OUTsurance Holdings Limited

UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2019

OUR VALUES

Contents

Who **we are**

SOUTH AFRICA

OUTSURANCE

Car
Home
Life
Business
Funeral
OUTvest

100%

Contribution to Group normalised earnings
72%

AUSTRALIA

youi

Car
Home

84.5%

Contribution to Group normalised earnings
22%

UNITED KINGDOM

Hastings

Car
Home

14.7%

Contribution to Group normalised earnings
6%

Introduction

The report covers the consolidated financial results of OUTsurance Holdings Limited for the six months ended 31 December 2019.

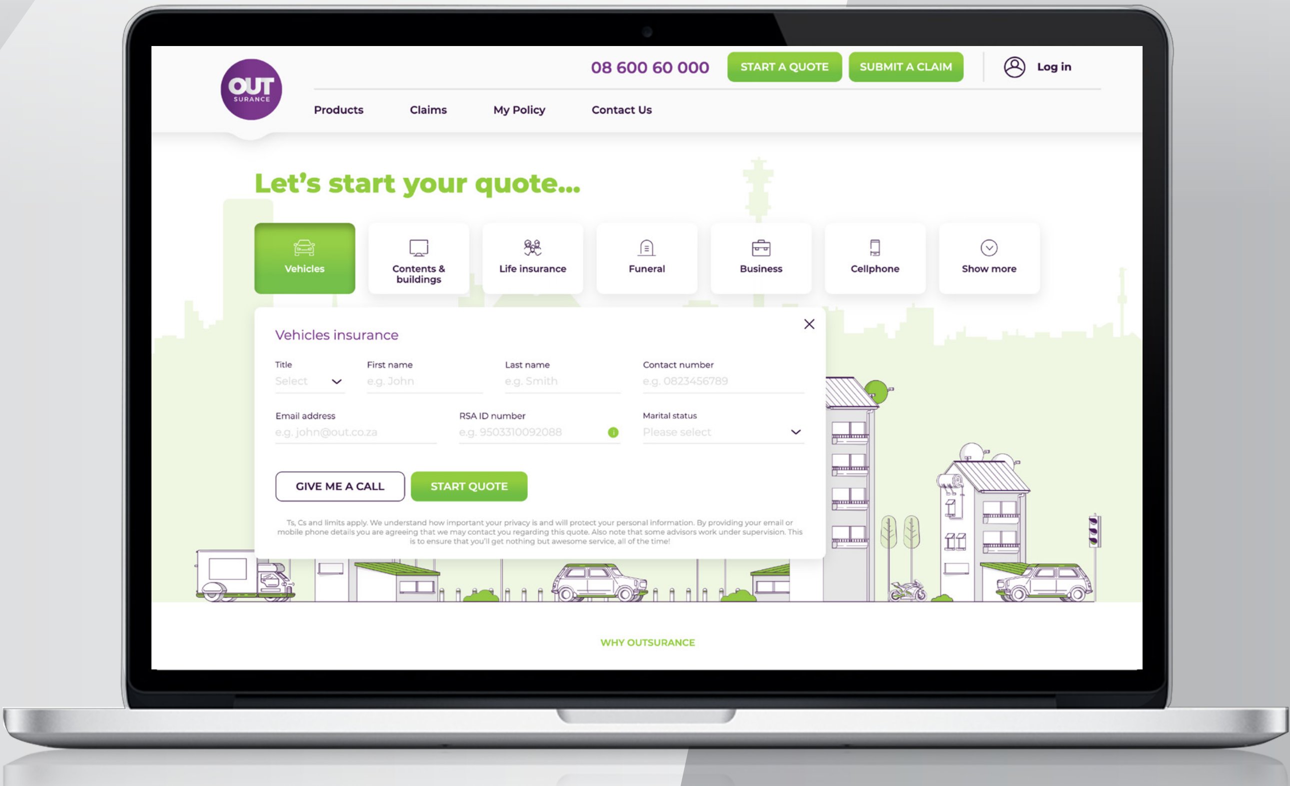
The consolidated financial results of OUTsurance Holdings Limited (the Group) are prepared based on International Financial Reporting Standards (IFRS) and are unaudited.

The primary results and accompanying commentary are presented on a normalised basis as the Group believes this 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 and the proceeds related to the disposal of Youi New Zealand's insurance portfolio.

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

The Group provides short-term insurance products in South Africa, Australia and Namibia. OUTsurance Life offers long-term insurance products and 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 insurance products backed by industry leading customer service.



Performance

for the six months ended 31 December 2019

NORMALISED EARNINGS
R1 169 million
DOWN BY 12.0%

ANNUALISED NEW PREMIUM WRITTEN
R2 055 million
UP BY 14.6%

GROSS WRITTEN PREMIUM
R8 594 million
UP BY 6.1%

OPERATING PROFIT
R1 508 million
DOWN BY 6.9%

DILUTED NORMALISED EARNINGS PER SHARE
30.2 cents
DOWN BY 12.7%

ORDINARY DIVIDEND PER SHARE
24.7 cents

WE'LL DO WHAT IT TAKES TO UNDERSTAND YOUR BUSINESS

We'd love to get to know your business. After all, it's the only way we can offer you a customised insurance solution, matched to your exact needs and budget. So, why not put us to the test? Call us today for a quote or to arrange a meeting with a Business OUTsurance Agent at your place of work.

