital (fully paid up)		
3 798 908 308 (2020: 3 798 908 308) ordinary shares at R0.01 each	**37 989 083**	37 989 083
Closing balance	**37 989 083**	37 989 083
Issued preference share capital		
60 "A" cumulative, redeemable preference shares	**–**	–

	2021 R'000	2020 R'000
Ordinary share premium		
Opening balance	**2 617 306**	2 617 306
Share premium raised on issue of shares	**–**	–
	2 617 306	2 617 306

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.

14. Redeemable preference share liability

	2021 R'000	2020 R'000
Redeemable preference shares	**600 000**	600 000
	600 000	600 000

During the 2017 financial year, OUTsurance Holdings Limited raised funding to acquire its 49% interest in Main Street 1353 (Pty) Ltd, which owns a 29.7% investment in Hastings Group Holdings plc. The funding was raised by the issue of 60 "A" cumulative, redeemable preference shares to OUTsurance Insurance Company Ltd at R10 million per share.

These shares are redeemable within a month's notice from either party, at the subscription price.

The preference shares are classified as funding instruments and the corresponding preference dividends are classified as interest (Note 6).

Dividends are calculated with reference to the 'prime interest rate' and are payable in arrears on 30 June and 30 December until such date of redemption.

Refer to note 19 for the current and non-current analysis of the long-term liability.

Notes to the company financial statements *continued*

15. Financial liabilities at amortised cost

	2021 R'000	2020 R'000
Loan facility	–	100 000
	–	100 000

Financial liabilities at amortised cost relate to a bank loan facility made available to OUTsurance Holdings. During the previous financial year, the Company entered into an agreement whereby an amount of R700 million was made available under 'Facility A' and a further R300 million under 'Facility B'. A commitment fee is charged on the available facility and interest is charged at a rate per annum compounded quarterly on the amount drawn down.

The rate of interest charged on each loan is calculated on the relevant quarterly JIBAR plus a margin of 100bps.

During the current financial year OUTsurance Holdings repaid the full amount of the previously accessed facility of R100 million of the funds available from 'Facility A', before entering into a new agreement with the previous counterparty as well as an additional one (two lenders).

The new agreement stipulates the availability of a new revolving credit facility to the Company to the value of R1 billion rand. The rate of interest charged on any draw down of the facility is calculated on the relevant quarterly JIBAR plus a margin of 160bps. Interest is split and payable equally to each lender.

During the current financial year, there was no amount drawn down on the new facility.

16. Other payables

	2021 R'000	2020 R'000
Other payables	**1 066**	1 432
Loan account with group companies	**27 723**	2 781
Dividends payable to group companies	**14 579**	–
Total payables	**43 368**	4 213

Refer to note 19 for the current and non-current analysis of payables.

17. Reconciliation of cash generated by operations

	2021 R'000	2020 R'000
Profit for the year before tax	**2 178 710**	2 777 188
Adjustments for:		
(Reversal of impairment loss) / impairment loss on investment in subsidiary	**(72 029)**	10 719
Impairment loss on investment in associate	–	24 972
Interest received	**(1 617)**	(4 351)
Dividends received	**(2 146 317)**	(2 855 027)
Finance charges	**35 331**	42 902
Cash utilised by operations before working capital changes	**(5 922)**	(3 597)
Change in working capital	**22 646**	4 651
(Increase) / decrease in receivables	**(16 509)**	438
Increase in payables	**39 155**	4 213
Cash generated by operations	**16 724**	1 054

Notes to the company financial statements *continued*

18. Taxation paid

	2021 R'000	2020 R'000
Taxation payable – opening balance	**(48)**	(81)
Charge to profit or loss	**(2 860)**	6 778
Adjustment for deferred tax charge	**2 401**	(7 995)
Taxation payable – closing balance	**10**	48
Taxation paid	**(497)**	(1 250)

19. 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	Shareholders equity R'000
30 June 2021				
ASSETS				
Deferred income tax	**5 594**	**5 594**	**–**	**–**
Investment in subsidiaries	**2 106 751**	**–**	**2 106 751**	**–**
Investment in associates	**3 400 054**	**–**	**3 400 054**	**–**
Loans and receivables	**558 087**	**558 087**	**–**	**–**
Cash and cash equivalents	**2 476**	**2 476**	**–**	**–**
TOTAL ASSETS	**6 072 962**	**566 157**	**5 506 805**	**–**
LIABILITIES AND EQUITY				
Total shareholders' equity	**5 429 584**	**–**	**–**	**5 429 584**
Redeemable preference share liability	**600 000**	**600 000**	**–**	**–**
Tax liabilities	**10**	**10**	**–**	**–**
Other payables	**43 368**	**43 368**	**–**	**–**
TOTAL EQUITY AND LIABILITIES	**6 072 962**	**643 378**	**–**	**5 429 584**

Notes to the company financial statements *continued*

19. 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	Shareholders equity R'000
30 June 2020				
ASSETS				
Deferred income tax	7 995	7 995	–	–
Investment in subsidiaries	1 997 222	–	1 997 222	–
Investment in associates	3 397 396	–	3 397 396	–
Loans and receivables	531 664	531 664	–	–
Cash and cash equivalents	63 732	63 732	–	–
TOTAL ASSETS	5 998 009	603 391	5 394 618	–
LIABILITIES AND EQUITY				
Total shareholders' equity	5 293 748	–	–	5 293 748
Redeemable preference share liability	600 000	600 000	–	–
Tax liabilities	48	48	–	–
Financial liabilities held at amortised cost	100 000	100 000	–	–
Insurance and other payables	4 213	4 213	–	–
TOTAL EQUITY AND LIABILITIES	5 998 009	704 261	–	5 293 748

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 wholly owned subsidiaries Firness International (Pty) Limited and RMI Asset Company (Pty) Limited.
- Associate companies of the parent company which include Discovery Holdings Limited, MMI Holdings Limited, Main Street 1353 (Pty) Limited and Coreshares Index Tracker Managers (RF) (Pty) Limited.
- Key management personnel such as the OUTsurance Holdings Limited Board of directors, the OUTsurance Holdings executive committee as well as the Youi Holdings Pty Limited Board and executive committee.

