You always get something

UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED

31 DECEMBER 2018

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PERFORMANCE FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

25.8%
Normalised ROE

Gross written premium
R8 102 MILLION
up by 4.5%

Annualised new premium written
R1 793 MILLION
up by 19.8%

Ordinary dividend per share
24.7 CENTS
up by 20.5%

Normalised earnings
R1 329 MILLION
down by 9.0%

Diluted normalised earnings per share
34.6 CENTS
down by 6.7%

INTRODUCTION

The report covers the consolidated financial results of OUTsurance Holdings Limited (The Group) for the six months ended 31 December 2018.

The financial results 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 most accurately reflects its economic performance. Normalised earnings are specifically adjusted for non-operating items that include intangible assets which arose from the Group's indirect interest in Hastings Group Holdings plc.

Jan Hofmeyr CA(SA) supervised the presentation of the consolidated financial results.

The Group provides short-term and long-term insurance products in South Africa, Australia, New Zealand and Namibia. Investment products are offered by OUTvest. The Group holds a significant interest in Hastings Group Holdings plc, a motor insurer operating in the United Kingdom.

The Group's mission is to provide world-class value-for-money products backed by industry leading customer service.

OVERVIEW OF GROUP RESULTS

The Group has delivered a satisfactory financial and improved operational performance for the six months under review. Aligned with our core strategic focus for 2019, the highlight of the performance for the six-month period is the recovery in the new business volumes of OUTsurance and Youi.

New business premium written increased by 20%, driven primarily by volume growth as premium inflation remained absent. The Group's gross written premium income was higher by 4.5% compared to 1.3% growth for the previous financial year. Youi continues to show an incremental recovery in its growth profile.

We have previously commented on the fact that the claims ratios realised by OUTsurance and Youi during the 2018 financial year were unsustainably low due to the absence of natural peril claims and decreasing motor accident claims frequencies.

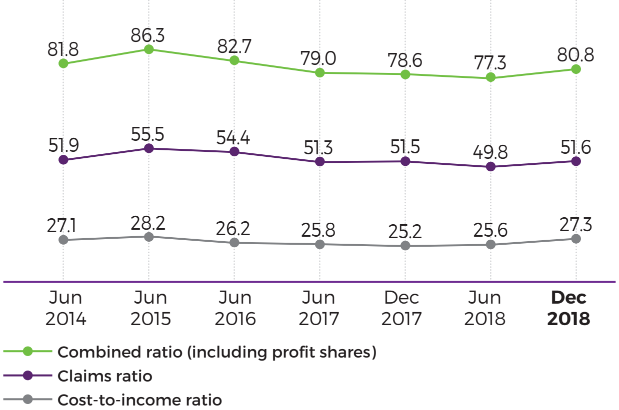
The Group recorded a claims ratio of 51.6% for the six months under review. Excluding the effects of OUTsurance Life, the claims ratio for the combined short-term insurance operations increased from 51.8% to 52.4%. This increase results from higher natural peril claims in Australia and corrective pricing measures to recognise lower accident frequencies. The claims ratio of the comparative six months benefitted from very low natural peril claims losses.

The Group's cost-to-income ratio increased from 25.2% to 27.3%. This increase is primarily attributed to significant investments in new business growth activities at OUTsurance and Youi, the success of which has justified the increased expense base. The cost-to-income ratio was further negatively impacted by the lack of premium inflation.

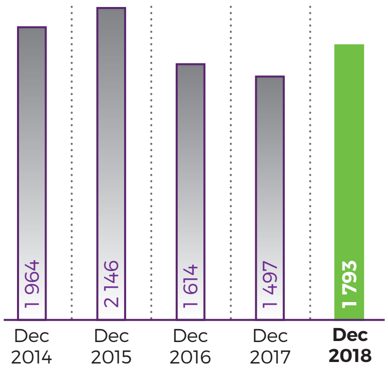
The Group generated normalised earnings of R1 329 million which was 9% lower as a result of the higher claims and cost experience.

Total investment income was lower following the payment of Youi's maiden dividend and a special dividend during the period, coupled with negative returns on the equity portfolio.

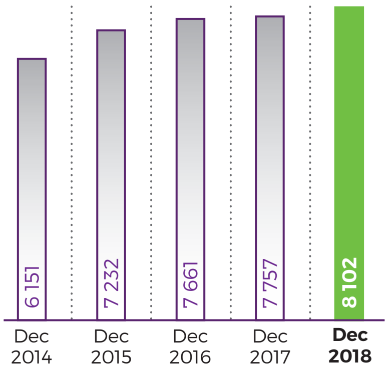
Key ratios
(%)



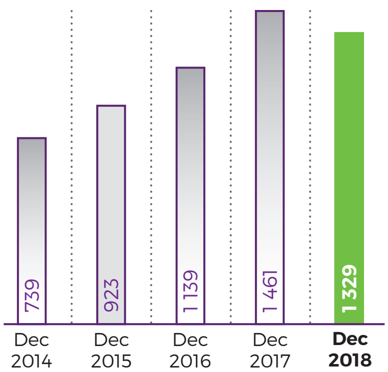
Annualised new business premium written
(R'million)



Gross written premium
(R'million)



Normalised earnings
(R'million)



OVERVIEW OF **GROUP RESULTS** continued

Group – key performance indicators

R'million	Six months ended 31 December 2018	2017	% change	Year ended 30 June 2018
Gross written premium	**8 102**	7 757	4.5%	**15 027**
Net earned premium	**7 493**	7 208	4.0%	**14 174**
Operating profit	**1 636**	1 695	(3.5%)	**3 538**
Normalised earnings	**1 329**	1 461	(9%)	**3 012**
Normalised ROE (%)[1]	**25.8%**	31.8%		**31.4%**
Normalised earnings per share (cents)	**35.4**	38.8	(8.8%)	**80.1**
Diluted normalised earnings per share (cents)	**34.6**	37.1	(6.7%)	**76.7**
Dividend declared per share (cents)	**24.7**	20.5	20.5%	**53.5**
Claims ratio (including non-claims bonuses) (%)	**51.6%**	51.5%		**49.8%**
Cost-to-income ratio (%)	**27.3%**	25.2%		**25.6%**
Combined ratio[2] (%)	**80.8%**	78.6%		**77.3%**
Group SCR ratio	**2.7**	3.5		**2.4**

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

Sources of operating profit and normalised earnings

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

	Operating profit				Normalised earnings			
	Six months ended 31 December			Year ended 30 June	Six months ended 31 December			Year ended 30 June
R'million	2018	2017	% change	2018	2018	2017	% change	2018
OUTsurance	**1 083**	1 115	(2.9%)	**2 365**	**866**	898	(3.6%)	**1 909**
OUTsurance Life	**81**	22	>100%	**32**	**68**	31	>100%	**53**
Youi Group	**472**	558	(15.4%)	**1 141**	**315**	375	(16%)	**803**
Youi Australia	**467**	532	(12.2%)	**1 096**	**323**	370	(12.7%)	**696**
Youi New Zealand	**5**	(14)	>100%	**7**	**10**	(10)	>100%	**104**
Central and funding costs	**–**	–	–	**–**	**(34)**	(25)	36.0%	**(61)**
Consolidation and restatements	**–**	40	>(100%)	**38**	**16**	40	(60.0%)	**64**
Operating profit	**1 636**	1 695	(3.5%)	**3 538**	**1 249**	1 304	(4.2%)	**2 765**
Central and new business development[1]	**(16)**	(9)	(77.8%)	**(21)**	**(74)**	(48)	(54.2%)	**(138)**
Earnings from associates	**154**	205	(24.9%)	**385**	**154**	205	(24.9%)	**385**
Normalised Group	**1 774**	1 891	(6.2%)	**3 902**	**1 329**	1 461	(9%)	**3 012**

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

OVERVIEW OF **GROUP RESULTS** continued

BUSINESS UNIT PERFORMANCE

OUTsurance

OUTsurance delivered a pleasing operating performance and financial result for the six months under review. The performance highlight is the 7.3% growth in gross written premium income within an environment where premium inflation remains at a historic low. Compared to the first six months of the prior financial year, new business written in the period was significantly higher.