SA RUGBY REFEREES

OUTSURANCE Business

PROUD PARTNERS

OUTsurance is a licensed insurer and FSP. Ts, Cs and standard rates apply. OC20/0563/E

Overview of **Group results**

Notwithstanding the significant natural perils losses incurred during the six month period, the Group delivered a satisfactory financial and operational performance.

The main highlights for the six month period are the continued growth recovery at Youi, the successful expansion of OUTsurance Business and strong OUTsurance Personal growth within a difficult economic climate. Overall the Group grew gross written premiums by 6.1% with new business premium growing by 14.6%

The devastating bushfires in Australia severely impacted the claims ratio performance for the six month period. At 31 December 2019, Youi's gross claims exposure was A$35 million with an expected A$14.5 million in reinsurance recoveries resulting in a net estimated loss of A$20.5 million. This loss represents a 6.4% increase in the Youi's claims ratio. Subsequent to 31 December 2019, Youi continued to incur bushfire related losses which are discussed in the Youi results overview. We are proud of the high service levels maintained in assisting affected customers during these events.

OUTsurance experienced three catastrophe events during the period under review with a combined net cost of R83.7 million. This compares to more benign weather conditions in the first half of 2019 where no catastrophe events occurred. OUTsurance also incurred R20 million more in net claims related to power surge and dip claims as a result of the electricity load shedding events in South Africa.

Despite the impact of these weather events on both Youi and OUTsurance, the attritional claims ratios of the operating businesses performed in line with expectations. The Group's overall claims ratio increased from 51.6% to 53.4%.

The Group's cost-to-income ratio increased from 27.3% to 28.1% and compares favourably against the 2019 financial year cost-to-income ratio of 28.3%. Despite the significant investment being made in the expansion of the OUTsurance tied-agency force, cost growth in the South African operation has slowed.

Youi continues to invest in new business growth. The impact of the increasing support capacity in information technology and risk and compliance functions over the last year also contributed to the increase in the cost-to-income ratio.

During the six month period, Youi New Zealand disposed of its insurance portfolio for N$12.6 million. The decision to dispose of the interest is supported by the difficulty Youi New Zealand experienced to gain the requisite scale within a highly concentrated market place. This disposal allows the Youi Group to free up a large amount of capital and allocate resources to Youi Australia's strategic growth plan. The proceeds from the disposal of the insurance portfolio are excluded from normalised earnings.

The Group generated operating profit of R1 508 million, a 6.9% reduction on the comparative period and primarily as a result of the higher claims costs.

Normalised earnings declined by 12.0% to R1 169 million. The larger reduction in normalised earnings compared to operating profit is attributed to a significant reduction in equity accounted earnings from the Group's indirect stake in Hastings and a larger effective Youi minority interest.

The Group's medium term strategic focus is to expand its insurance product range and widen the distribution footprint to include multiple sales and service channels.

During the six months under review, OUTsurance continued to expand the size and capability of its tied-agency force. A new motor warranty offering was added to bolster the comprehensive motor product. OUTsurance entered into a partnership arrangement with Shoprite Holdings Limited. This partnership will allow OUTsurance to underwrite long-term and short-term insurance products distributed by the Shoprite Group, as a Financial Services Provider, to the various customer bases of their operating brands. The partnership will commence with the distribution of a Funeral Insurance product during the second quarter of 2020. We are excited about the potential of this partnership as a meaningful distribution strategy with significant customer reach.

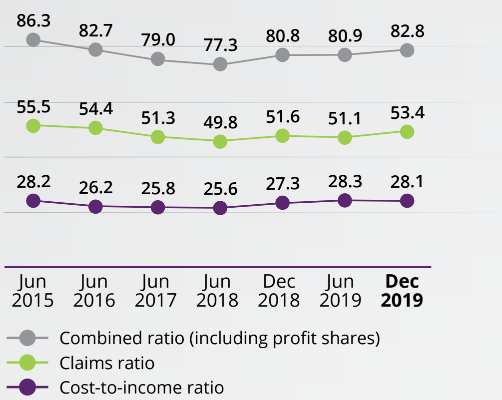
During February 2020, Youi entered into a partnership with Blue Zebra Insurance (BZI) to underwrite its personal and business insurance portfolio. BZI is a young Managing General Agent (MGA) equipped with leading technology and a large broker footprint. This partnership will allow Youi to access a face-to-face distribution channel to reach personal and business insurance customers. The underwriting partnership allows Youi to manage the pricing and underwriting of the BZI product range.