Principal shareholders

The Company is ultimately controlled by RMI Holdings. At the reporting date, RMI Holdings and its wholly owned subsidiaries owned 89.1% (2020: 89.1%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 1.7% (2020: 2.2%), OUTsurance Equity Trust 1.6% (2020: 1.1%) and management 7.6% (2020: 7.6%) of the issued share capital.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 8.

Associates

Details of investments in associates are disclosed in note 9.

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

Notes to the company financial statements *continued*

20. Related party transactions *continued*

Principal shareholders *continued*

Key management personnel

Details of key management remuneration are disclosed in the OUTsurance Holdings Ltd Group financial statements. For the year under review, the Company entered into the following transactions with related parties.

	2021 R'000	2020 R'000
Transactions with related parties		
RMI Holdings Ltd		
Ordinary dividends paid	**1 818 052**	2 285 262
OUTsurance Insurance Company Ltd		
Ordinary dividends received	**(1 848 831)**	(2 198 500)
OUTsurance Insurance Company of Namibia Limited		
Ordinary dividends received	**(13 230)**	(13 230)
OUTsurance Holdings Share Trust		
Ordinary dividends received	**(40 382)**	(34 380)
Ordinary dividends paid	**40 382**	34 380
Main Street 1353 (Pty) Limited		
Ordinary dividend received	**–**	(147 000)
OUTsurance Life Company Ltd		
Ordinary dividends received	**–**	(130 000)
OUTsurance International Holdings (Pty) Ltd		
Ordinary dividends received	**(243 875)**	(331 917)
Year end balances with related parties		
OUTsurance Holdings Share Trust		
Loan to Share Trust	**541 578**	531 664
OUTsurance Insurance Company Ltd		
Preferences shares	**600 000**	600 000
Payables	**(27 723)**	–
OUTsurance Shared Services (Pty) Ltd		
Receivables	**16 400**	–

The Company has provided security to OUTsurance in the event of default by OUTsurance Properties (Pty) Ltd. The terms of security states that the Company will pledge a portion of its shareholding in OUTsurance Properties (Pty) Ltd calculated with reference to the outstanding loan and shares held in OUTsurance Properties (Pty) Ltd at default date.

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.

23. Going concern

The Company has considered various stress scenarios related to the COVID-19 pandemic. These risk scenarios indicate that the pandemic will not change the going concern status of the Company. The Company is expected to remain financially resilient under various financial and operational stress scenarios.

22. Summary of significant accounting policies

The financial statements of OUTsurance Holdings Ltd are prepared according to the same accounting policies used in preparing the consolidated financial statements of the OUTsurance Holdings Ltd Group.

Glossary

Actuarial Practice Note (APN) 107
The guidance note on embedded value financial disclosures of South African long-term insurers issued by the Actuarial Society of South Africa.

Adjusted net worth (ANW)
Excess value of all assets attributed to covered business but not required to back the liabilities of covered business.

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.

Claims ratio
Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure includes 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 divided 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 divided by net earned premium. Total operating expenses excludes profit share distributions to FirstRand Limited relating to the Homeowners Cover product.

Cost of required capital
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.

Covered business
Business regulated by the FSB as long-term insurance business.

Embedded value (EV) of covered business
The present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business.

Consists of:
Adjusted net worth, plus
Value of in-force covered business, less
The cost of required capital.

Free surplus
ANW less the required capital attributed to covered business.

Normalised earnings
Normalised earnings adjustments are applied where the Group believes that certain transactions create a mismatch between the Group's accounting and economic performance. Normalised earnings is therefore considered to most accurately reflect the Group's economic performance.

Normalised ROE
Normalised earnings divided by average normalised ordinary shareholders equity.

Present value of new business premiums
The discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business.

Profitability of new covered business
Ratio of the net value of new business to present value of new business premiums (gross of reinsurance).

Solvency capital requirement (SCR) / Required capital
The amount of regulatory capital required as determined by the local regulatory authorities.

Underwriting results
Net earned premium less net claims loss, management and administrator expenses

Value of in-force covered business (PVIF)
The discounted value of the projected stream of after tax shareholder profits arising from existing in-force covered business.

Value of new business
Present value of the expected after-tax shareholder cash flows less cost of required capital arising at the point of sale in respect of new covered business contracts sold in the reporting period.

Weighted number of ordinary shares
Weighted number of ordinary shares in issue during the reporting period.

You always get
something out.

Company information

Directors

Mr H L Bosman *(Chairman)*, Mr K Pillay *(Lead Independent)*, Mr A W Hedding, Ms J Madavo, Mr G L Marx, Mr R Pretorius, Mr M Visser *(Chief Executive Officer)*, Mr R Ndlovu, Ms T Moabi, Mr W Roos, Ms B Hanise and Ms M Ramathe

Company Secretary and Registered Address

The company secretary is Ms Z Waterston whose registered addresses are:

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