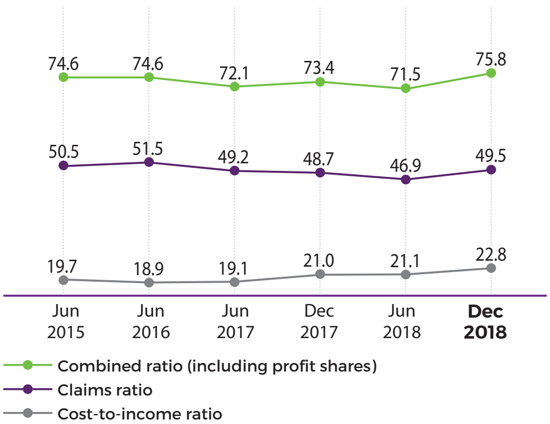
OUTsurance Personal grew gross premium income by 7.0%, driven by successful marketing results and operational improvements. Business OUTsurance delivered strong premium growth of 13.6% resulting from the continued expansion of the tied-agency force.

The claims environment continues to remain favourable with a historic low motor claims frequency overlaid with favourable weather conditions. The claims ratio increased from 48.7% to 49.5% as a result of low premium adjustments aimed at returning the claims ratio towards the target range.

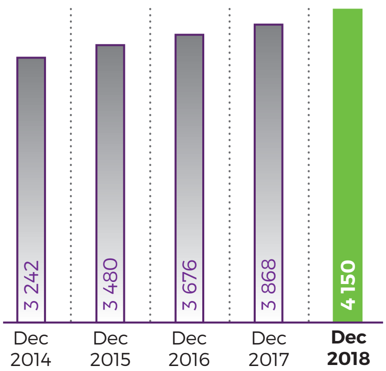
The cost-to-income ratio increased sharply from 21.0% to 22.8%. This increase is primarily associated with the investment in new business growth which has resulted in increased marketing spend, call centre capacity and the expansion of the tied-agency force.

OUTsurance generated an operating profit of R1 083 million for the six-month period which is 2.9% lower than the comparative six months. The normalised earnings result was lower by 3.6% as lower investment returns further negatively impacted the financial performance. Investment returns were lower owing to the impact of the special dividend paid during the period together with unrealised losses related to the equity investment portfolio.

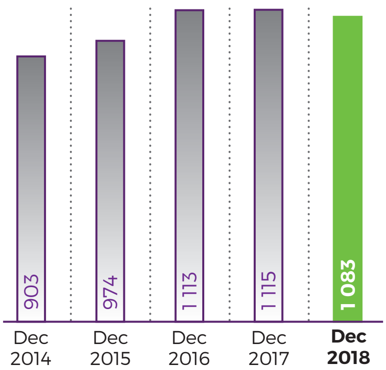
Key ratios
(%)



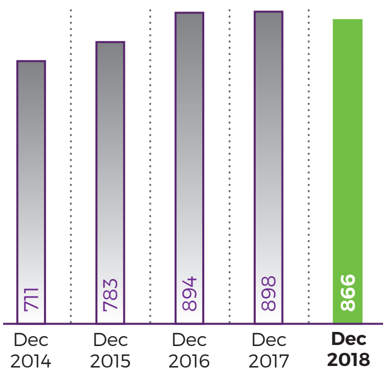
Gross written premium
(R'million)



Operating profit
(R'million)



Normalised earnings
(R'million)



OVERVIEW OF **GROUP RESULTS** continued

OUTsurance – key performance indicators

R'million	Six months ended 31 December 2018	2017	% change	Year ended 30 June 2018
Gross written premium	**4 150**	3 868	7.3%	**7 796**
Net earned premium	**4 067**	3 744	8.6%	**7 626**
Operating profit	**1 083**	1 115	(2.9%)	**2 365**
Normalised earnings	**866**	898	(3.6%)	**1 909**
Claims ratio (including bonuses) (%)	**49.5%**	48.7%		**46.9%**
Accident year claims ratio (%)	**49.8%**	50.2%		**49.0%**
Prior year development (%)	**(0.3%)**	(1.5%)		**(2.1%)**
Cost-to-income ratio (%)	**22.8%**	21.0%		**21.1%**
Combined ratio (%)[1]	**75.8%**	73.4%		**71.5%**

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

Youi

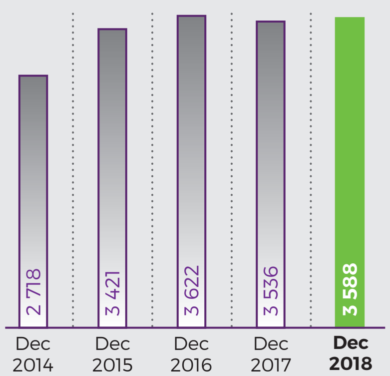
Returning Youi Australia to profitable revenue growth is our primary strategic objective. During the six months under review, new business growth continued to show upward momentum. In dollar terms, gross written premium income increased by 2.9% to $351 million. Youi's motor book continues to experience very low premium inflation.

The claims ratio was impacted by two large natural catastrophe events. These hailstorms resulted in a $17 million net loss for Youi compared to the prior six months period where natural catastrophe events were absent. The Youi Australia claims ratio increased from 55.4% to 56.2% for the period under review.

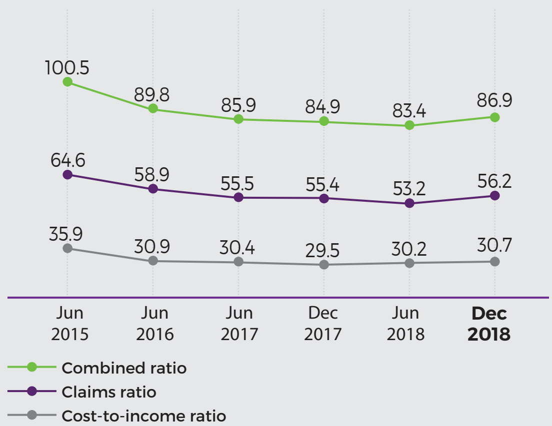
Youi Australia's cost-to-income ratio increased from 29.5% to 30.7%. This outcome is attributed to large investments in support infrastructure, call centre capacity and marketing initiatives to drive increased new business activity. The low levels of premium inflation as well as regulatory compliance expenses also contributed to the higher cost-to-income ratio.

The higher claims and cost-to-income ratios were the primary contributors for the 12.7% reduction in normalised earnings.

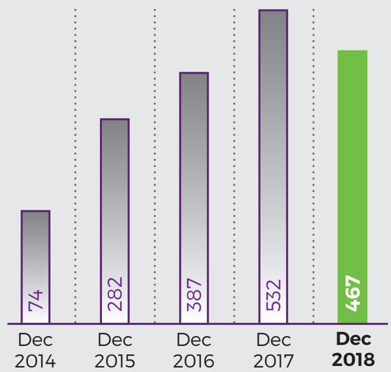
Youi Australia – gross written premium (R'million)



Youi Australia – key ratios (%)



Youi Australia – operating profit (R'million)



OVERVIEW OF **GROUP RESULTS** continued

During the six month period, the Youi management team increased its interest from 7% to 16% following the exercise of share options, the majority of which were issued to founding members of the management team in 2010.