In conjunction with a retirement product, OUTvest recently launched its revolutionary ONEfee investment fee model which allows customers to be charged a single fixed fee for a total investment solution. This feature is a world-first and will allow customers to realise significantly improved after-fee investment outcomes by investing with OUTvest.

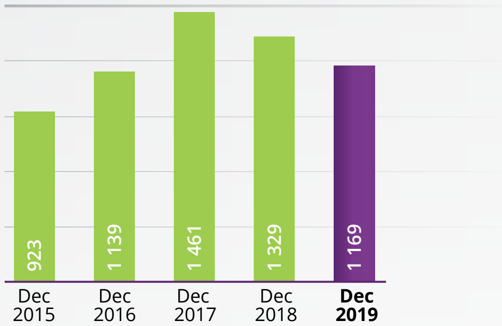
Digitising our service delivery is an ongoing strategic priority to deliver superior customer service and drive cost efficiency. During the six months under review both OUTsurance and Youi continued to roll out innovative digital service features.

Overview of Group results *continued*

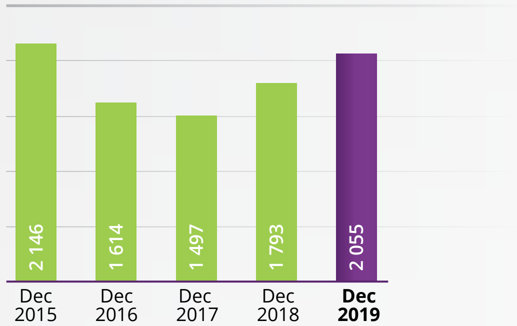
Key ratios (%)



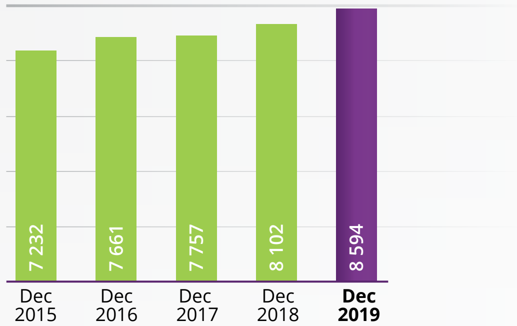
Normalised earnings
(R'million)



Annualised new business premium written
(R'million)



Gross written premium
(R'million)



Group – key performance indicators

R'million	Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
Gross written premium	**8 594**	8 102	6.1%	16 135
Net earned premium	**7 963**	7 493	6.3%	15 063
Operating profit	**1 508**	1 620	(6.9%)	3 173
Headline earnings	**1 136**	1 289	(11.9%)	2 555
Normalised earnings	**1 169**	1 329	(12.0%)	2 634
Normalised ROE (%)[1]	**23.2%**	25.8%		25.5%
Normalised earnings per share (cents)	**31.2**	35.4	(11.9%)	70.2
Diluted normalised earnings per share (cents)	**30.2**	34.6	(12.7%)	68.6
Dividend declared per share (cents)	**24.7**	24.7	–	55.5
Special dividend per share (cents)	**–**	–	–	12.0
Claims ratio (including non-claims bonuses) (%)	**53.4%**	51.6%		51.1%
Cost-to-income ratio (%)	**28.1%**	27.3%		28.3%
Combined ratio (%)[2]	**82.8%**	80.8%		80.9%

Note: *The Group results include the New Zealand discontinued operations.*

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

Overview of Group results *continued*

Sources of operating profit and normalised earnings

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

R'million	Operating profit – Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
OUTsurance	**1 081**	1 083	(0.2%)	**2 127**
OUTsurance Life	**78**	81	(3.7%)	**68**
Youi Group[1]	**363**	472	(23.1%)	**1 004**
Central and new business development[2]	**(14)**	(16)	12.5%	**(26)**
Operating profit	**1 508**	1 620	(6.9%)	**3 173**

R'million	Normalised earnings – Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
OUTsurance	**862**	866	(0.5%)	**1 812**
OUTsurance Life	**70**	68	2.9%	**80**
Youi Group[1]	**248**	315	(21.3%)	**673**
Central and new business development[2]	**(78)**	(74)	(5.4%)	**(167)**
Earnings from associates	**67**	154	(56.5%)	**237**
Normalised earnings	**1 169**	1 329	(12.0%)	**2 634**

1 *Included in operating profit and normalised earnings is an amount of R1.6 million related to the profit from Youi New Zealand's discontinued insurance operation for the period 1 July 2019 to 31 December 2019. Refer to page 31 for further details related to the discontinued operation.*
2 *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

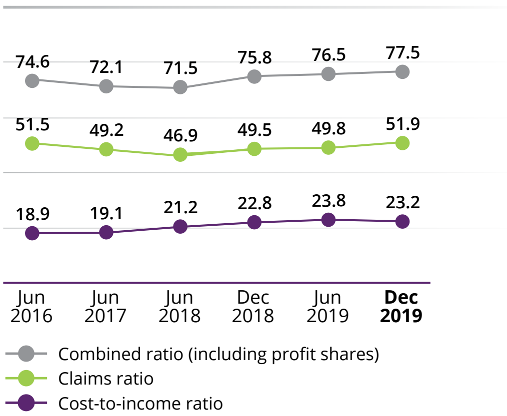
OUTsurance

Considering large natural perils claims and the investment made to expand the tied-agency force, OUTsurance delivered a satisfactory operating and financial performance for the six months under review. Operating profit was 0.2% lower at R1 081 million and headline earnings decreased by 0.5% to R862 million.

