TRUST US TO OUTSURE YOUR EVERYTHING

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OUTsurance Holdings Limited

UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

OUTsurance and OUTsurance Life are licensed insurers and FSPs.
OUTvest is an authorised FSP.

OUT SURANCE

You always get something out.

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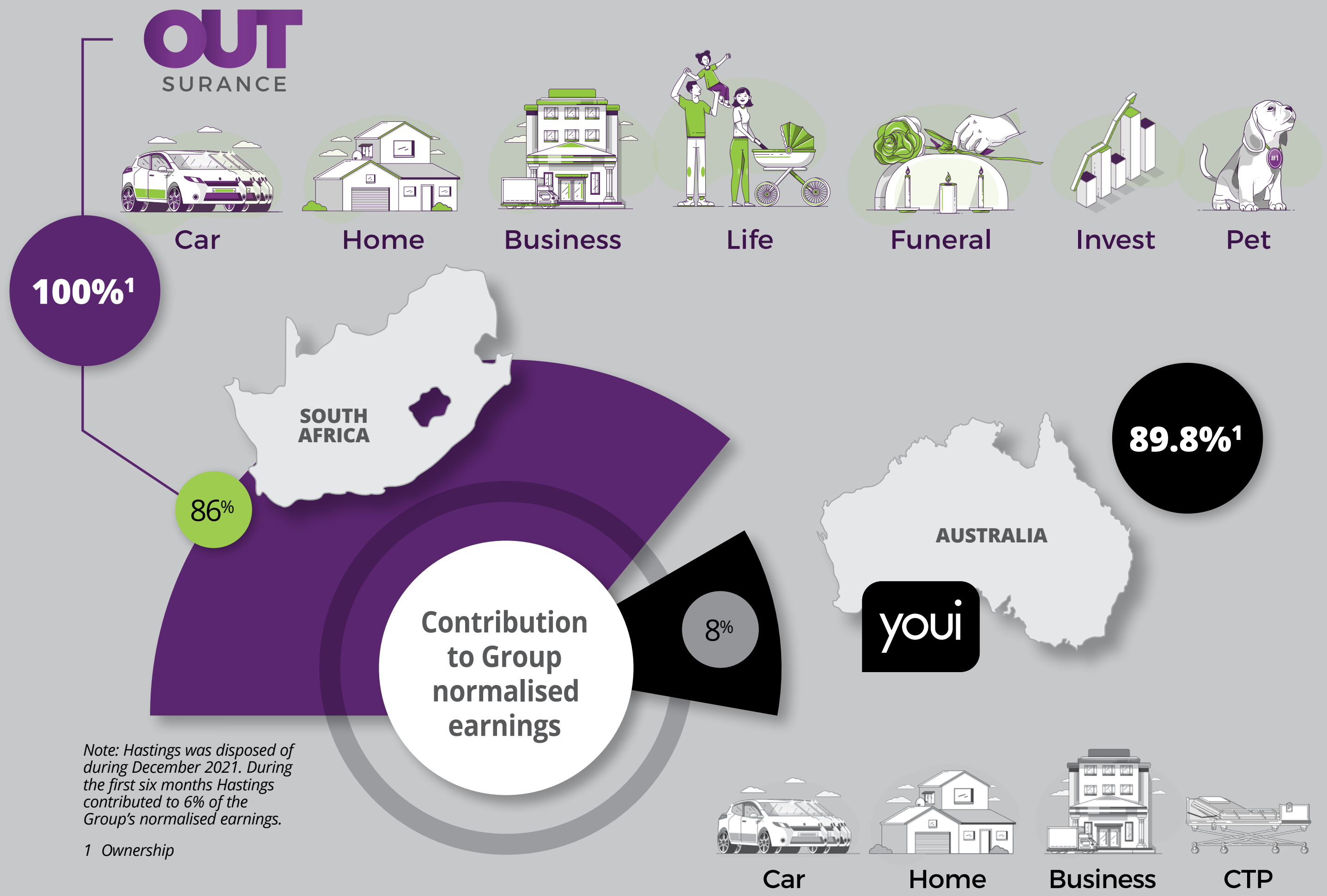


Note: Hastings was disposed of during December 2021. During the first six months Hastings contributed to 6% of the Group's normalised earnings.

1 Ownership

Introduction

This report covers the consolidated financial results of OUTsurance Holdings Limited for the six months ended 31 December 2021.

The consolidated financial results of OUTsurance Holdings Limited (the Group) are prepared based on International Financial Reporting Standards (IFRS) and are unaudited.

The primary results and accompanying commentary are presented on a normalised basis as the Group believes this basis most accurately reflects its economic and operating performance. Normalised earnings are specifically adjusted for non-operating items that include intangible asset amortisation related to the Group's previously held indirect interest in Hastings Group Holdings Ltd, gains and losses related to the acquisition and disposal of investments and material assets as well as transaction costs related to corporate actions.

Jan Hofmeyr CA (SA) supervised the preparation of the consolidated financial results and its presentation in this circular.

The Group underwrites short-term insurance products in South Africa, Australia and Namibia. OUTsurance Life and OUTvest offer life and investment products to the South African market. The Group held a significant interest in Hastings Group Holdings Ltd, a United Kingdom based motor insurer until 8 December 2021, on which date the interest was acquired by the Sampo Group.

The Group's core purpose is to offer our customers value-for-money products backed by leading and trusted customer service. This purpose is enabled by a focus on operational excellence, technology and a unique entrepreneurial business culture.

Financial performance

for the six months ended 31 December 2021

NORMALISED EARNINGS
R1 102 million
Down by **23.3%**

23.6%
NORMALISED ROE

OPERATING PROFIT
R1 142 million
Down by **35.3%**

ANNUALISED NEW PREMIUM WRITTEN
R3 382 million
Up by **17.9%**

INTERIM ORDINARY DIVIDEND PER SHARE
24.7 cents
Unchanged

GROSS WRITTEN PREMIUM
R11 600 million
Up by **14.4%**

DILUTED NORMALISED EARNINGS PER SHARE
29.3 cents
Down by **23.9%**

Overview of Group results

The OUTsurance Group delivered a satisfactory operational performance for the six months under review, marked by accelerating premium growth across all operating units. The lower earnings result reflects the significantly higher natural perils losses in Youi for the six months, overlaid by the higher event retention limit applying to catastrophes for the 2022 financial year. The normalisation of claims frequencies and wetter weather conditions were the primary drivers of the lower earnings result for the South African operation.

The Group delivered 14.4% growth in gross written premiums. The strong growth is attributed to the continued investment in the Group's strategy to expand its product range and distribution channels. The Group's overall new business premium growth increased by a pleasing 17.9%.

In addition to customer growth, premium inflation is increasing in response to the global inflationary pressures and the impact of recovering claims frequencies on motor risks. Property premiums have shown significant upward inflation, particularly in Australia where premiums are impacted by recent natural perils event patterns and the increased cost of reinsurance. We expect premium inflation to remain at elevated levels in the near term.

During the six months under review, the Group continued to support the large investments in OUTsurance Business, OUTsurance Life, Youi's underwriting partnership with Blue Zebra Insurance (BZI) and the growth of Youi's Compulsory Third Party product (CTP) in New South Wales. OUTsurance Life recently established a face-to-face distribution capability which will create access to new market segments. Although the losses from these growth initiatives continue to weigh on earnings, these ventures are seen as the major drivers of shareholder value in the medium term.

The Group's claims ratio increased from 52.6% to 58.1% impacted by the large increase in retained natural perils losses by Youi during the six months under review. The normalisation of motor vehicle claims frequencies, load-shedding related claims and inflation effects contributed to higher attritional claims. Also contributing to the higher claims ratio of the Group are the effect of lower prior year claims reserve releases.

As the Group's product exposure diversifies to the high growth but lower margin segments, the combined ratio will adjust in line with the changed composition.

The Group's insurance cost-to-income ratio increased from 27.2% to 28.6%. This is as a result of the increasing contribution of Youi's higher cost ratio to the overall cost composition of the Group. The impact of inflationary pressures on the cost base is expected to be offset by positive premium inflationary trends. In addition to the investment in the growth initiatives, the Group continues to invest in its large systems transformation projects which include various digitalisation initiatives to provide customers with an omni-channel service experience.

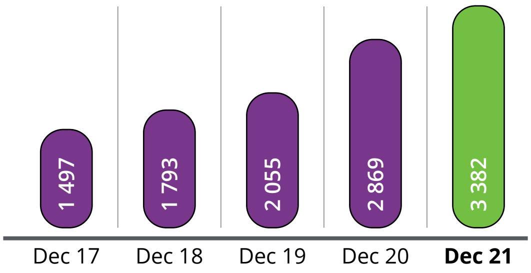
At year-end we communicated the expected volatility of Youi's earnings over the course of the 2022 financial year as a result of the increase in the natural catastrophe event retention to A$30 million from A$10 million in the 2021 financial year. The impact of higher retention is offset by the natural perils aggregate treaty which attaches at A$60 million of cumulative retained losses. The aggregate treaty provides cover for the next A$70 million of natural losses incurred up to 30 June 2022. During January 2022, the attachment point for the aggregate treaty was reached. This position implies that Youi is well insulated from natural perils losses for the second half of the financial year. Youi will be increasing its interest in BZI from 4% to 34% in March 2022. This investment represents a strategic stake in Youi's fastest growing new business channel.

During December 2021, the Group disposed of its 14.7% interest in Hastings following an offer from Sampo, the controlling shareholder, to acquire the collective 30% interest held by RMI Holdings and OUTsurance. The offer represented a 38% premium over the take-private offer concluded in partnership with Sampo in November 2020. The Group generated a profit of R2.4 billion on the disposal of the interest which represents a 72% return on the original investment made in 2017. The Group's normalised earnings result is presented exclusive of this once-off profit. The surplus capital generated from the investment was partially distributed as a special dividend and R1.7 billion is retained for strategic purposes and a further acquisition of a Youi minority interest.

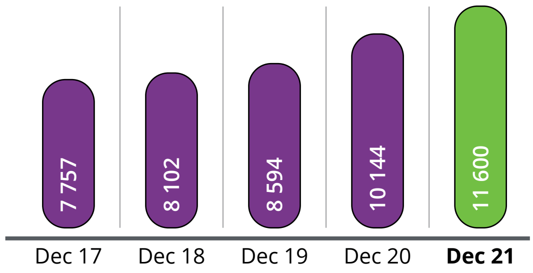
The Group and FirstRand Namibia entered into a binding offer to dispose of our 49% interest held in OUTsurance Namibia. The transaction is subject to regulatory approval. Our exit of the Namibian market is supported by limited growth opportunities available in the market and allows the group to focus its resources on its primary growth strategies.