Youi Australia – key performance indicators

	Six months ended 31 December			Year ended 30 June
	2018	2017	% change	**2018**
Rand (R'million)				
Gross written premium	**3 588**	3 536	1.5%	**6 538**
Net earned premium	**3 171**	3 216	(1.4%)	**6 061**
Operating profit	**467**	532	(12.2%)	**1 096**
Normalised earnings	**323**	370	(12.7%)	**696**
Australian Dollars ($'million)				
Gross written premium	**351**	341	2.9%	**660**
Net earned premium	**310**	310	–	**612**
Operating profit	**46**	51	(9.8%)	**110**
Normalised earnings	**32**	36	(11.1%)	**70**
Ratios				
Claims ratio (%)	**56.2%**	55.4%		**53.2%**
Accident year claims ratio (%)	**60.4%**	60.3%		**56.1%**
Prior year development (%)	**(4.2%)**	(4.9%)		**(2.9%)**
Cost-to-income ratio (%)[1]	**30.7%**	29.5%		**30.2%**
Combined ratio (%)	**86.9%**	84.9%		**83.4%**
AUD / ZAR exchange rate				
– Closing	**10.14**	9.64	5.2%	**10.15**
– Average	**10.23**	10.37	(1.4%)	**9.9**

1 *Excluding once-off operational loss item.*

Youi New Zealand – key performance indicators

Youi New Zealand generated R10 million in normalised earnings for the six months under review. This improvement results from a lower claims ratio and reduced costs. During 2018, the new business acquisition strategy of Youi New Zealand was optimised to ensure a sustainable and profitable future for the business.

	Six months ended 31 December			Year ended 30 June
	2018	2017	% change	**2018**
Rand (R'million)				
Gross written premium	**114**	118	(3.4%)	**225**
Net earned premium	**26**	29	(10.3%)	**53**
Operating profit (loss)[1]	**5**	(14)	>100%	**7**
Normalised earnings[1]	**10**	(10)	>100%	**104**
Australian Dollars ($'million)				
Gross written premium	**11**	12	(8.3%)	**23**
Net earned premium	**3**	3	–	**5**
Operating profit (loss)[1]	**0.5**	(1)	>100%	**1**
Normalised earnings[1]	**1**	(1)	>100%	**11**
Ratios				
Claims ratio (%)	**46.6%**	53.7%		**65.0%**

1 *The large differential related to the operating profit and normalised earnings result between the historic financial year ended June 2018 and December 2018, relates to the transfer pricing adjustment which occurred in the second half of the 2018 financial year. A revised transfer pricing arrangement was entered into, to more appropriately reflect the economic substance of cost allocations across the Youi Group. The impact was an $8m reduction in the operating costs of Youi New Zealand.*

OVERVIEW OF **GROUP RESULTS** continued

OUTsurance Life

OUTsurance Life continues to experience difficult trading conditions resulting from the recessionary economic environment. During the six months under review, OUTsurance Life entered the Funeral Insurance market in South Africa which is a key growth enabler for the business.

OUTsurance Life grew gross written premiums by 6.4% for the six months under review. The operating profit and normalised earnings results benefitted from a higher long-term yield environment which has reduced the policyholder liability.

Normalised earnings more than doubled to R81 million with embedded value increasing by 3.3%.

OUTsurance Life – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2018**	2017	% change	**2018**
Gross written premium	**250**	235	6.4%	**469**
Operating profit	**81**	22	>100%	**32**
Normalised earnings	**68**	31	>100%	**53**
Embedded value	**847**	820	3.3%	**822**

OUTsurance Namibia

OUTsurance Namibia continues to operate within a difficult trading environment owing to difficult economic conditions, a more competitive market place and the impact of higher costs associated with changing regulations.

OUTsurance Namibia generated R86 million in gross written premiums for the six months under review which is 6.5% lower than the prior period. OUTsurance Namibia's normalised earnings was 34.8% lower as a result of higher claims and cost-to-income ratios.

OUTsurance Namibia – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2018**	2017	% change	**2018**
Gross written premium	**86**	92	(6.5%)	**190**
Net earned premium	**87**	96	(9.4%)	**187**
Normalised earnings	**15**	23	(34.8%)	**41**
Claims ratio (%)	**51.7%**	47.3%		**49.7%**

Earnings from associates

The Group owns a 14.7% indirect interest in Hastings Group Holdings plc (Hastings). The Group owns its interest in Hastings through a 49% interest in Main Street 1353 (Pty) Ltd (Main Street), a subsidiary of RMI Holdings. After allowing for funding costs incurred in Main Street, the investment contributes 12% to the normalised earnings of the Group. Hastings released its full year results for the financial year ended 31 December 2018, on 28 February 2019, refer to www.hastingsplc.com

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

The table below sets out the normalised earnings from associates:

	Six months ended 31 December			Year ended 30 June
R'million	**2018**	2017	% change	**2018**
Main Street (49%)	**157**	193	(18.7%)	**373**
Share of Hastings earnings (14.7%)	**138**	175	(21.1%)	**333**
Interest on debt funding	**(22)**	(22)	–	**(43)**
Other and normalised adjustments[1]	**41**	40	2.5%	**83**
OUTsurance Namibia and other	**(3)**	12	>(100%)	**12**
Total normalised earnings from associates	**154**	205	24.9%	**385**
GBP / ZAR average exchange rate	**18.25**	17.70		**17.30**

1 *Refer to page 11 for the normalised earnings adjustments.*

OVERVIEW OF **GROUP RESULTS** continued

CAPITAL AND DIVIDENDS

Capital position

At 31 December 2018, 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 (formerly referred to as the Solvency Assessment and Management framework). The ratios for the Youi entities and OUTsurance Namibia are based on the local prudential regulatory requirements.

	Six months ended 31 December			Year ended 30 June
Solvency coverage ratio	**2018**	2017	Target	**2018**
Group	**2.7**	3.5	1.2	**2.4**
Short-term insurance				
OUTsurance	**2.2**	2.0	1.2	**2.5**
OUTsurance Namibia	**1.7**	2.2	1.2	**2.5**
Youi Group	**3.9**	3.5	2.0	**4.3**
Long-term insurance				
OUTsurance Life	**3.1**	3.8	1.5	**2.8**

The 2017 comparative solvency coverage ratios have been restated to reflect the new prudential regulations effective 1 July 2018.

Interim dividend

The Group declared an interim dividend of 24.7 cents per ordinary share which is 20.5% higher than the prior interim dividend. The higher growth when compared to the growth in normalised earnings is explained by a higher surplus dividend derived from the Group's indirect interest in Hastings as well as an interim dividend received from the Youi Group.

In October 2018, the Youi Group declared its maiden ordinary dividend. This dividend was based on the full year's earnings generated in the 2018 financial year. With Youi paying a maiden interim dividend in 2019, the Group will narrow the differential between the interim and final dividends. It should therefore be noted that the final dividend could be lower than the final dividend of 2018.

	2018 interim dividend	2017 interim dividend	% change	**2018 full year dividend**
Cents per ordinary share	**24.7**	20.5	20.5%	**53.5**

LOOKING AHEAD

We are optimistic that the South African economy will deliver positive and strengthening growth over the foreseeable future which will benefit the premium inflation profile and new business opportunities of the core OUTsurance Personal operation.

OUTsurance Business will continue to benefit from the expansion of the tied-agency force and is expected to maintain a strong new business growth profile over the medium-term.

The Group will continue to focus on the recovery of the new business performance of Youi Australia where we also expect a gradual recovery in premium inflation to contribute to the overall growth profile.

The Group will maintain its underwriting discipline and focus on world-class service across all its operations.

With effect November 2018, the management team acquired a further 0.4% interest in OUTsurance Holdings Limited. This interest is facilitated by RMI Holdings.

BASIS OF PRESENTATION

OUTsurance Holdings prepares its consolidated financial results in accordance with the Companies Act (71 of 2008) and IFRS, including IAS 34 Interim Financial Reporting. The circular should be read in conjunction with the Group's annual report for the financial year ended 30 June 2018 which is available at www.outsurance.co.za.

During the six months under review, the Group adopted the following new accounting standards:

IFRS 15: Revenue from contracts with customers

Insurance contracts are excluded from the scope of IFRS 15 as these contracts are specifically governed by IFRS 4: Insurance Contracts which will be replaced by the new IFRS 17 insurance standard.

The adoption of IFRS 15 on the non-insurance activities of the Group is not material to these revenue contracts.

OVERVIEW OF **GROUP RESULTS** continued

IFRS 9: Financial Instruments

During the six months under review, the Group adopted IFRS 9: Financial Instruments. This new standard replaces IAS 39. With the adoption of IFRS 9, the Group has made the following reclassifications to its financial instrument holdings:

> Investments in listed ordinary shares have been reclassified from the previous 'available-for-sale' category to 'fair value through profit and loss'. This change results in realised and unrealised fair value movements in the equity portfolio, to be accounted for in the statement of profit or loss of the Group and its subsidiaries.