OUTsurance delivered strong gross written premium growth of 7.8% assisted by improved growth from both the Personal and Business segments.

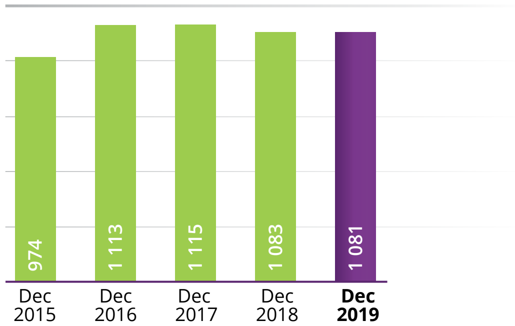
The claim ratio increased from 49.5% to 51.9% as a result of increased exposure to natural catastrophe events in the six months under review. OUTsurance retained net losses of R83.7 million in natural catastrophes in this six months compared to zero catastrophes in the comparative period. Compared to prior six months, OUTsurance incurred R20 million more in net claims due to power surge and dip claims related to ongoing electricity load shedding. On a combined basis, the net impact of these events represents 2.4% on the OUTsurance claims ratio.

Key ratios (%)

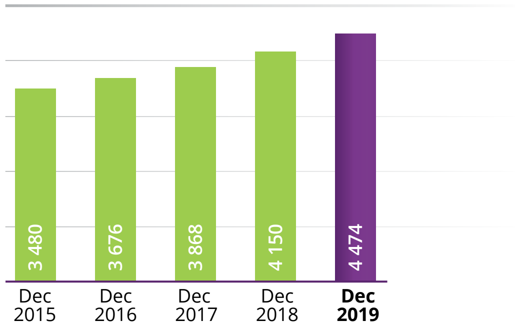


The cost-to-income ratio for the six month period increased from 22.8% to 23.2%, but compares favourably against the cost-to-income ratio of the 2019 financial year. The OUTsurance Personal cost-to-income ratio has levelled off following a period of material investment in new business growth. The continued investment in OUTsurance Business is a primary contributor to the higher cost-to-income ratio of OUTsurance.

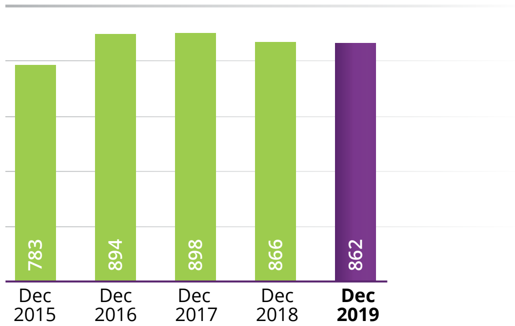
Operating profit
(R'million)



Gross written premium
(R'million)



Normalised earnings
(R'million)



Overview of Group results *continued*

OUTsurance – key performance indicators

R'million	Six months ended 31 December 2019	Six months ended 31 December 2018	% change	Year ended 30 June 2019
Gross written premium	**4 474**	4 150	7.8%	**8 380**
Net earned premium	**4 376**	4 067	7.6%	**8 242**
Operating profit	**1 081**	1 083	(0.2%)	**2 127**
Headline earnings	**862**	866	(0.5%)	**1 812**
Claims ratio (including bonuses) (%)	**51.9%**	49.5%		**49.8%**
Accident year claims ratio (%)	**53.8%**	49.8%		**51.2%**
Prior year development (%)	**(1.9%)**	(0.3%)		**(1.4%)**
Cost-to-income ratio (%)	**23.2%**	22.8%		**23.8%**
Combined ratio (%)[1]	**77.5%**	75.8%		**76.5%**

1 After profit share distributions paid to FirstRand Limited.

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

R'million	Six months ended 31 December 2019	Six months ended 31 December 2018	% change	Year ended 30 June 2019
Gross written premium	**3 704**	3 502	5.8%	**7 055**
Net earned premium	**3 626**	3 438	5.5%	**6 941**
Operating profit	**980**	986	(0.6%)	**1 970**
Claims ratio (including bonuses) (%)	**51.3%**	48.8%		**49.3%**
Cost-to-income ratio (%)	**21.1%**	21.0%		**21.4%**
Combined ratio (%)[1]	**75.3%**	73.9%		**74.1%**