Overview of Group results *continued*

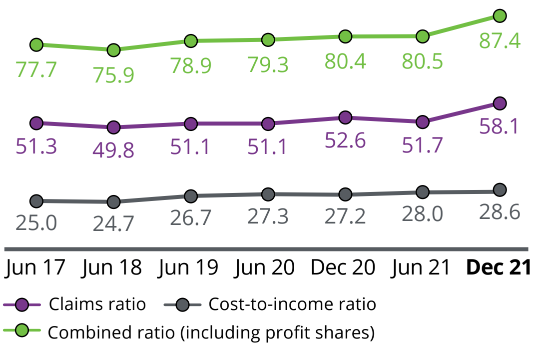
Annualised new business premium written
(R'million)



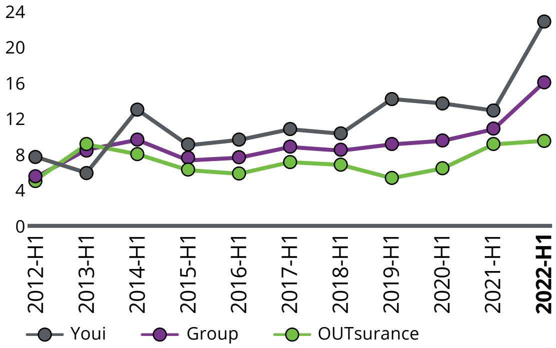
Gross written premium
(R'million)



Group key ratios (%)
(excluding non-insurance operations)



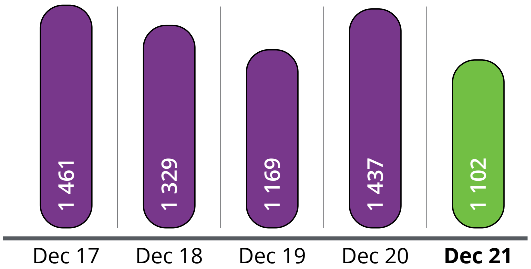
Retained natural peril losses as % of NEP for first half financial years (Retained losses as % of NEP)



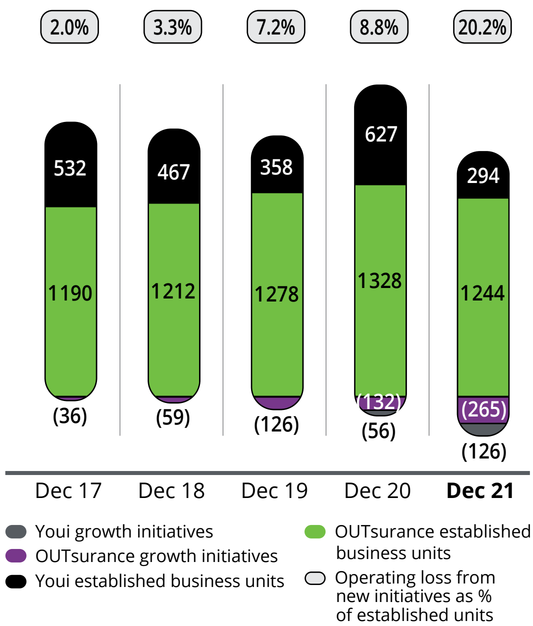
The above graph illustrates the increasing exposure of the retained natural peril losses in the first half of the most recent financial years.

The position for H1 2022 is amplified by the higher retention applicable to Youi's reinsurance program.

Normalised earnings
(R'million)



Impact of growth initiatives on operating profit
(R'million)



Overview of Group results *continued*

Group – key performance indicators

R'million	Six months ended 31 December 2021	2020	% change	Year ended 30 June 2021
Gross written premium	**11 600**	10 144	14.4%	**20 570**
Net earned premium	**9 923**	8 873	11.8%	**18 051**
Operating profit[4]	**1 142**	1 766	(35.3%)	**3 317**
Headline earnings	**1 053**	1 289	(18.3%)	**2 598**
Normalised earnings	**1 102**	1 437	(23.3%)	**2 779**
Normalised ROE[1]	**23.6%**	24.9%		**25.6%**
Normalised earnings per share (cents)	**29.5**	38.7	(23.8%)	**74.7**
Diluted normalised earnings per share (cents)	**29.3**	38.5	(23.9%)	**73.8**
Dividend declared per share (cents)	**24.7**	24.7	–	**59.0**
Claims ratio (including non-claims bonuses)	**58.1%**	52.6%		**51.7%**
Cost-to-income ratio[2]	**28.6%**	27.2%		**28.0%**
Combined ratio[2, 3]	**87.4%**	80.4%		**80.5%**

1 *Attributable to ordinary shareholders.*
2 *The cost-to-income and combined ratios are only for the insurance and investment activities of the Group. They exclude the results of the non-operational subsidiaries, OUTsurance Shared Services and CloudBadger Technologies. The cost-to-income and combined ratios for the entire Group are 30.7% (2020: 28.9%) and 89.6% (2020: 82.1%), respectively.*
3 *After profit share distributions paid to FirstRand Limited.*
4 *Net of investment management fees of R5.4 million (2020: 3.8 million).*

Sources of operating profit and normalised earnings

The Group's operating entities contributed to the Group results as follows:

	Operating profit			
R'million	Six months ended 31 December 2021	2020	% change	Year ended 30 June 2021
OUTsurance[1]	**991**	1 192	(16.9%)	**2 295**
OUTsurance Life	**(51)**	1	(>100%)	**(25)**
Youi Group	**170**	588	(71.1%)	**1 062**
Central and new business development[2]	**32**	(15)	>100%	**(15)**
Operating Profit Group	**1 142**	1 766	(35.3%)	**3 317**

1 *Includes OUTsurance Personal, OUTsurance Business, OUTsurance Central costs and is net of FirstRand Homeowners profit share.*
2 *Group central costs, consolidation entries and non-operating entities.*

	Normalised earnings*			
R'million	Six months ended 31 December 2021	2020	% change	Year ended 30 June 2021
OUTsurance	**937**	1 018	(8.0%)	**1 936**
OUTsurance Life	**(21)**	18	(>100%)	**20**
Youi Group	**123**	406	(69.7%)	**747**
Minorities	**(25)**	(63)	60.3%	**(112)**
Central and new business development[1, 2]	**22**	(33)	>100%	**(63)**
Earnings from associates	**66**	91	(27.5%)	**251**
Main Street 1353	**64**	99	(35.4%)	**244**
OUTsurance Namibia and other	**2**	(8)	>100%	**7**
Normalised Group	**1 102**	1 437	(23.3%)	**2 779**

1 *Includes consolidation entries, profit and losses generated by non-operating subsidiaries and new business development expenditure incurred across the Southern African Group. New business development expenditure includes the start-up loss of OUTvest.*
2 *The positive result in the current interim period was mainly attributed to translation gains.*
* *The headline earnings for the subsidiaries are equal to the normalised earnings as there are no normalised adjustments in the subsidiaries.*

Overview of Group results *continued*

Business unit performance

OUTsurance

OUTsurance recorded 8.9% growth in gross written premium and 7.6% growth in annualised new business premium written aided by the continued expansion of the OUTsurance Broker force and steady volume growth delivered by OUTsurance Personal.

Accelerating premium inflation is being observed across the motor and non-motor book in response to global inflationary pressures, the impact of increased load-shedding, higher new and used vehicle values and the normalisation of motor claims frequencies. The improved inflationary outlook follows multiple years of persistently low premium inflation.

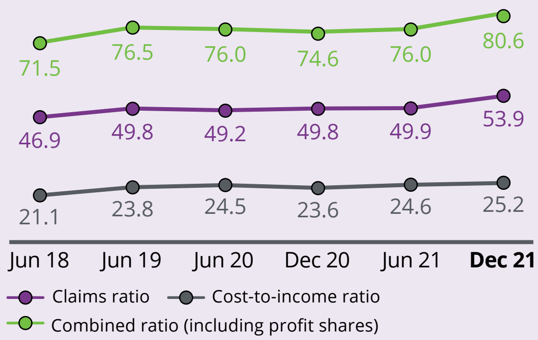
The claims ratio increased from 49.8% to 53.9% as a result of wetter weather conditions, increased non-motor claims costs and the further normalisation of motor claims frequencies which drove up claims costs in the first half of the financial year. The prior year claims ratio also benefitted from reserve releases related to business interruption claims provisions not repeated in the current period. Premium adjustments in response to higher non-motor claims are expected to improve the claims ratio during the second half of the financial year.

The expansion of OUTsurance Business contributes to an increasing proportion of commercial risk exposure for OUTsurance which operates at a higher claims ratio compared to the core Personal Lines operation. As such, the claims ratio of OUTsurance will reflect this mix change over time. This change is also observed in the cost-to-income ratio, where OUTsurance Business operates at a higher cost-to-income ratio.

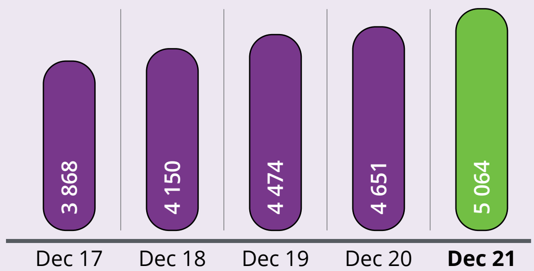
The cost-to-income ratio for the reporting period increased from 23.6% to 25.2%. The increase is as a result of a of a once-off adjustment of R50 million to the share-based payments liability and the continued investment in the OUTsurance Broker capacity. The adjustment to the share-based payment liability is associated with a strike price reduction to share options following the December 2021 special dividend distribution. This adjustment added 1% to the cost-to-income ratio for the six months.

Operating profit was 16.9% lower at R991 million and headline earnings decreased by 8.0%, the latter benefitting from improved investment returns on equity instruments.

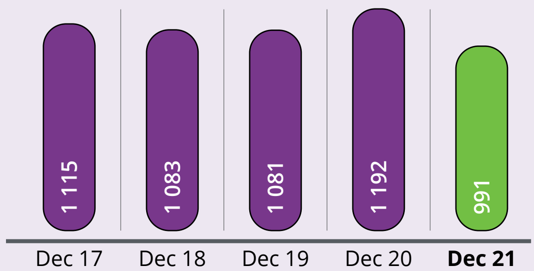
Key ratios (%)



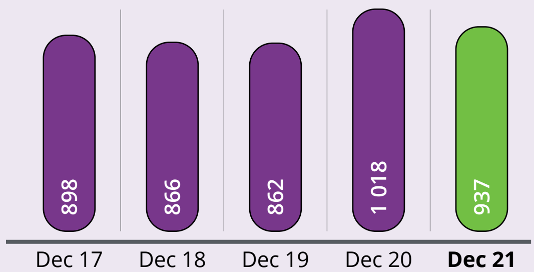
Gross written premium
(R'million)



Operating profit
(R'million)



Headline earnings
(R'million)



Overview of Group results *continued*

OUTsurance – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
Gross written premium	**5 064**	4 651	8.9%	**9 407**
Net earned premium	**4 935**	4 552	8.4%	**9 259**
Operating profit[1, 4]	**991**	1 192	(16.9%)	**2 295**
Headline earnings[3]	**937**	1 018	(8.0%)	**1 936**
Claims ratio (including bonuses)	**53.9%**	49.8%		**49.9%**
Accident year claims ratio	**57.4%**	54.3%		**52.9%**
Prior year development	**(3.5%)**	(4.5%)		**(3.0%)**
Cost-to-income ratio	**25.2%[2]**	23.6%		**24.6%**
Combined ratio[1]	**80.6%**	74.6%		**76.0%**

1 *After profit share distributions paid to FirstRand Limited, including OUTsurance Central.*
2 *24.2% ignoring the once-off adjustment for the share-based payment liability related to the special dividend distribution in December 2021.*
3 *The headline earnings are equal to the normalised earnings as there are no normalised adjustments.*
4 *Net of investment management fees of R3.8 million (2020: R3.9 million).*

The operating segments contributing to the OUTsurance operating result are OUTsurance Personal and OUTsurance Business. The results of these segments are analysed below:

OUTsurance Personal – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
Gross written premium	**4 045**	3 822	5.8%	**7 694**
Net earned premium	**3 957**	3 747	5.6%	**7 586**
Operating profit[1]	**1 069**	1 151	(7.1%)	**2 329**
Claims ratio (including bonuses)	**51.6%**	49.7%		**48.3%**
Cost-to-income ratio	**20.1%**	18.9%		**20.0%**
Combined ratio[2]	**73.6%**	70.1%		**68.8%**

1 *Net of investment management fees of R3.1 million (2020: R3.2 million).*
2 *After profit share distributions paid to FirstRand Limited.*

The new business relationship between OUTsurance and FirstRand on Homeowners cover was suspended from 1 January 2021 resulting in the existing book entering run-off for an expected period of at least ten years. The HOC arrangement contributed 8.2% of the total OUTsurance Personal premium income for the six months under review.