> Similar to equity investments, perpetual preference share exposures are reclassified from the 'available-for-sale category' to 'fair value through profit or loss'.

> Investments in debt instruments are classified as 'fair-value through other comprehensive income'. This classification results in realised and unrealised fair value movements that are recognised in other comprehensive income. Interest income generated, which is the primary purpose of these instruments, continues to be recognised through profit and loss.

> Fixed term bank deposits have been reclassified from 'fair value through profit and loss' to 'amortised cost' on the basis that these instruments are typically held to only collect contractual cash flows.

IFRS 9 introduces expected credit loss provisioning. This requires provisions to be raised to estimate the expected credit losses related to an instrument over its remaining term to maturity. This expected credit loss provision is calculated with reference to the credit quality, term to maturity and expected loss given default of the issuer or ultimate counterparty of the financial instrument. Adopting this requirement has resulted in an immaterial provision for the Group on the basis of the high credit quality and short maturity profile of the Group's deposits and money market investments.

The adoption of IFRS 9 has resulted in adjustments being recognised against opening retained earnings where these adjustments represent the historic expected credit loss adjustments and reclassifications of financial instruments held at 30 June 2018. Please refer to page 17 for further detail related to these adjustments.

EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material events as defined in IAS 10, occurring between 31 December 2018 and the date of the authorisation of the interim financial results announcements.

Marthinus Visser
Chief Executive Officer

Laurie Dippenaar
Chairman

19 February 2019

OVERVIEW OF **GROUP RESULTS** continued

NORMALISED EARNINGS RECONCILIATION AND EARNINGS PER SHARE

Group headline and normalised earnings reconciliation

Normalised earnings excludes 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.

For the current and comparative periods, normalised earnings is specifically adjusted for the amortisation of intangible assets associated with the acquisition of the Group's indirect interest in Hastings Group Holdings plc (via Main Street 1353). These intangible assets represent the value of the Hastings customer list and brand which were created in accordance with the requirements of IFRS3: 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 related to the indirect acquisition of Hastings is recognised on the statement of financial position of Main Street 1353 and amortised over a period of five years. The amortisation of these assets are excluded from Group normalised earnings as illustrated in the table below:

	Six months ended 31 December			Year ended 30 June
R'000	**2018**	2017	% change	**2018**
IFRS profit attributable to equity holders	**1 315 017**	1 447 864	(9.2%)	**2 963 822**
Non-controlling interest	**(26 480)**	(26 192)	1.1%	**(55 647)**
IFRS earnings attributable to ordinary shareholders	**1 288 537**	1 421 672	(9.4%)	**2 908 175**
Adjusted for:				
Impairment of available-for-sale reserve	**–**	–		**23 360**
Loss / (gain) on disposal of property and equipment	**1 021**	(260)		**6 444**
Tax effect of headline earnings adjustments	**(288)**	(18)		**(5 346)**
Headline earnings	**1 289 270**	1 421 394	(9.3%)	**2 932 633**
Adjusted for:				
Amortisation of intangible assets related to Main Street 1353[1]	**39 556**	39 556		**79 112**
Normalised earnings	**1 328 826**	1 460 950	(9.0%)	**3 011 745**

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

Calculation of normalised earnings per share

	Six months ended 31 December		Year ended 30 June
	2018	2017	**2018**
Basic normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 328 826**	1 460 950	**3 011 747**
Weighted average number of shares in issue ('000)	**3 751 369**	3 766 448	**3 761 457**
Normalised earnings per share – basic (cents)	**35.4**	38.8	**80.1**
Diluted normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 328 826**	1 460 950	**3 011 747**
Diluted normalised earnings attributable to minorities of Youi Holdings Group (R'000)	**(5 342)**	(38 785)	**(79 028)**
Diluted normalised earnings attributable to ordinary shareholders (R'000)	**1 323 484**	1 422 165	**2 932 719**
Weighted average number of shares in issue ('000)	**3 751 369**	3 766 448	**3 761 457**
Dilution impact of share incentive scheme ('000)	**75 940**	66 210	**64 160**
Diluted weighted average number of shares in issue ('000)	**3 827 309**	3 832 658	**3 825 617**
Normalised earnings per share – diluted (cents)	**34.6**	37.1	**76.7**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

for the six months ended 31 December

	Six months ended 31 December			Year ended 30 June
	2018 R'000	2017 R'000	% change	**2018 R'000**
Gross insurance premium written	**8 102 456**	7 757 048	4.5%	**15 027 422**
Outward reinsurance premiums	**(432 767)**	(465 178)	7.0%	**(847 021)**
Net premiums written	**7 669 689**	7 291 870	5.2%	**14 180 401**
Change in provision for unearned premiums	**(176 629)**	(84 249)	>(100%)	**(6 821)**
Earned premiums, net of reinsurance	**7 493 060**	7 207 621	4%	**14 173 580**
Commission income	**38 019**	48 016	(20.8%)	**99 063**
Other income	**3 720**	659	>100%	**2 403**
Investment income	**293 428**	261 999	12.0%	**516 196**
Net (losses) / gains from fair value adjustments on financial assets	**(37 681)**	19 310	>(100%)	**(34 899)**
Income	**7 790 546**	7 537 605	3.4%	**14 756 343**
Policyholder benefits on insurance contract net of reinsurance	**(3 841 650)**	(3 662 206)	(4.9%)	**(6 930 214)**
Gross policyholder benefits under insurance contracts	**(4 265 744)**	(3 995 471)	(6.8%)	**(7 314 157)**
Reinsurers' share of insurance contract claims	**424 094**	333 265	27.3%	**383 943**
Transfer to policyholder liabilities under insurance contracts	**(24 047)**	(70 215)	65.8%	**(125 727)**
Acquisition expenses	**(17 158)**	(10 050)	(70.7%)	**(31 228)**
Marketing and administration expenses	**(2 070 804)**	(1 861 165)	(12.6%)	**(3 709 747)**
Fair value adjustment to financial liabilities	**(103 794)**	(100 415)	(3.4%)	**(193 070)**
Result of operating activities	**1 733 093**	1 833 554	(6.9%)	**3 766 357**
Finance charges	**(36)**	(7)	>(100%)	**(123)**
Equity accounted earnings from associates	**114 456**	164 739	(30.5%)	**305 474**
Profit before taxation	**1 847 513**	1 998 286	(8.8%)	**4 071 708**
Taxation	**(532 496)**	(550 422)	4.7%	**(1 107 886)**
Net profit for the year	**1 315 017**	1 447 864	(10.4%)	**2 963 822**
Net profit attributable to:				
Ordinary shareholders	**1 288 537**	1 421 672	(10.4%)	**2 908 175**
Non-controlling interest	**26 480**	26 192	(9.6%)	**55 647**
Net profit for the year	**1 315 017**	1 447 864	(10.4%)	**2 963 822**
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss				
Fair value (losses) / gains on available-for-sale financial instruments	**–**	73 386	(100.0%)	**93 540**
Exchange differences on foreign operations	**20 116**	(149 045)	>100%	**43 529**
Deferred income tax relating to available-for-sale financial instruments	**–**	(16 438)	100.0%	**(20 953)**
Fair value (losses) / gains on other comprehensive income financial instruments	**(5 398)**	–	(100%)	**–**
Deferred income tax relating to other comprehensive income financial instruments	**1 511**	–	100.0%	**–**
Items that will not subsequently be reclassified				
Other comprehensive income of associates	**–**	–	–	**22 238**
Total comprehensive income for the year	**1 331 246**	1 355 767	(3.1%)	**3 102 176**
Total comprehensive income attributable to:				
Ordinary shareholders	**1 305 631**	1 338 499	(3.6%)	**3 043 930**
Non-controlling interest	**25 615**	17 268	32.3%	**58 246**
Total comprehensive income for the year	**1 331 246**	1 355 767	(3.1%)	**3 102 176**
Earnings attributable to shareholders				
Earnings per share (cents)				
Basic earnings per share	**34.35**	37.75		**77.32**
Diluted earnings per share	**33.53**	36.08		**73.97**
Weighted average number of ordinary shares ('000)	**3 751 369**	3 766 448		**3 761 457**
Weighted average number of diluted ordinary shares ('000)	**3 827 309**	3 832 658		**3 825 617**