1 After profit share distributions paid to FirstRand Limited.

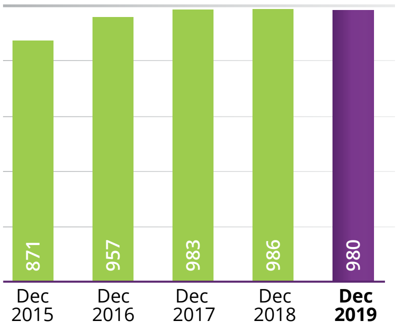
Excluding the FirstRand Homeowners book, OUTsurance Personal grew gross premium income by 6.8% which is attributed to strong new business growth over the last year. Including the FirstRand Homeowners book, gross written premium grew by 5.8%. OUTsurance Personal achieved annualised new business premium growth of 13.9% for the six months under review. Premium inflation on the core motor insurance book continues to lag general inflation as the difficult economic conditions contribute to lower kilometres driven and therefore a reduced accident frequency. Furthermore contributing to lower premium inflation are customers acquiring less expensive vehicles and longer vehicle replacement cycles.

The claims ratio increased by 2.5% largely on account of the increased natural catastrophe losses related to the Gauteng and KwaZulu-Natal events in November and December 2019. The attritional claims ratio has performed within expectations.

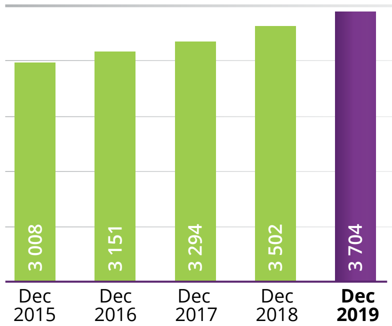
Following a period of significant investment in marketing, sales capacity and support costs, the OUTsurance Personal cost-to-income ratio has started to level off. The future direction of the cost-to-income ratio will be influenced by the opportunity to profitably expand new business growth, coupled with risk factors influencing motor premium inflation.

Overview of Group results *continued*

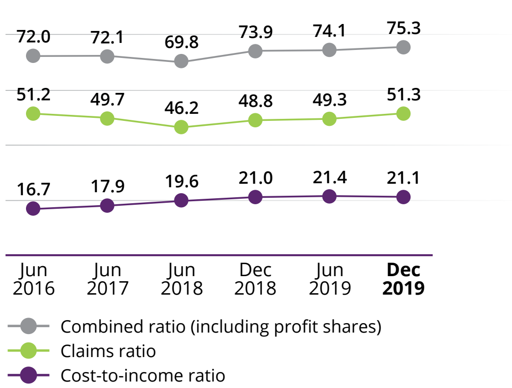
OUTsurance personal – operating profit (R'million)



OUTsurance personal – gross written premium (R'million)



OUTsurance personal – key ratios (%)



OUTsurance Business – key performance indicators

R'million	Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
Gross written premium	**770**	648	18.8%	**1 325**
Net earned premium	**750**	630	19.0%	**1 301**
Operating profit	**108**	113	(4.4%)	**197**
Claims ratio (including bonuses) (%)	**54.6%**	53.2%		**52.5%**
Cost-to-income ratio (%)	**32.4%**	30.3%		**33.8%**
Combined ratio (%)[1]	**87.0%**	83.5%		**86.3%**

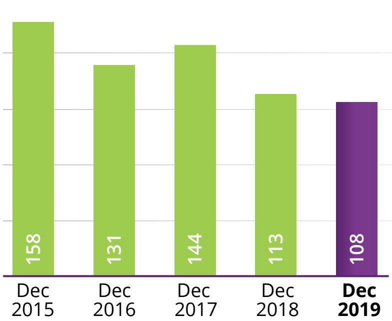
1 After profit share distributions paid to FirstRand Limited.

OUTsurance Business delivered 18.8% growth in gross written premium owing to the growing new business contribution from the tied-agency force. This growth rate compares to 12.5% achieved in the 2019 financial year.

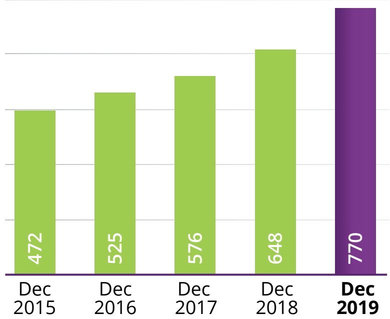
Despite the rapid expansion of the OUTsurance Business book and the impact of natural catastrophes, the claims ratio of 54.6% is well within expectations and compares to 53.2% of the comparative six months.

The increase in the cost-to-income ratio from 30.3% to 32.4% is explained by the increase in distribution capacity.