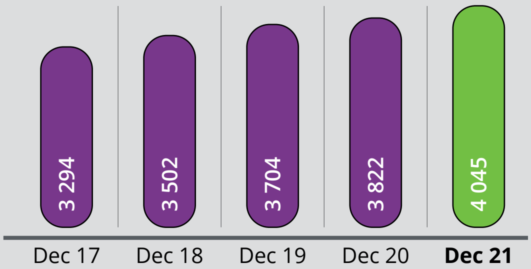
Excluding the FirstRand Homeowners book, OUTsurance Personal grew gross premium income by 6.6% which is attributed to strong new business growth over the last year aided by the acceleration of premium inflation. Including the FirstRand Homeowners book, gross written premium grew by 5.8%. OUTsurance Personal achieved annualised new business premium growth of 7.6% for the six months under review.

The claims ratio has increased from 49.7% to 51.6% due to the normalisation of pandemic related motor claims frequencies as well as increased claims frequencies on the property risks due to the wetter weather conditions and load shedding related power surges.

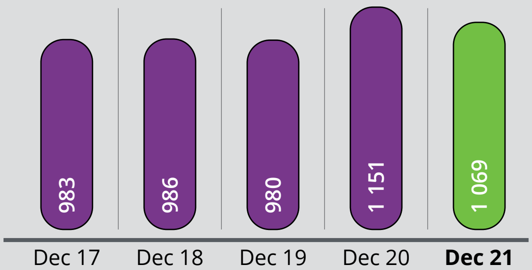
The cost-to-income ratio for OUTsurance Personal increased from 18.9% to 20.1%. The increased ratio is as a result of the allocation of pandemic related business continuity costs being allocated to segments and the resumption of remuneration inflation in the 2022 financial year.

Overview of Group results *continued*

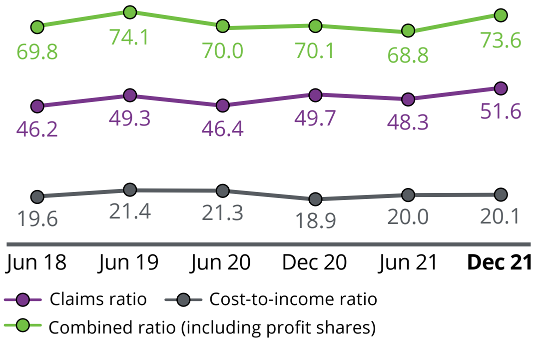
OUTsurance Personal – gross written premium
(R'million)



OUTsurance Personal – operating profit
(R'million)



Key ratios – Personal (%)



OUTsurance Business – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
Gross written premium	**1 019**	829	22.9%	**1 713**
Net earned premium	**978**	805	21.5%	**1 673**
Operating profit[1]	**14**	110	(87.3%)	**97**
Claims ratio (including bonuses)	**63.1%**	50.1%		**57.4%**
Cost-to-income ratio	**36.2%**	37.1%		**37.8%**
Combined ratio	**99.3%**	87.2%		**95.2%**

[1] *Net of investment management fees of R0.7 million (2020: R0.7 million).*

OUTsurance Business delivered 22.9% growth in gross written premium for the six months under review. This growth rate compares to 7.7% achieved in the 2020 interim financial period. The growth is attributed to the continued expansion in the OUTsurance Broker sales capacity and a positive turn in the Direct book following improved trading conditions for small businesses. The OUTsurance Broker channel grew gross written premiums by 68.7% to R434 million. The Business Direct channel experienced growth of 2.4% in premiums on account of improved premium inflation and a larger in-force book.

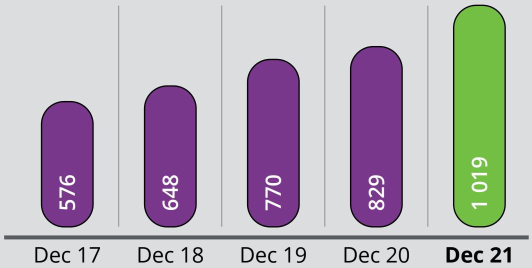
The claims ratio has increased from 50.1% in 2020 to 63.1% due to increased severity and frequency of non-motor claims. The claims ratio is also being influenced by the mix change towards the OUTsurance Broker book with a higher inherent claims ratio. The comparative claims ratio benefitted from once off release of a surplus business interruption claims provision.

The cost-to-income ratio decreased marginally to 36.2% due to the growth in premium offsetting the internal expense inflation and the effects of economies of scale emerging in the OUTsurance Broker channel.

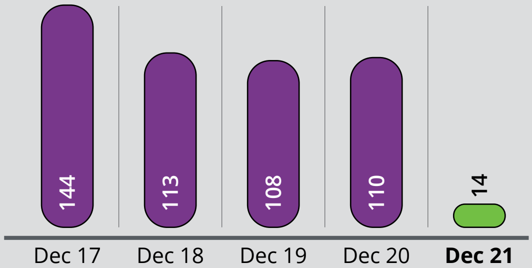
The OUTsurance Broker channel incurred a loss of R198 million for the six months under review. This result compares to a R103 million loss in the prior interim period. The Broker channel is expected to show an improved loss position in the second half of the year as further scale benefits are realised and claims performance improves.

Overview of Group results *continued*

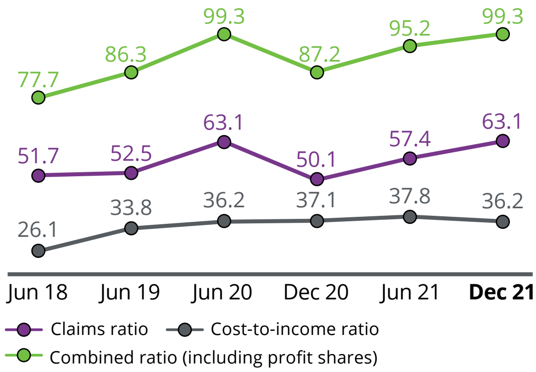
OUTsurance Business – gross written premium
(R'million)



OUTsurance Business – operating profit
(R'million)



Key ratios – Business (%)



Youi Group

Youi achieved strong new business growth in the six months under review. Gross written premiums increased by 26.1% measured in Australian Dollars. The BZI partnership and CTP initiatives were the primary drivers of the higher growth rate. Net earned premiums grew by 22.5% as the lower proportional cost of Youi's 2022 reinsurance programme translated into a narrower growth differential between gross and net premiums. Youi's annualised new business premium written in the six months under review, increased by 13.6% in Australian Dollars.

New business flows from BZI were bolstered by the inclusion of BZI's product on the Steadfast Platform during Q3 2021. The Steadfast Platform provides a large broker footprint for distribution across Australia.

Youi's CTP offering is performing in line with expectations and following a recent licence approval, will be expanded to South Australia in the 2023 financial year.

The significant increase in the claims ratio from 53.4% to 62.0% is due to the extent of natural catastrophe events experienced which included the Melbourne Earthquake and various hail and flood events. This compares to a comparative six months which had few catastrophe events. The financial impact of these events were amplified by changes to Youi's reinsurance structure for 2022 where reinsurance attaches at A$30 million per event compared to A$10 million in the 2021 financial year. Youi's natural perils aggregate does however compensate for the higher event retention by providing cover of A$70 million once the aggregated retained natural perils losses for the year exceeds A$60 million. This level was reached in January 2022. We therefore expect a favourable claims ratio performance from Youi in the second half of the financial year.

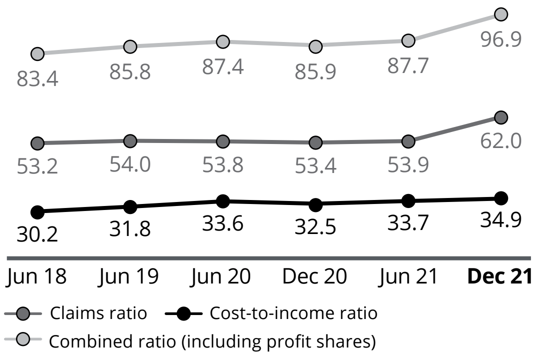
Youi's cost-to-income ratio increased from 32.5% to 34.9%. The increase is associated with the cost of the Youi's product and channel growth initiatives, broker commission paid to BZI and the ongoing cost of regulatory and systems transformation projects.

Youi's operating profit decreased by 70.2% and 68.8% in Rand and Australian Dollars respectively.

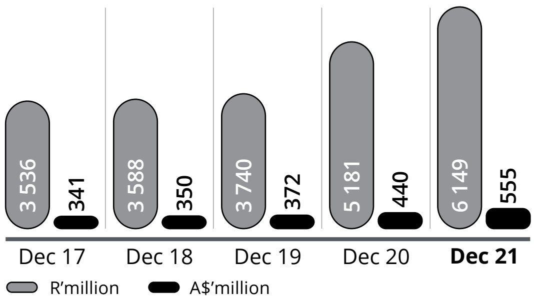
The lower average exchange rate diluted the impact of Youi's revenue growth on the reported results of the Group.

Overview of Group results *continued*

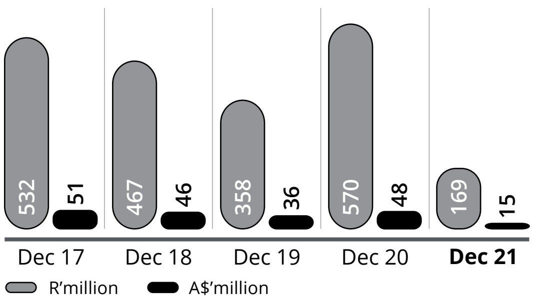
Youi Australia – Key ratios (%)



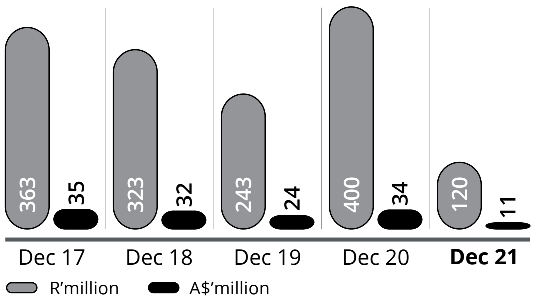
Youi Australia – Gross written premium



Youi Australia – Operating profit



Youi Australia – Headline earnings



The above graphs represent the operating results of Youi Australia and exclude the historic contribution of Youi NZ for which the insurance operations were discontinued in December 2019.

Youi Group – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
Rand (R'million)				
Gross written premium	**6 149**	5 181	18.7%	**10 513**
Net earned premium	**4 644**	4 038	15.0%	**8 207**
Operating profit	**170**	588	(70.2%)	**1 062**
Headline earnings[1]	**123**	406	(69.7%)	**747**
Australian Dollars ($'million)				
Gross written premium	**555**	440	26.1%	**919**
Net earned premium	**419**	342	22.5%	**717**
Operating profit	**15**	48	(68.8%)	**93**
Headline earnings[1]	**11**	34	(67.6%)	**65**
Ratios				
Claims ratio (%)	**62.0%**	53.4%		**53.9%**
Accident year claims ratio	**65.3%**	58.9%		**57.2%**
Prior year development	**(3.3%)**	(5.5%)		**(3.3%)**
Cost-to-income ratio	**34.9%**	32.5%		**33.7%**
Combined ratio	**96.9%**	85.9%		**87.7%**
AUD/ZAR exchange rate				
– Closing	**11.60**	11.30	2.7%	**10.70**
– Average	**11.07**	11.76	(5.9%)	**11.44**

[1] *The headline earnings are equal to the normalised earnings as there are no normalised adjustments.*

Overview of Group results *continued*

OUTsurance Life

A significant investment is being made in product and channel expansion for OUTsurance Life. The Funeral product and face-to-face distribution capability for our underwritten life products are positioned as key growth catalysts.