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

at 31 December

	Six months ended 31 December 2018 R'000	Six months ended 31 December 2017 R'000	Year ended 30 June 2018 R'000
ASSETS			
Investment in associates	**4 154 140**	3 999 498	**4 125 091**
Property and equipment	**1 061 623**	1 112 171	**1 104 446**
Employee benefits	**90 865**	47 185	**123 722**
Reinsurers' share of insurance contract provisions	**508 170**	583 604	**286 490**
Deferred acquisition costs	**336 095**	317 086	**307 424**
Financial assets			
Fair value through profit and loss	**1 658 348**	7 805 180	**9 102 963**
Available-for-sale	**–**	1 172 556	**1 169 222**
Amortised cost	**5 236 505**	–	**–**
Fair value through other comprehensive income	**2 900 503**	–	**–**
Deferred income tax	**139 828**	108 470	**190 615**
Loans and receivables	**2 670 606**	2 614 701	**2 623 459**
Tax receivable	**184 897**	–	**1 876**
Cash and cash equivalents	**919 841**	696 204	**467 355**
TOTAL ASSETS	**19 861 421**	18 456 655	**19 502 663**
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	**37 474**	37 648	**37 523**
Share premium	**2 424 112**	2 583 789	**2 473 700**
Other reserves			
Share-based payment reserve	**9 054**	17 058	**14 043**
Foreign currency translation reserve	**378 643**	176 611	**357 662**
Available-for-sale reserve	**–**	130 521	**146 160**
Equity accounted reserve	**29 506**	(1 683)	**32 820**
Retained earnings	**7 912 343**	7 187 675	**7 882 900**
Total shareholders' equity	**10 791 132**	10 131 619	**10 944 808**
Non-controlling interest	**377 671**	159 873	**199 297**
TOTAL EQUITY	**11 168 803**	10 291 492	**11 144 105**
LIABILITIES			
Insurance contract liabilities	**7 243 771**	6 825 428	**6 724 671**
Share-based payment liability	**58 468**	78 650	**101 495**
Employee benefits	**150 380**	127 663	**316 021**
Financial liabilities at fair value through profit and loss	**103 794**	100 415	**92 655**
Deferred income tax	**39 324**	53 149	**54 067**
Tax liabilities	**76 220**	89 086	**199 760**
Insurance and other payables	**1 020 661**	890 772	**869 889**
TOTAL LIABILITIES	**8 692 618**	8 165 163	**8 358 558**
TOTAL EQUITY AND LIABILITIES	**19 861 421**	18 456 655	**19 502 663**

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

for the six months ended 31 December

	Share capital R'000	Share Premium R'000	Available for-sale reserves R'000	Foreign currency translation reserve R'000	Share-based payments reserve R'000	Equity accounted reserves R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Non-controlling interest R'000	Total
Opening balance at 1 July 2017	37 649	2 599 038	73 573	316 732	13 711	–	6 639 636	9 680 339	143 635	9 823 974
Total profit for the period	–	–	–	–	–	–	1 447 864	1 447 864	–	1 447 864
Total other comprehensive income for the period	–	–	56 948	(149 045)	–	–	–	(92 097)	–	(92 097)
Issue of share capital	(1)	(15 249)	–	–	–	–	–	(15 250)	–	(15 250)
Share based payment expense	–	–	–	–	3 347	–	–	3 347	–	3 347
Transactions with non-controlling interests of subsidiary	–	–	–	–	–	–	1 030	1 030	(1 030)	–
(Loss) / profit attributable to non-controlling interests	–	–	–	8 924	–	–	(26 192)	(17 268)	17 268	–
Share option spread transactions	–	–	–	–	–	–	(18 110)	(18 110)	–	(18 110)
Reserve adjustment of associate entities	–	–	–	–	–	(1 683)	–	(1 683)	–	(1 683)
Ordinary dividend paid	–	–	–	–	–	–	(856 553)	(856 553)	–	(856 553)
Balance at 31 December 2017	37 648	2 583 789	130 521	176 611	17 058	(1 683)	7 187 675	10 131 619	159 873	10 291 492
Opening balance as at 1 July 2018	**37 523**	**2 473 700**	**146 160**	**357 662**	**14 043**	**32 820**	**7 882 900**	**10 944 808**	**199 297**	**11 144 105**
Total profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1 315 017**	**1 315 017**	**–**	**1 315 017**
Total other comprehensive income / (loss) for the year	**–**	**–**	**–**	**20 116**	**–**	**–**	**(3 887)**	**16 229**	**–**	**16 229**
Issue of share capital	**(49)**	**(49 588)**	**–**	**–**	**–**	**–**	**–**	**(49 637)**	**212 595**	**162 958**
Share based payment expense	**–**	**–**	**–**	**–**	**(4 989)**	**–**	**–**	**(4 989)**	**–**	**(4 989)**
Transactions with non-controlling interests of subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(26 652)**	**(26 652)**	**26 652**	**–**
(Loss) / profit attributable to non-controlling interests	**–**	**–**	**–**	**865**	**–**	**–**	**(26 480)**	**(25 615)**	**25 615**	**–**
Share option spread transactions	**–**	**–**	**–**	**–**	**–**	**–**	**180 129**	**180 129**	**–**	**180 129**
Change in accounting policy	**–**	**–**	**(146 160)**	**–**	**–**	**–**	**96 498**	**(49 662)**	**–**	**(49 662)**
Reserve adjustment of associate entities	**–**	**–**	**–**	**–**	**–**	**(3 314)**	**298**	**(3 016)**	**–**	**(3 016)**
Ordinary dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(1 505 480)**	**(1 505 480)**	**(86 488)**	**(1 591 968)**
Balance at 31 December 2018	**37 474**	**2 424 112**	**–**	**378 643**	**9 054**	**29 506**	**7 912 343**	**10 791 132**	**377 671**	**11 168 803**

CONSOLIDATED STATEMENT OF **CASH FLOWS**

for the six months ended 31 December

	Six months ended 31 December		Year ended 30 June
	2018 R'000	2017 Restated R'000	**2018 Restated R'000**
OPERATING ACTIVITIES			
Cash generated by operations	**1 871 110**	1 880 533	**3 783 934**
Interest received	**257 118**	228 556	**458 577**
Dividends received	**36 309**	33 443	**57 619**
Finance charges	**(36)**	(7)	**(123)**
Taxation paid	**(609 322)**	(536 336)	**(1 069 423)**
Proceeds on disposal of financial assets[1]	**4 951 984**	3 987 494	**8 162 970**
Purchase of financial assets[1]	**(4 656 567)**	(4 219 976)	**(9 501 476)**
Ordinary dividends paid	**(1 505 480)**	(856 553)	**(1 628 370)**
Preference dividends paid	**(92 655)**	(110 372)	**(210 787)**
Cash inflow from operating activities	**252 461**	406 782	**52 921**
INVESTING ACTIVITIES			
Acquisition of investment in associates	**(909)**	(4 050)	**(78 256)**
Dividends received from associates	**83 300**	–	**133 280**
Property and equipment acquired to maintain and expand operations	**(36 605)**	(212 681)	**(254 363)**
Proceeds on disposal of property and equipment	**214**	2 275	**4 819**
Proceeds on disposal of financial assets[2]	**102 748**	5 109	**28 939**
Purchase of financial assets[2]	**(29 522)**	(5 332)	**(3 367)**
Cash inflow / (outflow) from investing activities	**119 226**	(214 679)	**(168 948)**
FINANCING ACTIVITIES			
Shares issued to non-controlling interest	**212 595**	–	**106**
Dividends paid to non-controlling interest	**(86 488)**	–	**–**
Purchase of treasury shares by share scheme participants	**114 777**	77 771	**92 771**
Purchase of treasury shares by share trust from share scheme participants	**(164 414)**	(93 021)	**(218 234)**
Cash inflow / (outflow) from financing activities	**76 470**	(15 250)	**(125 357)**
Increase / (decrease) in cash and cash equivalents	**448 157**	176 853	**(241 384)**
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents	**467 355**	721 460	**721 460**
Effect of exchange rates on cash and cash equivalents	**4 329**	(202 109)	**(12 721)**
Increase / (decrease) in cash and cash equivalents	**448 157**	176 853	**(241 384)**
Closing balance of cash and cash equivalents	**919 841**	696 204	**467 355**

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), specifically IAS 34 (Interim financial reporting) and the requirements of the Companies Act of South Africa. The interim results should be read in conjunction with the Annual Financial Statements for the year ended 30 June 2018.