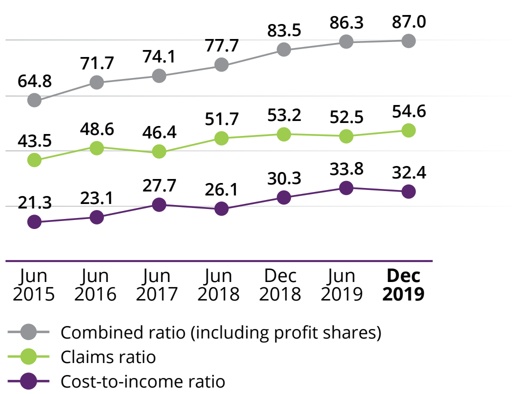
OUTsurance business – operating profit (R'million)



OUTsurance business – gross written premium (R'million)



OUTsurance business – key ratios (%)



Overview of Group results *continued*

Youi – Australia

Youi Australia's (Youi) operating result was severely impacted by the losses retained from the Australian Bushfires. Youi's operating profit and headline earnings were lower by 21.7% and 25% respectively in Australian Dollar terms.

Youi continues to experience an incremental recovery in revenue growth with gross written premium growing by 6.0% in Australian Dollars and 4.2% in Rand terms. The improved growth is attributed to increased marketing spend and improved operational execution. Premium inflation adjustments on the motor book registered below general inflation whereas the home book experienced a recovery in inflation.

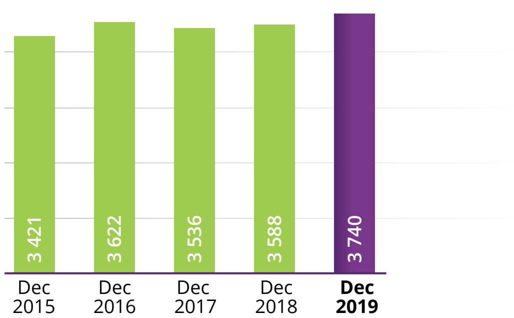
Included in the 31 December 2019 result is an allowance for gross incurred bushfire claims of A$35 million with an associated reinsurance recovery of A$14.5 million resulting in a net anticipated loss of A$20.5 million for all claims incurred before 31 December 2019. Youi also incurred a retained loss of A$9.5 million related to a large hailstorm on the Sunshine Coast in November 2019. In aggregate Youi incurred net catastrophe losses of A$31 million for the six months under review which compares to A$17 million in the comparative period.

Youi realised a claims ratio of 57.9% for the six months, up from 56.2%.

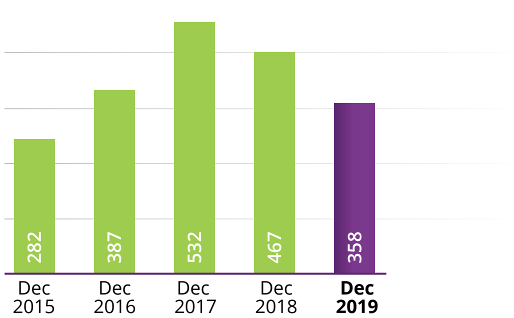
The bushfires continued to rage subsequent to 31 December 2019 albeit at a lower severity. The estimated net loss for bushfire claims subsequent to 31 December 2019 is A$4 million. In addition to the continued bushfire exposure, a net loss of A$9.5 million was incurred in January 2020 relating to hailstorms which will impact second half earnings.

Youi Australia's cost-to-income ratio increased from 30.7% to 32.5%. This outcome was expected and attributed to large investments in marketing initiatives, call centre capacity and support infrastructure over the last year to drive increased new business activity and new product strategies.

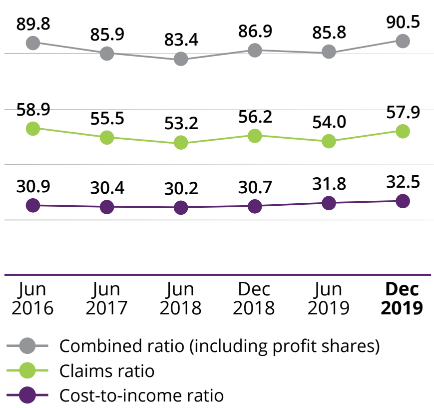
Youi Australia – gross written premium (R'million)



Youi Australia – operating profit (R'million)



Youi Australia – key ratios (%)



Overview of Group results *continued*

Youi Australia – key performance indicators

	Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
Rand (R'million)				
Gross written premium	**3 740**	3 588	4.2%	**7 023**
Net earned premium	**3 312**	3 171	4.4%	**6 309**
Operating profit	**358**	467	(23.3%)	**992**
Headline earnings	**243**	323	(24.8%)	**686**
Australian Dollars (A$'million)				
Gross written premium	**372**	351	6.0%	**695**
Net earned premium	**330**	310	6.5%	**624**
Operating profit	**36**	46	(21.7%)	**98**
Headline earnings	**24**	32	(25.0%)	**68**
Ratios				
Claims ratio (%)	**57.9%**	56.2%		**54.0%**
Accident year claims ratio (%)	**62.6%**	60.4%		**56.1%**
Prior year development (%)	**(4.7%)**	(4.2%)		**(2.1%)**
Cost-to-income ratio (%)[1]	**32.5%**	30.7%		**31.8%**
Combined ratio (%)	**90.5%**	86.9%		**85.8%**
AUD/ZAR exchange rate				
– Closing	**9.83**	10.14	(3.1%)	**9.88**
– Average	**10.05**	10.23	(1.8%)	**10.11**

1 *Excluding once-off operational loss item.*

OUTsurance Life

OUTsurance Life grew gross written premium by 9.6% with headline earnings decreasing by 3.7% to R78 million. Since June 2019, the embedded value increased by 3.7% to R1 182 million.