OUTsurance Life grew gross written premiums by 23.7% for the six months under review with the Funeral product delivering growth in excess of 80%. The Funeral partnership with Shoprite is delivering exciting growth. During July 2021, OUTsurance Life launched the face-to-face distributed underwritten product supported by the OUTsurance Financial Advisor (tied-agents) distribution strategy.

OUTsurance Life realised a R51 million operating loss for the period under review. Despite contributing to strong premium growth, the initial losses associated with the product and channel expansion is negatively impacting operating profit.

The pandemic continued to elevate mortality claims, particularly during the third COVID-19 wave when the Delta variant created significantly higher mortality losses for OUTsurance Life. The fourth wave, dominated by the Omicron variant, had a more muted impact on the mortality experience. COVID-19 claims for the six months under review amounted to R90 million in comparison to R36 million in the comparative period. A prudent COVID-19 reserve is being maintained to allow for adverse mortality and lapsation linked to the pandemic. Experience to date indicates that the reserve is appropriately prudent. The ongoing maintenance of the reserve also contributed to the operating loss.

The Funeral product (including the Shoprite distribution channel arrangement) incurred an operating loss of R26 million for the six months under review compared to a R18 million loss on a comparative basis. The OUTsurance Face-to-Face distributed product incurred a loss of R27 million for the six months under review. The Funeral and Face-to-Face distributed products were the main drivers of the OUTsurance Life operating loss.

Positive market conditions resulted in growth in investment income when compared to the previous six months. OUTsurance Life realised negative headline earnings of R21 million.

The growth in OUTsurance Life has resulted in a 6.1% and 9.6% increase in embedded value since June 2021 and December 2020 respectively and strong VNB margins for all products.

OUTsurance Life – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
Gross written premium	**386**	312	23.7%	**650**
Operating profit[1]	**(51)**	1	(<100%)	**(25)**
Headline earnings[3]	**(21)**	18	(<100%)	**20**
Embedded value	**1 389**	1 267	9.6%	**1 309**
VNB margin[2]	**14.5%**	3.0%	>100%	**8.6%**

[1] *Net of investment management fees of R1.6 million (2020: R0.4 million).*
[2] *Net of COVID-19 reserve adjustments.*
[3] *The headline earnings are equal to the normalised earnings as there are no normalised adjustments.*

Overview of Group results *continued*

OUTsurance Namibia

OUTsurance Namibia generated R73 million in gross written premiums which is 1.4% lower than the prior period due to lower new business activity resulting from the maintenance of underwriting discipline in a more competitive market. The headline earnings result was 30.8% lower than the prior year. The decrease in headline earnings is as a result of a higher claims ratio resulting from increased non-motor claims. The Group has entered a binding offer to dispose of its 49% interest in OUTsurance Namibia to the FirstRand Group. Completion is subject to regulatory approval. The Group will continue to support OUTsurance Namibia for a defined period after the disposal to ensure an appropriate operational transition.

OUTsurance Namibia – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
Gross written premium	**73**	74	(1.4%)	**152**
Net earned premium	**66**	68	(2.9%)	**133**
Headline earnings[1]	**9**	13	(30.8%)	**21**
Claims ratio	**56.9%**	51.3%		**54.9%**

[1] *The headline earnings are equal to the normalised earnings as there are no normalised adjustments.*

Earnings from associates

Until 8 December 2021, the Group owned a 14.7% indirect interest in Hastings Group Holdings (Hastings). The interest was held through a 49% interest in Main Street 1353 (Pty) Ltd (MS1353), a subsidiary of RMI Holdings. MS1353 disposed of its 30% interest to the Sampo Group which partnered with RMI Holdings to privatise the Hastings in November 2020 when Sampo acquired a 70% share of Hastings.

The disposal proceeds raised by MS1353 was R14.6 billion and OUTsurance Holdings received a special dividend from MS1353 of R5.7 billion which represents the original investment plus the R2.4 billion gain realised.

The Group owns minority interests in CoreShares Holdings and AutoGuru Australia which are also accounted for as associates.

Normalised earnings from associates

	Six months ended 31 December			Year ended 30 June
R'million	**2021**	2020	% change	**2021**
MS1353 (49%)	**16**	(63)	>100%	**63**
Share of Hastings earnings (14.7%)	**2 497**	(56)	>100%	**120**
Share of Hastings headline earnings adjustments (14.7%)[1]	**(2 431)**	2	(<100%)	**2**
Interest on debt funding	**(49)**[4]	(13)	100.0%	**(28)**
Other income and expenses[2]	**(1)**	4	(<100%)	**(31)**
Normalised adjustments related to MS1353	**48**	149	(67.8%)	**181**
Amortisation of intangible assets	**31**	36	(13.1%)	**71**
Transaction costs[3]	**17**	113	(85.0%)	**110**
MS1353 normalised earnings from associate	**64**	86	(25.3%)	**244**
OUTsurance Namibia and other associate earnings	**2**	5	(58.3%)	**7**
Total normalised earnings from associates	**66**	91	(27.1%)	**251**
GBP/ZAR average exchange rate	**20.68**	21.37	(3.2%)	**20.79**

[1] *Profit made in disposal of Hastings by MS1353 net of related transaction costs.*
[2] *The increase in June 2021 was as a result of the fair value movement of the derivative structure in place.*
[3] *Transaction related expenses incurred by Hastings and MS1353 in the privatisation transaction in 2020. For the six months under review, transaction costs related to funding exit costs.*
[4] *The interest on debt funding for the current period includes cancellation fees of R27 million for early settlement of the debt.*

Overview of Group results *continued*

Capital and dividends

Capital position

At 31 December 2021, the Group and its regulated subsidiaries and associates traded from strong capital positions as summarised in the table below. The Solvency Coverage Ratios for the Group and South African regulated entities are presented based on the Financial Insurance Standards. The ratios for the Youi entities and OUTsurance Namibia are based on the local prudential regulatory requirements.

The Group's SCR ratio is inclusive of R1.7 billion proceeds retained from the disposal of Hastings. The surplus is being held for strategic expansion projects and the acquisition of a further Youi minority interest.

	Six months ended 31 December			Year ended 30 June
Solvency coverage ratio	**2021**	2020	Target	**2021**
Group	**2.3**	2.3	1.4	**2.2**
Short-term insurance				
OUTsurance	**1.7**	1.8	1.2	**1.8**
OUTsurance Namibia	**1.9**	2.2	1.2	**2.3**
Youi Group	**2.6**	3.2	2.0	**3.0**
Long-term insurance				
OUTsurance Life	**2.6**	3.1	1.5	**2.7**

Interim dividend

The Group declared an interim dividend of 24.7 cents per ordinary share which is equal to the interim dividend declared in the prior year.

The Group paid a special dividend of 82.0 cents per share in December 2021 following the disposal of Hastings.

	2021 interim dividend	2020 interim dividend	% change	**2021 full year dividend**
Cents per ordinary share	**24.7**	24.7	–	**59.0**

Looking ahead

The Group's various growth initiatives are expected to maintain good momentum into the second half of the financial year with OUTsurance Business expected to improve its monthly loss profile as scale benefits are realised. Our management team is focussed on ensuring that the premium growth achieved translates into quality earnings and long-term shareholder value creation.

The rising inflation and interest rate environment will be the main factor impacting the shape of economic recovery since the onset of the pandemic. These factors, if contained, will improve the revenue growth for the Group after a protracted period of low premium inflation in the South African operation.

We aim to make significant progress with our operational and financial systems transformation projects over the course of 2022. These modernisation projects are key to retaining systems agility and data analysis excellence to underpin our leading customer service offering and scientific underwriting.

Events after reporting period

The directors are not aware of any material events as defined in the IAS 10, occurring between 31 December 2021 and the date of the authorisation of the financial results. Australia endured record flooding events during February 2022 and March 2022. At the time of writing, Youi's gross exposure was estimated at A$80 million. After reinsurance, Youi's net retained loss is expected between A$2 million and $A6 million.

Marthinus Visser
Chief Executive Officer

1 March 2022

Herman Bosman
Chairman

1 March 2022

Overview of Group results *continued*

Normalised earnings reconciliation and earnings per share

Group headline and normalised earnings reconciliation

Normalised earnings exclude financial items which are of a once-off or non-operational nature to enable a more accurate reflection of the Group's underlying operational and economic performance. The primary results and accompanying commentary are therefore presented with reference to the normalised earnings performance of the Group and its operating entities.

During the six-month period, the Group's associate, MS1353, disposed of its entire 30% interest in Hastings to Sampo. The profit on sale (net of transaction costs) was R2.4 billion and the portion attributable to the OUTsurance Group was distributed as a dividend by MS1353. The earnings from associate related to the profit on sale of Hastings is excluded from headline earnings. Please refer to the Investment in associate note on page 37 for further information regarding this transaction and the impairment recognised on the investment in associate.

For the current and comparative periods, normalised earnings are specifically adjusted for the amortisation of intangible assets associated with the acquisition of the Group's indirect interest in Hastings (via MS1353) as well as the profit on sale mentioned above. These intangible assets represent the value of the Hastings customer lists and brand which were created in accordance with the requirements of IFRS 3 Business Combinations. IFRS 3 requires that an acquirer attributes the premium paid over the net asset value of the acquiree in a business combination to identifiable intangible assets to reduce the amount of goodwill recognised. The intangible assets were recognised on the statement of financial position of MS1353 up until the date of sale and amortised over a period of five years. The amortisation of these assets is excluded from Group normalised earnings as illustrated in the table below:

Headline and normalised earnings reconciliation

	Six months ended 31 December			Year ended 30 June
R'000	**2021**	2020	% change	**2021**
IFRS profit attributable to equity holders	**3 260 074**	1 349 818	>100%	**2 703 366**
Non-controlling interest	**(24 978)**	(63 035)	(60.9%)	**(112 278)**
IFRS earnings attributable to ordinary shareholders	**3 235 096**	1 286 783	>100%	**2 591 089**
Adjusted for:				
Impairment of investment in associate	**248 914**	–		**–**
Loss on dilution of equity accounted investment	**–**	1 787		**1 786**
Profit on sale of underlying investment in associate	**(2 430 864)**	–		**–**
Loss on disposal of property and equipment	**426**	127		**7 090**
Tax effect of headline earnings adjustments	**(115)**	(35)		**(2 031)**
Headline earnings	**1 053 457**	1 288 662	(18.3%)	**2 597 934**
Adjusted for:				
Amortisation of intangible assets related to MS1353	**31 279**	35 510		**71 208**
Hastings restructuring costs	**–**	112 523		**109 773**
Transaction costs incurred in disposal of Hastings	**17 347**	–		**–**
Normalised earnings	**1 102 083**	1 436 695	(23.3%)	**2 778 915**
Normalised earnings per share (cents)	**29.5**	38.7		**74.7**
Diluted normalised earnings per share (cents)	**29.3**	38.5		**73.8**