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 as disclosed below.

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, which replaced IAS 39, Financial Instruments: Recognition and Measurement, was applied effective from 1 July 2018.

The IFRS 9 classification, measurement and impairment requirements are applied retrospectively, by adjusting the opening balance sheet, with no restatement of comparatives on initial application, as permitted by IFRS 9.

Application of IFRS 9

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). The classification is generally based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The following table and accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets at 1 July 2018.

On date of initial application, 1 July 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		**Carrying amount**		
	Original – IAS 39	**New – IFRS 9**	Original R'000	**New R'000**	Difference R'000
Financial assets					
Listed perpetual preference shares	Available-for-sale	**FVPL**	353 771	**353 771**	–
Exchange traded funds	Available-for-sale	**FVPL**	713 166	**713 166**	–
Collective investment schemes	FVPL	**FVPL**	109 841	**109 841**	–
Unsecured loan	FVPL	**FVPL**	33 503	**33 503**	–
Unlisted redeemable preference shares	Available-for-sale	**Amortised cost**	102 285	**102 285**	–
Zero-coupon deposits	FVPL	**FVPL**	345 943	**345 943**	–
Term deposits	FVPL	**Amortised cost**	5 261 302	**5 261 302**	–
Money market portfolios	FVPL	**FVOCI**	3 352 374	**3 302 712**	49 662
Total financial assets			10 272 185	**10 222 523**	49 662
Financial liabilities					
Preference dividends payable	FVPL	**FVPL**	92 655	**92 655**	–
Total financial liabilities			92 655	**92 655**	–

The difference noted in the column is a result of applying the new expected loss model. The reclassification of the financial instruments on adoption of IFRS 9 did not result in any changes to measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

BASIS OF PREPARATION continued

Debt instruments, in segregated money market portfolios, previously measured at FVPL, have been reclassified to FVOCI under IFRS 9. The business model is 'hold to collect and sell financial assets', and their cash flows represent payments of principal and interest.

Debt instruments, in term deposits, previously measured at FVPL, have been reclassified to amortised cost under IFRS 9. The business model is 'hold to collect' and their cash flows represent payment of principal and interest.

All other debt instruments previously measured at FVPL, are also measured at FVPL under IFRS 9. Financial assets not classified at amortised cost or FVOCI are measured at FVPL. Financial assets that are held to sell, those that are managed and those whose performance is evaluated on a fair value basis will be measured at FVPL because they are neither held to collect contractual cash flows nor held to collect cash flows and to sell. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The zero-coupon deposits have been designated as FVPL as this classification eliminates an accounting mismatch.

Loans and receivables, previously measured at amortised cost, continue to be measured at amortised cost under IFRS 9 as the business model is 'hold to collect' and their cash flows represent payment of principal and interest.

Equity instruments previously measured as available-for-sale, have been reclassified to FVPL under IFRS 9. Management have not taken the irrevocable election to present changes through FVOCI for equities not held for trading.

Debt securities under financial liabilities issued by the OUTsurance Group are measured at FVPL under IFRS 9 as these instruments are managed at fair value in terms of the business model.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group uses derivatives to offset the interest rate risk inherent in some of the life insurance products underwritten by the Group. The Group has elected not to apply hedge accounting to the asset-liability matching strategy.

Impairments

The Group recognises loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortised cost;
- lease receivables;
- debt investments measured at FVOCI;
- loan commitments; and
- financial guarantee contracts.

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

- financial assets that are determined to have low credit risk at the reporting date;
- financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition; and
- financial assets which are callable on demand or within a period of 12 months from reporting date.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECL that results from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

At each reporting date, the Group assesses whether financial assets measured at amortised cost and at FVOCI are credit impaired.

Loss allowances for ECL on financial assets measured at amortised cost are deducted from the gross carrying amount of the financial assets. Loss allowances for ECL on debt investments measured at FVOCI are recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position.

The Group has determined that the application of the impairment requirements of IFRS 9 at 1 July 2018 results in a R55 million ECL.

IFRS 15 Revenue

IFRS 15, Revenue from Contracts with Customers, which replaced IAS 18, Revenue and IAS 11, Construction Contracts, was applied effective from 1 July 2018. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the Group to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

The significant majority of the Group's revenue is accounted for in terms of IFRS 4, Insurance contracts, IFRS 9, Financial instruments and IAS 17, Leases, which are scoped out of IFRS 15. There are no material changes to revenue recognition for fee income recognised under IFRS 15. Consequently there is no financial impact on the consolidated Group on 1 July 2018 upon adoption of IFRS 15.

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS** continued

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 2018.

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

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

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group at 31 December 2018				
Financial assets				
Equity securities				
Listed perpetual preference shares	365 976	–	–	365 976
Exchange traded funds	688 724	–	–	688 724
Collective investment schemes	–	106 221	–	106 221
Debt securities				
Unsecured loan	–	–	34 802	34 802
Zero-coupon deposits	–	451 126	–	451 126
Term deposits	–	5 236 505	–	5 236 505
Collateral swaps	–	11 499	–	11 499
Government, municipal and public utility securities	–	409 711	–	409 711
Money market securities <1 year	–	1 316 627	–	1 316 627
Money market securities >1 year	–	1 229 858	–	1 229 858
Expected credit loss	–	(55 693)	–	(55 693)
Total financial assets	1 054 700	8 705 854	34 802	9 795 356
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	103 794	103 794
Total financial liabilities	–	–	103 794	103 794

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 2017				
Financial assets				
Equity securities				
Listed perpetual preference shares	346 355	–	–	346 355
Exchange traded funds	723 787	–	–	723 787
Collective investment schemes	–	107 333	–	107 333
Debt securities				–
Unlisted preference shares	–	102 415	–	102 415
Zero-coupon deposits	–	291 993	–	291 993
Term deposits	–	4 421 245	–	4 421 245
Government, municipal and public utility securities	–	416 136	–	416 136
Money market securities <1 year	–	1 402 731	–	1 402 731
Money market securities >1 year	–	1 165 741	–	1 165 741
Total financial assets	1 070 142	7 907 594	–	8 977 736
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	100 415	100 415
Total financial liabilities	–	–	100 415	100 415

There were no transfers between levels for the six months ended 31 December 2018.

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

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

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

The collective investment scheme is 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 are not traded actively during a financial reporting period and are classified as Level 2 financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FINANCIAL RISK MANAGEMENT continued

Level 2 continued

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.

Collateral swaps are used to offset interest rate risk in the long-term policyholder liability. These swaps are fair valued based on observable market inputs.