Growth in the underwritten life segment remained slow as the difficult economic conditions impacted new business volumes. The Funeral segment which was launched in June 2018 gained more traction through a traditional inbound advertising and a call centre distribution strategy. Further scale is required for the funeral product to contribute to a positive earnings result in future.

OUTsurance Life – key performance drivers

R'million	Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
Gross written premium	**274**	250	9.6%	**503**
Operating profit	**78**	81	(3.7%)	**68**
Headline earnings	**70**	68	2.9%	**80**
Embedded value[1]	**1 182**	847	39.6%	**1 140**

1 *The embedded value calculation was adjusted in the second half of the 2019 financial year to reflect a decreased capital requirement following a revision of the target SCR multiple.*

Overview of Group results *continued*

OUTsurance Namibia

OUTsurance Namibia generated R81 million in gross written premiums for the six months under review which is 5.8% lower than the prior period. The recessionary economic conditions have materially impacted the new business performance of OUTsurance Namibia. The larger reduction in net earned premium is explained by the impact of a mandatory quota share reinsurance arrangement where OUTsurance Namibia is required to reinsure a proportion of premiums with a state owned reinsurer. The 20% lower headline earnings result was also negatively impacted by a once-off cost associated with the establishment of dedicated call centre in Namibia.

OUTsurance Namibia – key performance drivers

R'million	Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
Gross written premium	**81**	86	(5.8%)	**178**
Net earned premium	**76**	87	(12.6%)	**167**
Headline earnings	**12**	15	(20.0%)	**30**
Claims ratio (%)	**51.1%**	51.7%	(0.6%)	**51.1%**

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. Hastings released its full year results for the financial year ended 31 December 2019, on 28 February 2020, refer to www.hastingsplc.com.

Hastings delivered a disappointing earnings result for its financial year ended 31 December 2019. This result is attributed to margin contraction following a period of premium inflation registering below claims inflation. The result was further impacted by adverse experience on mid-size bodily injury claims recorded in the 2019 financial year as well as a lower than expected change in the Ogden rate.

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

Normalised earnings from associates

R'million	Six months ended 31 December 2019	2018	% change	Year ended 30 June 2019
Main Street (49%)	**33**	118	(72.0%)	**164**
Share of Hastings earnings (14.7%)	**54**	138	(60.9%)	**211**
Interest on debt funding	**(19)**	(22)	13.6%	**(45)**
Other and normalised adjustments[1]	**(2)**	2	(>100%)	**(2)**
OUTsurance Namibia and other	**1**	(3)	>100%	**(7)**
IFRS earnings from associates	**34**	115	(70.4%)	**157**
Normalised adjustments related to Hastings	**33**	39	(15.3%)	**79**
Total normalised earnings from associates	**67**	154	(56.5%)	**236**
GBP/ZAR average exchange rate	**18.55**	18.25	1.6%	**18.25**

1 Refer to page 17 for the normalised earnings adjustments.

The detailed financial results of Hastings for the financed year ended 31 December 2019 can be found at www.hastingsplc.com.

Overview of Group results *continued*

Capital and dividends

Capital position

At 31 December 2019, 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 Soundness Standards for Insurers. The ratios for the Youi Group and OUTsurance Namibia are based on the local prudential regulatory requirements.

Youi's reinsurance protection for the remainder of the financial year remains adequate based on remaining capacity, despite the heavy losses incurred to date.

Going forward, the Group will review the terms of its reinsurance arrangements to allow for more protracted natural catastrophe events resulting from the effects of climate change, such as the Australian Bushfires where reinsurance treaties only covered seven days of claims events. In future, the time limitation will be extended where possible.

	Six months ended 31 December			Year ended 30 June
Solvency coverage ratio	**2019**	2018	Target ratio	**2019**
Group	**2.5**	2.7	1.4	**2.4**
Short-term insurance				
OUTsurance	**2.2**	2.2	1.25	**2.3**
OUTsurance Namibia	**1.8**	1.7	1.2	**2.1**
Youi Group	**3.5**	3.9	2.0	**4.5**
Long-term insurance				
OUTsurance Life	**3.3**	3.1	1.5	**3.2**

Interim dividend

The Group declared an interim dividend of 24.7 cents per ordinary share which remains consistent with the prior interim dividend. Despite the lower operating earnings generated by the Group, the strong capital position of the operating entities supports the unchanged interim dividend.

	Six months ended 31 December			Year ended 30 June
R'million	**2019**	2018	% change	**2019**
Cents per ordinary share	**24.7**	24.7	–	**55.5**

The Group's dividend payment strategy is considered with reference to the maintenance of the targeted regulatory capital of the various operating entities and the allowance for capital retention to fund organic growth initiatives.