Overview of Group results *continued*

Calculation of normalised earnings per share

	Six months ended 31 December		Year ended 30 June
R'000	**2021**	2020	**2021**
Basic normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 102 083**	1 436 695	**2 778 915**
Weighted average number of shares in issue ('000)	**3 733 498**	3 716 822	**3 718 751**
Basic normalised earnings per share (cents)	**29.5**	38.7	**74.7**
Diluted normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 102 083**	1 436 695	**2 778 915**
Dilutive impact of Youi Holdings Group share incentive scheme (R'000)	**(812)**	(1 740)	**(24 742)**
Total diluted normalised earnings attributable to ordinary shareholders (R'000)	**1 101 271**	1 434 955	**2 754 173**
Diluted weighted average number of shares in issue ('000)	**3 757 413**	3 724 480	**3 730 922**
Weighted average number of shares in issue ('000)	**3 733 498**	3 716 822	**3 718 751**
Dilutive impact of Youi Holdings Group share incentive scheme ('000)	**23 915**	7 658	**12 171**
Diluted normalised earnings per share (cents)	**29.3**	38.5	**73.8**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

Unaudited interim financial statements and supporting notes

Consolidated statement of comprehensive income

for the six months ended 31 December

	Six months ended 31 December			Year ended 30 June
	2021 R'000	2020 R'000	% change	**2021 R'000**
Gross written premiums	**11 599 524**	10 144 074	14.3%	**20 570 087**
Outward reinsurance premiums	**(911 356)**	(699 980)	(30.2%)	**(1 658 668)**
Net premiums	**10 688 168**	9 444 094	13.2%	**18 911 419**
Change in provision for unearned premiums	**(765 225)**	(571 804)	(33.8%)	**(860 279)**
Earned premiums, net of reinsurance	**9 922 943**	8 872 290	11.8%	**18 051 140**
Non-insurance related fee income	**54 138**	9 402	>100%	**61 775**
Investment income	**81 137**	14 300	>100%	**115 765**
Interest income on financial assets using the effective interest rate method[1]	**112 141**	154 559	(27.4%)	**241 234**
Net gain from fair value adjustments on financial assets	**220 662**	224 595	(1.8%)	**382 516**
Income	**10 391 021**	9 275 146	12.0%	**18 852 430**
Policyholder benefits on insurance contracts net of reinsurance	**(5 677 184)**	(4 506 396)	(26.0%)	**(9 251 661)**
Gross policyholder benefits under insurance contracts	**(5 994 928)**	(5 680 273)	(5.5%)	**(10 527 904)**
Reinsurers' share of insurance contracts	**317 744**	1 173 877	(72.9%)	**1 276 243**
Transfer to policyholder liabilities under insurance contracts	**(92 232)**	(157 451)	41.4%	**(249 091)**
Acquisition expenses[2]	**–**	(46 001)	>100%	**–**
Marketing and administration expenses	**(3 047 478)**	(2 526 633)	(20.6%)	**(5 451 389)**
Fair value adjustment to financial liabilities	**(76 292)**	(54 176)	(40.8%)	**(140 132)**
Result of operating activities	**1 497 835**	1 984 489	(24.5%)	**3 760 157**
Finance charges	**(6 334)**	(2 366)	(>100%)	**(9 294)**
Equity accounted earnings	**2 449 242**	(58 762)	>100%	**67 842**
Impairment of investment in associate	**(248 914)**	–	(100%)	**–**
Profit before taxation	**3 691 829**	1 923 361	>100%	**3 818 705**
Taxation	**(431 755)**	(573 543)	24.7%	**(1 115 338)**
Net profit for the period	**3 260 074**	1 349 818	>100%	**2 703 367**
Net profit attributable to:				
Ordinary shareholders	**3 235 096**	1 286 783	>100%	**2 591 089**
Non-controlling interest	**24 978**	63 035	(60.4%)	**112 278**
Net profit for the period	**3 260 074**	1 349 818	>100%	**2 703 367**

[1] *The interest income on the term deposits measured at amortised cost of R25.1 million was included as part of the investment income line in the prior period. This has been reclassified to the interest income on financial assets using the effective interest rate method line.*

[2] *Acquisition expenses are included in marketing and administration expenses in the current year in line with the 30 June 2021 annual financial statements. This line item was moved in order for the Group's acquisition expenses to be disclosed in a single line item.*

Consolidated statement of comprehensive income *continued*

for the six months ended 31 December

	Six months ended 31 December			Year ended 30 June
	2021 R'000	2020 R'000	% change	**2021 R'000**
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss				
Exchange differences on foreign operations	**333 917**	(254 474)	>100%	**(501 428)**
Fair value losses on financial assets at fair value through other comprehensive income	**(5 129)**	(6 276)	18.3%	**2 309**
Deferred income tax relating to items that may subsequently be reclassified to profit or loss	**1 436**	1 758	(18.3%)	**(647)**
Items that will not subsequently be reclassified				
Other comprehensive income of associate	**(139 208)**	(30 364)	(>100%)	**(73 009)**
Total comprehensive income for the period	**3 451 090**	1 060 462	>100%	**2 130 592**
Total comprehensive income attributable to:				
Ordinary shareholders	**3 380 249**	1 034 305		**2 091 990**
Non-controlling interest	**70 841**	26 157		**38 602**
Total comprehensive income for the period	**3 451 090**	1 060 462	>100%	**2 130 592**
Earnings attributable to shareholders				
Earnings per share (cents)				
Basic earnings per share	**86.65**	34.62		**69.68**
Diluted earnings per share	**86.08**	34.50		**68.79**
Weighted average number of ordinary shares ('000)	**3 733 498**	3 716 822		**3 718 751**
Weighted average number of diluted ordinary shares ('000)	**3 757 413**	3 724 480		**3 730 922**

Consolidated statement of financial position

at 31 December

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Assets			
Deferred income tax	**313 209**	248 457	**485 720**
Investment in associates	**67 152**	3 619 384	**3 716 436**
Intangible assets	**241 327**	160 389	**205 604**
Right-of-use assets	**38 196**	68 719	**48 199**
Property and equipment	**1 081 500**	1 104 865	**1 030 608**
Employee benefits	**4 218**	913	**7 711**
Reinsurers' share of insurance contract provisions	**1 717 728**	2 276 159	**1 140 260**
Deferred acquisition costs	**636 207**	477 170	**513 393**
Financial assets			
Fair value through profit or loss	**2 743 436**	2 330 249	**2 451 949**
Fair value through other comprehensive income	**3 118 540**	3 180 582	**3 379 705**
Measured at amortised cost	**6 561 971**	5 934 271	**5 809 617**
Derivative financial instrument	**76 508**	39 813	**67 933**
Insurance and other receivables	**4 727 679**	3 658 854	**3 725 603**
Tax receivable	**107 385**	26 667	**19 324**
Cash and cash equivalents	**4 080 534**	1 333 116	**2 179 588**
Associate held for sale	**37 646**	–	**–**
Total assets	**25 553 236**	24 459 608	**24 781 650**
Equity			
Capital and reserves attributable to equity holders			
Share capital	**37 365**	37 184	**37 352**
Share premium	**2 293 630**	2 120 861	**2 076 330**
Share-based payment reserve	**19 594**	16 823	**15 563**
Foreign currency translation reserve	**778 178**	700 280	**490 124**
Other reserves	**10 158**	14 671	**13 851**
Equity accounted reserve	**–**	155 632	**113 236**
Transaction with non-controlling interest	**(555 495)**	(114 551)	**(118 429)**
Retained earnings	**7 182 819**	7 905 354	**8 296 305**
Total shareholders' equity	**9 766 249**	10 836 254	**10 924 332**
Non-controlling interest	**449 215**	608 678	**671 028**
Total equity	**10 215 464**	11 444 932	**11 595 360**
Liabilities			
Deferred income tax	**43 885**	35 462	**269 705**
Insurance contract liabilities	**12 258 062**	10 646 961	**10 310 809**
Derivative financial instrument[1]	**53 986**	137 054	**72 375**
Investment contract liability	**41 161**	33 666	**37 181**
Lease liabilities[1]	**44 810**	74 721	**54 740**
Share-based payment liability	**319 386**	116 774	**224 134**
Employee benefits	**320 321**	281 132	**462 640**
Financial liabilities at fair value through profit or loss	**76 504**	54 176	**85 956**
Tax liabilities	**2 520**	126 959	**132 703**
Insurance and other payables	**2 177 137**	1 507 771	**1 536 047**
Total liabilities	**15 337 772**	13 014 676	**13 186 290**
Total equity and liabilities	**25 553 236**	24 459 608	**24 781 650**

[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 six months ended 31 December 2021

	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	Transactions 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 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 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	–
Sale of treasury shares to non-controlling interests	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 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**
Total profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3 260 074**	**3 260 074**	**–**	**3 260 074**
Total other comprehensive income for the period	**–**	**–**	**(3 693)**	**333 917**	**–**	**–**	**(139 208)**	**–**	**191 016**	**–**	**191 016**
(Loss) / profit attributable to non-controlling interests	**–**	**–**	**–**	**(45 863)[3]**	**–**	**–**	**–**	**(24 978)[2]**	**(70 841)**	**70 841**	**–**
Purchase of treasury shares from non-controlling interests	**13**	**217 300**	**–**	**–**	**–**	**–**	**–**	**–**	**217 313**	**–**	**217 313**
Reserve adjustment of associate entities	**–**	**–**	**–**	**–**	**–**	**–**	**(29)**	**29**	**–**	**–**	**–**
Share options spread transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4 431)**	**(4 431)**	**–**	**(4 431)**
Share-based payment expense	**–**	**–**	**–**	**–**	**4 031**	**–**	**–**	**–**	**4 031**	**–**	**4 031**
Transactions with non-controlling interests of subsidiary	**–**	**–**	**–**	**–**	**–**	**(437 066)**	**–**	**(420)**	**(437 486)**	**(207 897)**	**(645 383)**
Shares issued to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3 990**	**3 990**
Transfer to retained earnings	**–**	**–**	**–**	**–**	**–**	**–**	**26 001**	**(26 001)**	**–**	**–**	**–**
Ordinary dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4 317 759)**	**(4 317 759)**	**(88 747)**	**(4 406 506)**
Balance as at 31 December 2021	**37 365**	**2 293 630**	**10 158**	**778 178**	**19 594**	**(555 495)**	**–**	**7 182 819**	**9 766 249**	**449 215**	**10 215 464**

1 *Included in other reserves is the comprehensive income reserve and 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 six months ended 31 December