Level 3

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

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

- The fair value is determined based on valuation techniques where the input is determined by management, and is not readily available in the market or where market observable input is significantly adjusted, i.e. profits arising out of profit sharing arrangements.
- Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

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

Reconciliation of level 3 financial instruments

	Six months ended 31 December	
	2018 R'000	2017 R'000
Opening balance at 1 July	**92 655**	110 372
Preference dividend paid	**(92 655)**	(110 372)
Preference dividend charged to comprehensive income	**103 794**	100 415
Closing balance at 31 December	**103 794**	100 415

SEGMENT INFORMATION

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

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

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

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS** continued

SEGMENT INFORMATION continued

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

	Short-term insurance				Long-term insurance		
	OUTsurance Personal[2] R'000	OUTsurance Commercial R'000	Youi Australia Personal R'000	Youi New Zealand Personal R'000	OUTsurance Life R'000	Central and new business development R'000	Group Total R'000
Six months ended 31 December 2018							
Gross written premium	3 497 839	651 696	3 588 358	114 447	250 116	–	**8 102 456**
Outward reinsurance premiums	(44 065)	(8 915)	(265 787)	(93 146)	(20 854)	–	**(432 767)**
Change in provision for unearned premium	(20 005)	(9 103)	(151 847)	4 326	–	–	**(176 629)**
Earned premium, net of reinsurance	3 433 769	633 678	3 170 724	25 627	229 262	–	**7 493 060**
Commission income	–	–	1 483	36 536	–	–	**38 019**
Other income	–	–	1 372	–	–	2 348	**3 720**
Policyholder benefits on insurance contracts net of reinsurance	(1 674 422)	(337 762)	(1 781 140)	(11 934)	(36 392)	–	**(3 841 650)**
Transfer to policyholder liabilities under insurance contracts	–	–	–	–	(24 047)	–	**(24 047)**
Marketing, acquisition and administration expenses[1]	(737 757)	(190 107)	(975 446)	(46 562)	(116 086)	(17 772)	**(2 083 730)**
Fair value adjustment to financial liabilities	(103 794)	–	–	–	–	–	**(103 794)**
Underwriting result	917 796	105 809	416 993	3 667	52 737	(15 424)	**1 481 578**
Investment income on technical reserves	50 316	8 868	49 699	1 615	28 291	–	**138 789**
Operating profit	968 112	114 677	466 692	5 282	81 028	(15 424)	**1 620 367**
Equity accounted earnings							**114 456**
Operating profit including associate earnings							**1 734 823**
Net investment income on shareholder investment capital							**112 690**
Profit before tax							**1 847 513**

1 *Excludes investment management expenses of R4.2 million.*
2 *Includes Homeowners Cover book sourced from FirstRand Limited.*

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS** continued

SEGMENT INFORMATION continued

	Short-term insurance				Long-term insurance		
	OUTsurance Personal[2] R'000	OUTsurance Commercial R'000	Youi Australia Personal R'000	Youi New Zealand Personal R'000	OUTsurance Life R'000	Central and new business development R'000	Group Total R'000
Six months ended 31 December 2017							
Gross written premium	3 294 323	573 610	3 536 130	118 075	234 910	–	7 757 048
Outward reinsurance premiums	(79 642)	(16 735)	(250 302)	(99 294)	(19 205)	–	(465 178)
Change in provision for unearned premium	(21 502)	(6 287)	(69 694)	10 293	(2)	2 943	(84 249)
Earned premium, net of reinsurance	3 193 179	550 588	3 216 134	29 074	215 703	2 943	7 207 621
Commission income	–	2 644	–	45 372	–		48 016
Other income	–	–	308	–	–	351	659
Policyholder benefits on insurance contracts net of reinsurance	(1 555 749)	(266 556)	(1 781 368)	(15 615)	(42 918)	–	(3 662 206)
Transfer to policyholder liabilities under insurance contracts	–	–	–	–	(70 215)	–	(70 215)
Marketing, acquisition and administration expenses[1]	(618 736)	(149 388)	(947 000)	(74 689)	(104 253)	26 789	(1 867 277)
Fair value adjustment to financial liabilities	(100 415)	–	–	–	–	–	(100 415)
Underwriting result	918 279	137 288	488 074	(15 858)	(1 683)	30 083	1 556 183
Investment income on technical reserves	52 067	6 957	44 700	1 919	23 949	–	129 592
Operating profit	970 346	144 245	532 774	(13 939)	22 266	30 083	1 685 775
Equity accounted earnings							164 739
Operating profit including associate earnings							1 850 514
Net investment income on shareholder investment capital							147 772
Profit before tax							1 998 286

1 Excludes investment management expenses of R3.9 million.
2 Includes Homeowners Cover book sourced from FirstRand Limited.

NOTES TO THE **CONSOLIDATED FINANCIAL STATEMENTS** continued

BASIC HEADLINE EARNINGS PER SHARE

	Six months ended 31 December		Year ended 30 June
	2018	2017	**2018**
Basic headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 289 270**	1 421 394	**2 932 634**
Weighted average number of shares in issue ('000)	**3 751 369**	3 766 448	**3 761 457**
Headline earnings per share – basic (cents)	**34.37**	37.74	**77.97**
Diluted headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 289 270**	1 421 394	**2 932 634**
Diluted headline earnings attributable to minorities of Youi Holdings Group (R'000)	**(5 342)**	(38 785)	**(79 028)**
Diluted headline earnings attributable to ordinary shareholders (R'000)	**1 283 928**	1 382 609	**2 853 606**
Weighted average number of shares in issue ('000)	**3 751 369**	3 766 448	**3 761 457**
Dilution impact of share incentive scheme ('000)	**75 940**	66 210	**64 160**
Diluted weighted average number of shares in issue ('000)	**3 827 309**	3 832 658	**3 825 617**
Headline earnings per share – diluted (cents)	**33.55**	36.07	**74.59**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

RECLASSIFICATION OF COMPARATIVES

During the 2019 financial year, the Group's cash flow statement classification of certain financial assets was reviewed due to the implementation of IFRS 9. This resulted in financial assets held to back primarily insurance liabilities being more appropriately classified as operating activities rather than investing activities. All other investments are of a longer term nature and considered investing activites.

31 December 2017	Amount as previously reported	Amount as restated	Difference
Cash flow statement			
Operating activities			
Proceeds on disposal of financial assets	–	3 987 494	3 987 494
Purchase of financial assets	–	(4 219 976)	(4 219 976)
Cash flows from operating activities	–	(232 482)	(232 482)
Investing activities			
Proceeds on disposal of financial assets	3 992 603	5 109	(3 987 494)
Purchase of financial assets	(4 225 308)	(5 332)	4 219 976
Cash flows from investing activities	(232 705)	(223)	232 482
Total	(232 705)	(232 705)	–

OUTSURANCE LIFE **EMBEDDED VALUE**

EMBEDDED VALUE OF COVERED BUSINESS

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

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

The embedded value of covered business consists of:

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

The 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 own funds on the SAM economic balance sheet, adjusted for the best estimate liability, risk margin and resultant deferred tax that is captured elsewhere.

The value of in-force covered business is the discounted value of the projected stream of after tax shareholder profits arising from existing in-force covered business. These shareholder profits are from the difference between the present value of future income and the present value of future outgo, valued on a best estimate basis, and is represented by the best estimate liability after allowing for taxation.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory Solvency Coverage Ratio (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 capital has been set at 2.0 x SCR, which is the target SCR Ratio.

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

The risk discount rate is based on the zero coupon yield curve plus a risk discount rate 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%. Cash returns were set to the zero coupon yield curve less 2%.

The value of new business (VNB) is calculated as the discounted value, at point of sale, using the risk free yield curve, 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. No adjustment has been made for the discounting of tax provisions in the EV.

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

OUTSURANCE LIFE **EMBEDDED VALUE** continued

EMBEDDED VALUE & VALUE OF NEW BUSINESS

The embedded value methodology based on the new prudential capital requirements, effective 1 July 2018, is being continually refined and represents a material departure from the previous approach. As a result, the 30 June 2018 Embedded Value (SAM basis) has been restated to reflect the refined approach.