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Operating activities			
Cash generated by operations	**1 692 510**	1 971 726	**4 830 704**
Interest received	**143 609**	134 133	**284 408**
Dividends received	**49 669**	47 956	**72 591**
Interest paid	**(6 334)**	(2 366)	**(9 294)**
Cashflows on assets backing policyholder liabilities	**(145 763)**	210 238	**(244 223)**
Proceeds on disposal of financial assets[1]	**5 179 016**	5 981 840	**7 558 195**
Purchase of financial assets[1]	**(5 168 841)**	(6 102 536)	**(7 985 764)**
Taxation paid	**(684 686)**	(714 468)	**(1 059 493)**
Ordinary dividends paid	**(4 317 759)**	(1 081 144)	**(1 999 632)**
Preference dividends paid	**(85 744)**	(64 648)	**(118 824)**
Dividends paid to non-controlling interest	**(88 747)**	(45 587)	**(44 335)**
Cash (outflow) / inflow from operating activities	**(3 433 070)**	335 144	**1 284 333**
Investing activities			
Acquisition of investment in associate	**–**	–	**(2 657)**
Loan to associate	**–**	(19 600)	**–**
Dividends received from associate	**5 672 730**	13 230	**13 230**
Property and equipment acquired to maintain operations	**(37 524)**	(49 607)	**(54 523)**
Proceeds on disposal of property and equipment	**371**	195	**568**
Purchase of intangible assets	**(44 617)**	(53 079)	**(116 974)**
Proceeds on disposal of financial assets[2]	**74 274**	–	**65 001**
Purchase of financial assets[2]	**(3 778)**	(2 089)	**(61 601)**
Cash inflow / (outflow) from investing activities	**5 661 456**	(110 950)	**(156 956)**
Financing activities			
Proceeds from issue of equity financial instrument	**–**	5 000	**5 000**
Purchase of shares from non-controlling interests	**(659 276)**	–	**–**
Purchase of treasury shares by share scheme participants	**376 350**	138 358	**138 551**
Purchase of treasury shares by share scheme from participants	**(159 038)**	(103 944)	**(148 500)**
Repayment of lease liability	**(20 422)**	(19 495)	**(37 783)**
Shares issued to non-controlling interest	**3 990**	1 183	**41 683**
Borrowings raised	**245 000**	–	**–**
Borrowings repaid	**(245 000)**	(100 000)	**(100 000)**
Cash outflow from financing activities	**(458 396)**	(78 898)	**(101 049)**
Increase in cash and cash equivalents	**1 769 990**	145 296	**1 026 328**
Change in cash and cash equivalents			
Opening balance of cash and cash equivalents	**2 179 588**	1 225 950	**1 225 950**
Increase in cash and cash equivalents	**1 769 990**	145 296	**1 026 328**
Effect of exchange rate on cash and cash equivalents	**130 956**	(38 130)	**(72 690)**
Closing balance of cash and cash equivalents	**4 080 534**	1 333 116	**2 179 588**

[1] *Related to the management of insurance liabilities operational cash flows and regulatory capital.*
[2] *Related to long-term Investments of primarily shareholder capital.*

Notes to the consolidated financial statements

Basis of preparation

The Group's interim results are prepared in accordance with International Financial Reporting Standards (IFRS), as a minimum the requirements of IAS 34 (Interim financial reporting), 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 interim results should be read in conjunction with the Annual Financial Statements for the year ended 30 June 2021.

The accounting policies and methods of computation used in the interim results are the same as those used in the OUTsurance Group's Annual Financial Statements, except for the mandatory adoption of amendments to IFRS effective for periods starting after 1 January 2021.

The impact on the Group's financial results, disclosures or comparative information as a result of these amendments is not significant.

Mandatory adoption of IFRS amendments

Amendments to IFRS

There were no new or amended IFRS standards that became effective for the six months ended 31 December 2021.

New standards not yet effective

IFRS 17 Insurance Contracts (effective 1 January 2023) will have a significant financial reporting impact on the Group.

IFRS 17 aims to provide more transparency and comparability between insurance companies and other industries by providing a prescriptive approach to determining policyholder liabilities, as well as the release of profits on these contracts to the income statement.

The majority of contracts issued by the Group (including OUTsurance and Youi) are of a short-term nature with a coverage period of less than 1 year which qualifies for the Premium Allocation Approach (PAA). The contracts issued by OUTsurance Life which has a coverage period exceeding one year will be measured using the General Measurement Model (GMM).

The Group's IFRS 17 implementation team is currently testing the draft results and incorporating refinements to comply with requirements for both measurement models.

The next steps for the Group are to incorporate changes required in the internal management and financial statement reporting process to report its results under IFRS 17 and finalise the accounting policies and methodologies for the transitional approach that will be applied.

The IFRS 17 implementation project is monitored under supervision of the IFRS 17 Steering Committee and the Audit, Risk and Compliance Committee.

Financial risk management

The Group's activities expose it to a variety of financial risks. The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's Annual Financial Statements at 30 June 2021.

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 statements *continued*

Financial risk management *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 R'000
Group at 31 December 2021				
Financial assets				
Fair value through profit and loss				
Debt securities				
Unsecured loan	–	–	44 216	44 216
Zero-coupon deposits	–	818 516	–	818 516
Zero-coupon deposits backing endowment policies	–	41 161	–	41 161
Convertible loan	–	–	15 246	15 246
Equity securities				
Listed preference shares	330 111	–	–	330 111
Exchange traded funds	1 060 440	–	–	1 060 440
Collective investment schemes[1]	–	433 746	–	433 746
Derivative financial instrument				
Collateralised swaps	–	76 509	–	76 509
Fair value through other comprehensive income				
Debt securities				
Government, municipal and public utility securities	–	283 393	–	283 393
Money market securities <1 year	–	1 389 500	–	1 389 500
Money market securities >1 year	–	1 432 288	–	1 432 288
Expected credit losses	–	(18 218)	–	(18 218)
Equity securities				
Unlisted equity	–	–	45 206	45 206
Amortised cost				
Debt securities				
Term deposits	–	6 561 971	–	6 561 971
Total financial assets	**1 390 551**	**11 018 866**	**104 668**	**12 514 085**[2]
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Debt securities	–	–	76 504	76 504
Derivative financial instruments				
Interest rate swaps	–	53 986	–	53 986
Investment contract liability	–	41 161	–	41 161
Total financial liabilities	**–**	**95 147**	**76 504**	**171 651**

[1] *The Group reclassified a collective investment scheme investment with a total of R280 million (2020: R244 million) which was previously incorrectly disclosed as an exchange traded fund under the Level 1 hierarchy. The investment is disclosed as a Level 2 on the fair value hierarchy in the current period as market observable inputs are used to value the investment. The comparative period was restated to reflect the correct classification.*

[2] *The financial assets disclosed in this table are disclosed gross of ECL.*

Notes to the consolidated financial statements *continued*

Financial risk management *continued*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group at 31 December 2020				
Financial assets				
Fair value through profit and loss				
Debt securities				
Unsecured loan	–	–	42 279	42 279
Zero-coupon deposits	–	655 167	–	655 167
Zero-coupon deposits backing endowment policies	–	33 666	–	33 666
Convertible loan	–	–	14 030	14 030
Equity securities				
Listed preference shares	310 252	–	–	310 252
Exchange traded funds	909 068	–	–	909 068
Collective investment schemes[1]	–	365 787	–	365 787
Derivative financial instrument				
Collateralised swaps	–	39 813	–	39 813
Fair value through other comprehensive income				
Debt securities				
Government, municipal and public utility securities	–	315 394	–	315 394
Money market securities <1 year	–	1 371 225	–	1 371 225
Money market securities >1 year	–	1 500 199	–	1 500 199
Expected credit loss	–	(19 194)	–	(19 194)
Equity securities				
Unlisted equity	–	–	12 958	12 958
Amortised cost				
Debt securities				
Term deposits	–	5 934 271	–	5 934 271
Total financial assets	1 219 320	10 196 328	69 267	11 484 915[2]
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Debt securities	–	–	54 176	54 176
Derivative financial instruments				
Interest rate swaps	–	137 054	–	137 054
Investment contract liability	–	33 666	–	33 666
Total financial liabilities	–	170 720	54 176	224 896

1 The Group reclassified a collective investment scheme investment with a total of R280 million (2020: R244 million) which was previously incorrectly disclosed as an exchange traded fund under the Level 1 hierarchy. The investment is disclosed as a Level 2 on the fair value hierarchy in the current period as market observable inputs are used to value the investment. The comparative period was restated to reflect the correct classification.

2 The financial assets disclosed in this table are disclosed gross of ECL.

Notes to the consolidated financial statements *continued*

Financial risk management *continued*

There were no transfers between levels during the period ended 31 December 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.

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 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.

Notes to the consolidated financial statements *continued*

Financial risk management *continued*

- **Interest rate swaps:** These swap arrangements consist of fixed or 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 R2 048 government bond serves as collateral and represents the underlying investment, is determined in the same manner as other money market instruments described above.

  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.

  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 31 December 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 31 December 2021:

	Current R'000	1% increase in interest rate R'000	1% decrease in interest rate R'000
31 December 2021			
Fair value	**44 216**	**43 558**	**44 887**
31 December 2020			
Fair value	42 279	40 969	43 022

Notes to the consolidated financial statements *continued*

Financial risk management *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 31 December 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 31 December 2021:

	Current R'000	1% increase in interest rate R'000	1% decrease in interest rate R'000
31 December 2021			
Fair value	**15 246**	**15 716**	**14 787**
31 December 2020			
Fair value	14 030	14 282	13 781

- **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 is made in the form of preference dividends.

  The table below analyses the movement of the Level 3 debt security for the period under review:

	Six months ended 31 December	
	2021 R'000	2020 R'000
Opening balance at 1 July	**85 956**	64 648
Preference dividend paid	**(85 744)**	(64 648)
Preference dividend accrued	**76 292**	54 176
Closing balance at 31 December	**76 504**	54 176

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.

Notes to the consolidated financial statements *continued*

Segment information

	Short-term insurance			Long-term insurance		
	OUTsurance					
	Personal[1] R'000	Commercial R'000	Youi Group Personal R'000	OUTsurance Life R'000	Central and new business development R'000	Group Total R'000
Six months ended 31 December 2021						
Gross written premium	4 045 405	1 018 744	6 149 074	386 301	–	11 599 524
Outward reinsurance premiums	(59 870)	(27 412)	(781 230)	(42 844)	–	(911 356)
Change in provision for unearned premium	(28 446)	(13 360)	(723 419)	–	–	(765 225)
Earned premium, net of reinsurance	3 957 089	977 972	4 644 425	343 457	–	9 922 943
Non-insurance related income	–	–	18 259	103	35 776	54 138
Policyholder benefits on insurance contracts net of reinsurance	(2 042 739)	(617 444)	(2 881 146)	(135 868)	13	(5 677 184)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(92 232)	–	(92 232)
Marketing, acquisition and administration expenses[2, 3]	(799 269)	(354 638)	(1 619 877)	(178 890)	(94 804)	(3 047 478)
Fair value adjustment to financial liabilities	(75 463)	–	–	(829)	–	(76 292)
Underwriting result	1 039 618	5 890	161 661	(64 259)	(59 015)	1 083 895
Investment income on technical reserves	29 434	8 137	8 034	12 891	–	58 496
Operating profit[4]	1 069 052	14 027	169 695	(51 368)	(59 015)	1 142 391
Equity accounted earnings						2 449 242
Impairment of investment in associate						(248 914)
Operating profit including associate earnings						3 342 719
Net investment income on shareholder investment capital						349 110
Profit before tax						3 691 829

Notes to the consolidated financial statements *continued*

Segment information *continued*

	Short-term insurance			Long-term insurance		
	OUTsurance					
	Personal[1] R'000	Commercial R'000	Youi Group Personal R'000	OUTsurance Life R'000	Central and new business development R'000	Group Total R'000
Six months ended 31 December 2020						
Gross written premium	3 821 594	829 393	5 180 747	312 340	–	10 144 074
Outward reinsurance premiums	(53 035)	(13 351)	(603 814)	(29 780)	–	(699 980)
Change in provision for unearned premium	(21 825)	(11 124)	(538 855)	–	–	(571 804)
Earned premium, net of reinsurance	3 746 734	804 918	4 038 078	282 560	–	8 872 290
Non-insurance related fee income	–	–	(5 516)	80	14 838	9 402
Policyholder benefits on insurance contracts net of reinsurance	(1 862 886)	(403 413)	(2 157 596)	(82 533)	32	(4 506 396)
Transfer to policyholder liabilities under insurance contracts	–	–	–	(157 451)	–	(157 451)
Marketing, acquisition and administration expenses[2, 3]	(711 150)	(299 427)	(1 314 361)	(149 608)	(98 088)	(2 572 634)
Fair value adjustment to financial liabilities	(54 176)	–	–	–	–	(54 176)
Underwriting result	1 118 522	102 078	560 605	(106 952)	(83 218)	1 591 035
Investment income on technical reserves	32 231	8 036	26 916	108 152	–	175 335
Operating profit[4]	1 150 753	110 114	587 521	1 200	(83 218)	1 766 370
Equity accounted earnings						(58 762)
Operating profit including associate earnings						1 707 608
Net investment income on shareholder investment capital						215 753
Profit before tax						1 923 361

[1] *Includes Homeowners cover book sourced from the FirstRand Bank Limited.*
[2] *Marketing, acquisition and administration expenses excludes investment management expenses of R5.5 million (2020: R4.3 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.*
[4] *Operating profit in the segment report differs from operating profit on the face of the statement of comprehensive income due to investment income being split between Investment income on technical reserves and net investment income on shareholder investment capital in the segment report. Only Investment income on technical reserves is included in operating profit in the segment report when results are reviewed by the Chief operating decision maker.*

Notes to the consolidated financial statements *continued*

Basic earnings per share

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Basic earnings per share			
Earnings attributable to ordinary shareholders (R'000)	**3 235 096**	1 286 783	**2 591 089**
Weighted average number of shares in issue ('000)	**3 733 498**	3 716 822	**3 718 751**
Total earnings per share – basic (cents)	**86.65**	34.62	**69.68**
Diluted earnings per share			
Earnings attributable to ordinary shareholders (R'000)	**3 235 096**	1 286 783	**2 591 089**
Dilutive impact of Youi Holdings Group share incentive scheme (R'000)	**(812)**	(1 740)	**(24 742)**
Diluted earnings attributable to ordinary shareholders (R'000)	**3 234 284**	1 285 043	**2 566 505**
Weighted average number of shares ('000)	**3 733 498**	3 716 822	**3 718 751**
Dilutive impact of Youi Holdings Group share incentive scheme ('000)	**23 915**	7 658	**12 171**
Diluted weighted average number of shares ('000)	**3 757 413**	3 724 480	**3 730 922**
Total diluted earnings per share (cents)	**86.08**	34.50	**68.79**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

Basic headline earnings per share

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Basic headline earnings per share			
Earnings attributable to ordinary shareholders (R'000)	**3 235 096**	1 286 783	**2 591 089**
Adjusted for:			
Impairment of investment in associate	**248 914**	–	**–**
Loss on dilution of equity accounted investment	**–**	1 787	**1 889**
Profit on sale of underlying investment in associate	**(2 430 864)**	–	**–**
Loss on disposal of property and equipment	**426**	127	**7 090**
Tax effect of headline earnings adjustments	**(115)**	(35)	**(2 031)**
Headline earnings attributable to ordinary shareholders (R'000)	**1 053 457**	1 288 662	**2 598 036**
Weighted average number of shares in issue ('000)	**3 733 498**	3 716 822	**3 718 751**
Total headline earnings per share – basic (cents)	**28.22**	34.67	**69.86**
Diluted headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 053 457**	1 288 662	**2 598 036**
Dilutive impact of Youi Holdings Group share incentive scheme (R'000)	**(812)**	(1 740)	**(24 742)**
Diluted headline earnings attributable to ordinary shareholders (R'000)	**1 052 645**	1 286 922	**2 573 294**
Weighted average number of shares in issue ('000)	**3 733 498**	3 716 822	**3 718 751**
Dilutive impact of Youi Holdings Group share incentive scheme ('000)	**23 915**	7 658	**12 171**
Diluted weighted average number of shares ('000)	**3 757 413**	3 724 480	**3 730 922**
Headline earnings pers share – diluted (cents)	**28.02**	34.55	**68.97**

Notes to the consolidated financial statements *continued*

Insurance contract liabilities

	31 December 2021 Gross R'000	31 December 2021 Reinsurance R'000	31 December 2021 Net R'000	30 June 2021 Gross R'000	30 June 2021 Reinsurance R'000	30 June 2021 Net R'000
Short term insurance contracts						
Claims provisions	**3 748 245**	**(595 063)**	**3 153 182**	3 181 392	(762 160)	2 419 232
Unearned premium provision	**7 003 927**	**(933 477)**	**6 070 450**	5 743 839	(200 901)	5 542 938
Insurance contract non-claims bonuses provision	**558 353**	**–**	**558 353**	542 261	–	542 261
Long term insurance contracts						
Policyholder liabilities	**947 537**	**(189 188)**	**758 349**	843 317	(177 199)	666 118
Closing balance	**12 258 062**	**(1 717 728)**	**10 540 334**	10 310 809	(1 140 260)	9 170 549

Analysis of movement in short-term insurance claims provision

	Six months ended 31 December 2021 Gross R'000	Six months ended 31 December 2021 Reinsurance R'000	Six months ended 31 December 2021 Net R'000	Year ended 30 June 2021 Gross R'000	Year ended 30 June 2021 Reinsurance R'000	Year ended 30 June 2021 Net R'000
Analysis of movement in claims provision						
Opening balance	**3 181 392**	**(762 160)**	**2 419 232**	3 249 268	(1 185 788)	2 063 480
Current year	**2 484 040**	**(242 402)**	**2 241 638**	2 553 534	(488 374)	2 065 160
Claims incurred	**5 289 264**	**(260 096)**	**5 029 168**	9 383 788	(948 755)	8 435 033
Claims paid	**(3 263 640)**	**42 799**	**(3 220 841)**	(7 523 216)	508 866	(7 014 350)
Claims handling expenses raised	**194 027**	**–**	**194 027**	437 133	–	437 133
Risk margins raised	**264 389**	**(25 105)**	**239 284**	255 829	(48 485)	207 344
Prior year	**(2 205 210)**	**490 772**	**(1 714 438)**	(2 384 065)	807 895	(1 576 170)
Claims incurred	**(62 338)**	**28 948**	**(33 390)**	90 391	(249 443)	(159 052)
Claims paid	**(1 764 724)**	**429 053**	**(1 335 671)**	(2 031 194)	984 484	(1 046 710)
Claims handling expenses released	**(157 203)**	**–**	**(157 203)**	(114 661)	–	(114 661)
Risk margins released	**(220 945)**	**32 771**	**(188 174)**	(328 601)	72 854	(255 747)
Foreign exchange movement	**288 023**	**(81 273)**	**206 750**	(237 345)	104 107	(133 238)
Closing balance	**3 748 245**	**(595 063)**	**3 153 182**	3 181 392	(762 160)	2 419 232

Notes to the consolidated financial statements *continued*

Insurance contract liabilities *continued*

Analysis of movement in unearned premium provision (UPP)

	Six months ended 31 December			Year ended 30 June		
	2021			2021		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	Net R'000
Analysis of movement in UPP						
Opening balance	**5 743 839**	**(200 901)**	**5 542 938**	5 292 647	(33 894)	5 258 753
UPP raised	**6 593 476**	**(1 464 308)**	**5 129 168**	10 967 763	(1 458 525)	9 509 238
UPP earned	**(5 828 251)**	**781 229**	**(5 047 022)**	(9 924 992)	1 276 033	(8 648 959)
Foreign exchange difference	**494 863**	**(49 497)**	**445 366**	(591 579)	15 485	(576 094)
Closing balance	**7 003 927**	**(933 477)**	**6 070 450**	5 743 839	(200 901)	5 542 938
Analysis of movement in insurance contract non-claims bonusses						
Opening balance	**542 261**	**–**	**542 261**	523 618	–	523 618
Charge to profit or loss	**277 341**	**–**	**277 341**	499 780	–	499 780
Non-claims bonuses paid during the year	**(261 249)**	**–**	**(261 249)**	(481 137)	–	(481 137)
Closing balance	**558 353**	**–**	**558 353**	542 261	–	542 261

Notes to the consolidated financial statements *continued*

Insurance contract liabilities *continued*

Analysis of movement in long-term insurance liabilities

	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 including deferral of acquisition costs R'000
Six months ended 31 December 2021					
Analysis of change in policyholder liabilities					
Opening balance	1 055 340	(177 199)	878 141	(212 024)	666 117
Policyholder Liability	965 857	(142 682)	823 175	(212 024)	611 151
Claims provisions	89 483	(34 517)	54 966	–	54 966
Transfer to policyholder liabilities under insurance contracts	102 020	(11 989)	90 031	2 201	92 232
Expected unwind of discount rate and release of profits	25 606	16 635	42 241	–	42 241
Experience variance	11 192	(1 719)	9 473	–	9 473
Modelling methodology changes	(13 095)	521	(12 574)	–	(12 574)
Change in non-economic assumptions	213	(213)	–	–	–
Change in economic assumptions	23 648	(3 658)	19 990	–	19 990
New business	1 481	(921)	560	–	560
Change in claims provision	10 475	(3 514)	6 961	–	6 961
Change in UPR	105	–	105		105
Change in negative rand reserve	–	–	–	2 201	2 201
COVID-19 adjustment	42 395	(19 120)	23 275	–	23 275
Closing balance	1 157 360	(189 188)	968 172	(209 823)	758 349
Policyholder Liability	1 057 298	(151 157)	906 141	(209 823)	696 318
Claims provisions	100 062	(38 031)	62 031	–	62 031

Notes to the consolidated financial statements *continued*

Insurance contract liabilities *continued*

Analysis of movement in long-term insurance 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 including deferral of acquisition costs R'000
Year ended 30 June 2021					
Analysis of change in policyholder liabilities					
Opening balance	705 336	(118 501)	586 835	(169 808)	417 027
Policyholder Liability	647 319	(98 561)	548 758	(169 808)	378 950
Claims provisions	58 017	(19 940)	38 077	–	38 077
Transfer to policyholder liabilities under insurance contracts	350 004	(58 698)	291 306	(42 215)	249 091
Expected 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	(56 726)	13 856	(42 870)	–	(42 870)
Change in economic assumptions	213 878	(29 649)	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)
Change in UPR	(131)	–	(131)	–	(131)
COVID-19 adjustment	79 923	(34 067)	45 856	–	45 856
Closing balance	1 055 340	(177 199)	878 141	(212 023)	666 118
Policyholder Liability	965 857	(142 682)	823 175	(212 023)	611 152
Claims provisions	89 483	(34 517)	54 966	–	54 966

Notes to the consolidated financial statements *continued*

Associate held for sale

In December 2021, management committed to a plan to sell its 49% associate shareholding in OUTsurance Namibia to FirstRand Namibia as it no longer fits into the strategic direction of the Group.

Accordingly, the investment in OUTsurance Namibia has been classified as held for sale with an effective date of 31 December 2021. On this date no significant changes to the sales plan are expected. The sale is expected to be finalised once final regulatory approval has been obtained.

The investment in associate is valued at 31 December 2021 at its carrying value which is the lower of carrying value and fair value less costs to sell.

The carrying amount of the associate held for sale is as follows:

	Six months ended 31 December	
	2021 R'000	2020 R'000
Investment in associate held for sale	**37 646**	–

Reconciliation of associate held for sale

	Six months ended 31 December
	2021 R'000
Opening balance	**46 696**
Share of earnings from associate for 6 months	**4 180**
Dividend received from associate	**(13 230)**
Closing balance	**37 646**

The disposal proceeds will be 49% of the aggregate of the value of the in-force book plus the net asset value (NAV) of OUTsurance Namibia at 31 December 2021. The NAV component may be reduced with any dividend payments after 31 December 2021 and before the completion of the transaction.

Notes to the consolidated financial statements *continued*

Investment in associate

During the six months under review the Group's associate, Main Street 1353 (Pty) Ltd (MS1353), sold its 199 939 120 shares in Hastings Consolidated (Hastings) for 342.6 pence per share. This constituted 30% of the issued shares in Hastings, which equated to a total of R14.6 billion.

This resulted in a profit on sale of MS1353's share in Hastings of R4.9 billion.