Embedded Value

The tables below provide a breakdown of the embedded value as measured on the new Prudential Standards effective 1 July 2018 for OUTsurance Life for the six months under review and comparative periods:

Embedded value of covered business	**31 December 2018 R'000**	31 December 2017 R'000	**30 June 2018 Restated R'000**
Covered business ANW	**904 957**	765 117	**824 365**
Free surplus	**154 618**	(1 370)	**73 424**
Required capital	**750 339**	766 487	**750 941**
Present value of in-force business (PVIF)	**425 946**	463 711	**433 249**
Cost of required capital	**(484 182)**	(408 902)	**(435 701)**
Embedded value of covered business	**846 721**	819 926	**821 913**
Present value of gross premiums (in-force book)	**2 906 799**	2 819 459	**2 814 559**
Annualised return on embedded value	**6.0%**	0.4%	**0.5%**

The reported embedded value increased by 3.0% since June 2018 with an annualised return on embedded value of 6.0%. This increase is attributable to the increase in ANW, largely due to the profits being realised from the in-force business. This was offset somewhat by the expense outlay associated with new business written, which is exacerbated by the launch of the new funeral cover product. The favourable yield movements between June and December contributed to the increased ANW and resulted in a lower PVIF and lower capital requirements.

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

Reconciliation back to IFRS figure:	**31 December 2018 R'000**	31 December 2017 R'000	**30 June 2018 R'000**
Ordinary shareholders funds per IFRS	**719 662**	638 754	**658 873**
Adjustment for regulatory basis changes	**185 295**	126 363	**165 492**
Covered business ANW	**904 957**	765 117	**824 365**

OUTSURANCE LIFE **EMBEDDED VALUE** continued

EMBEDDED VALUE & VALUE OF NEW BUSINESS continued

Embedded value earnings

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

Embedded value earnings for the reporting period	ANW R'000	PVIF R'000	Cost of required capital R'000	**Embedded value R'000**
at December 2018 (6 months)				
Embedded value at end of the period	904 957	425 946	(484 182)	**846 721**
Embedded value at beginning of the period	824 365	433 249	(435 701)	**821 913**
Embedded value earnings for the period	80 592	(7 303)	(49 481)	**24 808**

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

Analysis of embedded value earnings

Components of embedded value earnings	ANW R'000	PVIF R'000	Cost of required capital R'000	**Embedded value R'000**
at December 2018 (6 months)				
Expected contribution from still-in-force business	111 534	(97 298)	(17 162)	**(2 926)**
Expected profit transfer	111 534	(111 534)	–	**–**
Expected return on covered business	–	14 236	(17 162)	**(2 926)**
Expected contribution from new business	(96 914)	107 844	(27 894)	**(16 964)**
New business strain	(96 914)	96 914	–	**–**
New business value at point of sale	–	32 781	(18 083)	**14 698**
Adjustment for policies no longer in force	–	(21 851)	(9 811)	**(31 662)**
Expected return on ANW	28 101	–	–	**28 101**
Operating experience variances	25 435	(8 716)	6 872	**23 591**
Change in valuation methods and assumptions	12 436	(9 133)	(10 297)	**(6 994)**
Methodology	–	1 526	(41 927)	**(40 401)**
Non-economic assumptions	–	(2 428)	(336)	**(2 764)**
Economic assumptions	12 436	(8 231)	31 966	**36 171**
Embedded value earnings	80 592	(7 303)	(48 481)	**24 808**

Value of new business

Value of new business (6 months)	**31 December 2018 R'000**	31 December 2017 R'000	Variance %	**30 June 2018 Restated R'000**
Gross value of new business	**32 781**	30 895	6.1%	**28 945**
Cost of required capital	**(18 083)**	(11 057)	63.5%	**(15 954)**
Value of new business	**14 698**	19 838	(25.9%)	**12 991**
Present value of gross premiums (new business)	**208 069**	250 041	(16.8%)	**204 410**
New business margin	**7.1%**	7.9%	–	**6.4%**

The new business margin over the past 6 months increased from 6.4% at June 2018 to 7.1% benefitting from improved sales and economic environment during the past six months. This has been partially subdued by the lower new business margin on the funeral cover business.

OUTSURANCE LIFE **EMBEDDED VALUE** continued

EMBEDDED VALUE & VALUE OF NEW BUSINESS continued

Sensitivity analysis

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

Value of in-force sensitivity analysis	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% change
at December 2018				
Base value at 31 December 2018	425 946	(484 182)	(58 236)	
1% increase in the risk discount rate	425 946	(501 919)	(75 973)	30.5%
1% decrease in the interest rate environment	408 762	(507 059)	(98 297)	68.8%
10% decrease in maintenance expenses	444 906	(475 679)	(30 773)	(47.2%)
10% decrease in new business acquisition expenses	425 946	(484 182)	(58 236)	–
10% decrease in lapse rates	418 227	(492 527)	(74 300)	27.6%
5% decrease in morbidity and mortality rates	469 683	(474 138)	(4 455)	(92.4%)

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

Value of new business sensitivity analysis	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% change
at December 2018 (6 months)				
Base value at 31 December 2018	32 781	(18 083)	14 698	
1% increase in the risk discount rate	32 781	(20 765)	12 016	(18.2%)
1% decrease in the interest rate environment	37 404	(18 093)	19 311	31.4%
10% decrease in maintenance expenses	33 960	(17 184)	16 776	14.1%
10% decrease in new business acquisition expenses	38 641	(18 083)	20 558	39.9%
10% decrease in lapse rates	41 174	(20 749)	20 425	39.0%
5% decrease in morbidity and mortality rates	34 879	(17 169)	17 710	20.5%

Economic assumptions

	2018 December	2017 December	2018 June
Discounted mean term (in years)	11.36	11.22	11.65
Fixed-interest securities (bond curve – non ALM)	10.6%	10.0%	9.9%
Fixed-interest securities (swap curve – ALM)	8.8%	8.2%	8.7%
Inflation rate	7.6%	8.5%	7.3%
Risk discount rate	14.6%	14.0%	13.9%

WHO WE ARE

Southern Africa

Car | Home | Business | Life | Invest

100%

OUTSURANCE

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

49%

OUTSURANCE Namibia

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

100%

OUTSURANCE Life

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

100%

OUTVEST

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

% Ownership

Australasia

Car | Home

84%

youi AUSTRALIA

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

84%

youi NEW ZEALAND

Youi New Zealand was launched in July 2014 and provides personal lines insurance cover direct to the New Zealand public.

% Ownership

United Kingdom

Car | Home

14.7%

Hastings

The Group recently acquired a 14.7% indirect stake in Hastings Group Holdings plc. Hastings is a fast growing digital insurer operating in the United Kingdom with a unique digitally enabled business model.

Hastings provides personal lines insurance cover through direct and price comparison website channels.

Further information can be found on www.hastingsplc.com

% Ownership

DEFINITIONS

Annualised premium income	Annualised premium value of all new client policies incepted during the period under review. This measure excludes the renewal of existing client policies.
Capital adequacy ratio (CAR)	Eligible capital divided by the solvency capital requirement.
Claims ratio	Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure 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.
Eligible capital	Total equity adjusted for asset inadmissibility and valuation differences per the local or group regulations.
Normalised earnings	Normalised earnings adjustments are applied where the Group believes that certain transactions 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.
Solvency capital requirement (SCR)/ Required capital	The amount of regulatory capital required as determined by the local regulatory authorities.
Weighted number of ordinary shares	Weighted number of ordinary shares in issue during the reporting period.
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.
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.
Normalised ROE	Normalised earnings divided by average normalised ordinary shareholders equity.
Adjusted net worth (ANW)	Excess value of all assets attributed to covered business but not required to back the liabilities of covered business.
Free surplus	ANW less the required capital attributed to covered business.
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.
Cost of required capital	The present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.
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.
Profitability of new covered business	Ratio of the net value of new business to present value of new business premiums (gross of reinsurance).
Present value of new business premiums	The discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business.

COMPANY INFORMATION

Directors

Mr L Dippenaar (Chairman),
Mr K Pillay, Mr A W Hedding,
Ms J Madavo, Mr G L Marx,
Mr R Pretorius, Mr H L Bosman,
Mr M Visser (Chief Executive Officer),
Mr P Cooper, Mr R Ndlovu,
Ms T Moabi, Mr W Roos,
Ms B Hanise, Ms M Ramathe.

Company Secretary and Registered Address

The company secretary is
Mr M Ehlert whose registered
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SURANCE

You always get something out.

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