The sale consideration was utilised to settle the funding of R3.1 billion in MS1353, which related to the Hastings interest, resulting in net proceeds of R11.5 billion. The net proceeds were paid out in the form of a special dividend to the Group and RMI Asset Holdings Proprietary Limited (RMI AssetCo), being the shareholders of MS1353, in proportion to their shareholding of 49% (R5.7 billion) and 51% (R5.9 billion), respectively.

The Group's effective shareholding in MS1353 has not changed, however the Group recognised an impairment of investment in associate due to the underlying investment in Hastings being sold and the remaining operating activities in MS1353 ceasing. The impairment is associated with the balance of the original "gain on bargain purchase" which was recognised as a derivative gain upon acquisition of the interest in MS1353 in 2017. This gain was originally R750 million and was impaired in previous periods by a total of R501 million. The remaining balance of R249 million is written off to bring the investment in associate balance in line with the Group's share of the remaining NAV in MS1353 of R55 million.

The share of earnings from associate includes once-off income and costs as a result of the sale of Hastings, which include fees for the early settlement of the funding in MS1353 as well as the profit from the sale of associate.

The dividend received by the Group was applied in the following manner:

- To settle the intercompany preference shares issued by OUTsurance Holdings Limited to OUTsurance Insurance Company Limited;
- To repay the Group's revolving credit facility in full;
- A portion was retained for future strategic investments within the Group; and
- A special dividend was declared to shareholders, of R0.82 per ordinary share.

The following table provides a reconciliation of the movements of the Group's investment in MS1353:

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Opening balance	**3 627 171**	3 639 661	**3 639 661**
Share of earnings from associate	**2 447 500**	(63 667)	**60 815**
Earnings from MS1353 excluding profit from sale	**33 983**	(63 667)	**60 815**
Profit from sale of Hastings	**2 430 864**	–	**–**
Funding exit costs	**(17 347)**	–	**–**
Dividend received from associate	**(5 659 500)**	–	**–**
NAV adjustments of MS1353	**(388 122)**	(41 094)	**(73 305)**
FCTR Movement	**(122 977)**	(55 421)	**(125 807)**
Currency derivative reserve movement	**(16 231)**	14 327	**52 502**
Impairment of investment in associate	**(248 914)**	–	**–**
Closing balance	**27 049**	3 534 900	**3 627 171**

Notes to the consolidated financial statements *continued*

Transactions with non-controlling interests

The Group exercised its call option to purchase 109 375 000 Youi Holdings ordinary shares from a minority shareholder during the six months ended 31 December 2021.

The option was exercised on 5 August 2021 and was paid on 26 October 2021. The strike price per share was A$ 0.55 and fixed at R10.71 per Australian Dollar with an FEC instrument. The exchange rate on payment date was R11.06. The Group's effective ownership in Youi Holdings increased from 84.5% to 89.8% as a result of this transaction and the results of Youi Holdings were consolidated in line with the updated percentage holding from the effective date.

The effective percentage of 5.3% purchased from the non-controlling interest differs from the 5.1% previously disclosed in the annual financial statements due to share movements that took place after the initial calculation and before the transaction was finalised.

The additional shares were funded with the Group's retained earnings as well as its revolving credit facility.

The effect of the equity attributable to owners of Youi Holdings for the six months ended 31 December 2021 is summarised as follows:

	2021 R'000
Carrying amount of the 15.5% NCI before the sale	**597 368**
Carrying amount of the 5.3% NCI acquired	**204 261**
Consideration paid to the minority shareholder	**(664 921)**
Excess of consideration paid and recognised in the transactions with NCI reserve	**(460 659)**

OUTsurance Life embedded value

Embedded value of covered business

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 (VIF); less
- The cost of required capital (CoRC).

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

The ANW of covered business is defined as the excess value of all assets attributed to the covered business but not required to back the liabilities of covered business. For OUTsurance Life all business is covered business, and therefore the ANW is set equal to the net asset value on the regulatory balance sheet (that is, the Own Funds), adjusted for the best estimate liability, risk margin and their resultant deferred tax impact. These are captured elsewhere in the EV calculation as further discussed below.

The VIF is the discounted value, at the risk discount rate, of the projected stream of after tax best estimate shareholder profits arising from existing in-force covered business. This metric is deemed more appropriate than the (negative of the) best estimate liability, as an appropriate discount rate is applied (best estimate liability is valued off the risk-free bond rates whereas this metric uses risk discount rate) and allowance is made for taxation.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory SCR calculated in accordance with the latest Financial Soundness for Insurers Specifications as published by the Prudential Authority, plus any additional capital considered appropriate by the Board given the risks of the business. The required target capital multiple is currently 1.5, implying that OUTsurance Life's required capital is 1.5 x SCR.

The CoRC 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 appropriate after-tax investment returns on the assets supporting the projected required capital. This metric is deemed more appropriate than the Prudential Risk Margin given shareholders' specific needs and expectations, in particular by using the risk discount rate and allowing for a multiple of required capital (the risk margin assumes 1 times the non-hedgeable required capital).

All discounted values are at a risk discount rate based on the prescribed zero-coupon bond yield curve plus a risk premium of 4% p.a. The risk discount rate premium was set using the Capital Asset Pricing Model with a beta of 1.0 and market risk premium of 4%. Money market returns were set to the zero-coupon bond yield curve less 2%. The money market return assumption is used to calculate the 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 discounted profits arising from new business to the present value of new business premiums (gross of reinsurance).

OUTsurance Life embedded value *continued*

Embedded value of covered business *continued*

The tables below provide a breakdown of the EV for OUTsurance Life from June to December 2021:

	Six months ended 31 December 2021 R'000	Six months ended 31 December 2020 R'000	Year ended 30 June 2021 R'000
Embedded value of covered business			
Covered business ANW	**626 608**	645 641	**647 767**
Free surplus	**597 298**	622 405	**622 105**
Required Capital	**29 310**	23 236	**25 662**
Present value of in-force business (PVIF)	**818 034**	638 368	**730 513**
Cost of required Capital	**(55 266)**	(16 971)	**(69 161)**
Embedded value of covered business	**1 389 376**	1 267 038	**1 309 119**
Present value of gross premiums (in-force book)	**4 435 046**	5 599 103	**4 146 667**
Annualised return on embedded value	**19.5%**	12.3%	**9.7%**

From June 2021 to December 2021, the embedded value of OUTsurance Life increased by R80.3 million. The annualised return on embedded value was 19.5%. This is attributable to 12.0% growth in the PVIF. The yield movements between June and December 2021 benefited both the PVIF and CoRC components of the embedded value but decreased the ANW.

Embedded value earnings

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

	ANW R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
Embedded value earnings for the reporting period at December 2021 (6 months)	626 608	818 034	(55 266)	**1 389 376**
Embedded value at end of the period	626 608	818 034	(55 266)	**1 389 376**
Embedded value at beginning of the period	647 766	730 514	(69 160)	**1 309 120**
Embedded value earnings for the period	(21 158)	87 520	13 894	**80 256**
Annualised return on embedded value	19.5%	–	–	**–**
Embedded value operating return	(31 850)	84 100	(9 747)	**42 503**
Value of new business at point of sale	(61 235)	122 091	(6 623)	**54 233**
Expected return on covered business	–	45 616	2 248	**47 864**
Expected profit transfer	62 337	(62 337)	–	**–**
Operating experience variances	(18 792)	(8 202)	(3 854)	**(30 848)**
Operating model changes	14 916	5 655	(1 426)	**19 145**
Operating assumption changes	(29 076)	(18 723)	(92)	**(47 891)**
Embedded value non-operating return	12 794	3 419	23 639	**39 852**
Investment return variances	36 906	–	–	**36 906**
Effect of economic assumptions changes	(24 112)	3 419	23 639	**2 946**
Other	(2 102)	–	–	**(2 102)**
Embedded value earnings	(21 158)	87 519	13 892	**80 253**

OUTsurance Life embedded value *continued*

Embedded value of covered business *continued*

Value of new business

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Value of new business (6 months)			
Gross value of new business	**60 856**	12 029	**76 899**
Cost of required capital	**(6 623)**	(4 488)	**(17 441)**
Value of new business	**54 234**	7 541	**59 458**
Present value of gross premiums (new business)	**375 307**	254 874	**690 624**
New business margin	**14.5%**	3.0%	**8.6%**

The comparative 6 month period was adjusted to reflect a rolling 6 month value to align with current year. The model applied in the current 6 months under review was adjusted to better reflect the value of new business of the 6 months leading up to the interim reporting date.

The new business margin has increased from 8.6% at June 2021 to 14.5% at December 2021. This increase was mainly driven by the CoRC for all products decreasing due to a decrease in the Projected Required Capital. This is as a result of the policies not taken up (NTU) change implemented resulting in a decrease in the number of policies exposed to projected lapse capital charges. The decrease in the CoRC contributed to the increase in the VNB margins.

Sensitivities

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

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% change
Value of in-force sensitivity analysis at December 2021				
Base	**818 034**	**(55 266)**	**762 768**	
1% increase in the risk discount rate	**777 963**	**(55 214)**	**722 749**	**(5.2%)**
1% decrease in the interest rate environment	**785 049**	**(135 222)**	**649 827**	**(14.8%)**
10% decrease in maintenance expenses	**843 465**	**(51 949)**	**791 516**	**3.8%**
10% decrease in new business acquisition expenses	**818 034**	**(55 266)**	**762 768**	
10% decrease in lapse rates	**829 812**	**(65 988)**	**763 824**	**0.1%**
5% decrease in morbidity and mortality rates	**866 023**	**(48 635)**	**817 388**	**7.2%**

OUTsurance Life embedded value *continued*

Embedded value of covered business *continued*

Sensitivities *continued*

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% change
Value of new business sensitivity analysis at December 2021 (6 months)				
Base	**60 856**	**(6 623)**	**54 233**	
1% increase in the risk discount rate	**56 361**	**(6 623)**	**49 738**	**(8.3%)**
1% decrease in the interest rate environment	**66 286**	**(10 172)**	**56 114**	**3.5%**
10% decrease in maintenance expenses	**63 180**	**(6 295)**	**56 885**	**4.9%**
10% decrease in new business acquisition expenses	**69 876**	**(6 623)**	**63 253**	**16.6%**
10% decrease in lapse rates	**74 142**	**(5 981)**	**68 161**	**25.7%**
5% decrease in morbidity and mortality rates	**63 429**	**(6 220)**	**57 209**	**5.5%**

Economic assumptions

	Six months ended 31 December		Year ended 30 June
	2021 R'000	2020 R'000	**2021 R'000**
Discounted Mean Term (in years)	**9.9**	9.53	**10.20**
Fixed-interest securities (bond curve – non-bonus ALM)	**10.5%**	10.7%	**10.5%**
Fixed-interest securities (swap curve – bonus ALM)	**7.7%**	7.1%	**7.7%**
Inflation rate	**6.4%**	6.6%	**5.8%**
Risk discount rate	**14.5%**	14.7%	**14.5%**

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. The Group's cost-to-income ratio is measured exclusive of the revenue and cost of OUTsurance Shared Service and CloudBadger which are non-insurance activities.

Cost of required capital (CoRC)
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 M Visser *(Chief Executive Officer)*, Mr R Ndlovu, Ms T Moabi, Mr W Roos, Ms B Hanise, Mr S V Naidoo and Ms M Ramathe

Company Secretary and Registered Address

The company secretary is Ms Z Waterston whose registered addresses are:

Business Address

1241 Embankment Road
Zwartkop Ext 7
Centurion

Postal Address

PO Box 8443
Centurion
0046

Contact information

Jan Hofmeyr
Chief Financial Officer
Email hofmeyrj@out.co.za