Overview of Group results *continued*

Looking ahead

Unless effective policy reform is instituted, the immediate outlook for the South African economy points to an expectation of lacklustre growth for the foreseeable future.

Growth in the OUTsurance Personal operation is expected to be maintained within the current range unless there is a real improvement in the South African economy in the near term. Product expansion, face-to-face distribution and distribution partnerships will play an important future role to support the growth of this segment.

OUTsurance Business is a key growth catalyst for the Group and will benefit from the continued investment to expand distribution capacity and build on the success achieved to date.

We expect Youi to continue to improve its organic growth trajectory, aided by the expansion of the product range coupled with the new distribution partnership with Blue Zebra Insurance.

The Group's resources and infrastructure will be prioritised on the delivery of the multi-product, multi-channel strategic focus of the Group. The Group is committed to expanding its digital capabilities to drive industry leading service outcomes for our customers.

Basis of preparation

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 2019 which is available at www.outsurance.co.za.

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

IFRS 16 Leases

IFRS 16 Leases (effective 1 January 2019), which replaces IAS 17, addresses the establishment of principles for the recognition, measurement, presentation and disclosure of all lease arrangements within the scope of the Standard. Under the new Standard, a right-of-use asset (the right to use the leased item) and a lease liability (the liability to pay rentals), are recognised. The only exceptions, which the Group chose to apply, is short-term leases. The Group applied IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 was recognised as an adjustment in the opening statement of financial position on 1 July 2019, with no restatement of comparative information. As at 30 June 2019, the Group had non-cancellable operating lease commitments of R98.9 million (restated – refer to 'Change in accounting policy' note). The majority of these commitments resulted in recognition of an asset and a liability for future payments.

Events after the reporting period

The directors are not aware of any material events as defined in IAS 10, occurring between 31 December 2019 and the date of the authorisation of the interim financial results announcements.

Marthinus Visser
Chief Executive Officer

Laurie Dippenaar
Chairman

25 February 2020

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.

During the six month period, Youi New Zealand disposed of its insurance interest for N$12.6 million. The proceeds from the disposal of the insurance portfolio is excluded from headline earnings.

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 are recognised on the statement of financial position of Main Street 1353 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 earnings reconciliation

	Six months ended 31 December			Year ended 30 June
R'000	**2019**	2018	% change	**2019**
IFRS profit attributable to equity holders	**1 276 555**	1 315 017	(2.9%)	**2 181 889**
Non-controlling interest	**(54 328)**	(26 480)	>(100%)	**(81 502)**
IFRS earnings attributable to ordinary shareholders	**1 222 227**	1 288 537	(5.1%)	**2 100 387**
Adjusted for:				
Profit on sale of business unit	**(103 021)**	–		**–**
Minority share of profit on sale of business unit	**15 968**	–		**–**
Impairment of investment in associate	**–**	–		**450 000**
(Gain) / loss on disposal of property and equipment	**365**	1 021		**6 519**
Tax effect of headline earnings adjustments	**(40)**	(288)		**(1 832)**
Headline earnings	**1 135 499**	1 289 270	(11.9%)	**2 555 074**
Adjusted for:				
Amortisation of intangible assets related to Main Street 1353[1]	**33 318**	39 556	(15.8%)	**79 112**
Normalised earnings	**1 168 817**	1 328 826	(12.0%)	**2 634 186**

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 five 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.

Overview of Group results *continued*

Calculation of normalised earnings per share

	Six months ended 31 December		Year ended 30 June
	2019	2018	**2019**
Basic normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 152 849**	1 328 826	**2 634 186**
Weighted average number of shares in issue ('000)	**3 740 358**	3 751 369	**3 751 288**
Normalised earnings per share – basic (cents)	**30.8**	35.4	**70.2**
Diluted normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 152 849**	1 328 826	**2 634 186**
Diluted normalised earnings attributable to minorities of Youi Holdings Group (R'000)	**(7 591)**	(5 342)	**(11 224)**
Diluted normalised earnings attributable to ordinary shareholders (R'000)	**1 145 258**	1 323 484	**2 622 962**
Weighted average number of shares in issue ('000)	**3 740 358**	3 751 369	**3 751 288**
Dilution impact of share incentive scheme ('000)	**98 865**	75 940	**73 410**
Diluted weighted average number of shares in issue ('000)	**3 839 223**	3 827 309	**3 824 698**
Diluted normalised earnings per share – diluted (cents)	**29.8**	34.6	**68.6**
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
	2019 R'000	2018 R'000	% change	**2019 R'000**
Gross written premium	**8 488 130**	7 988 008	6.3%	**15 906 334**
Outward reinsurance premiums	**(353 392)**	(339 622)	(4.1%)	**(678 452)**
Net premiums	**8 134 738**	7 648 386	6.4%	**15 227 882**
Change in provision for unearned premiums	**(196 239)**	(180 954)	(8.4%)	**(215 786)**
Earned premiums, net of reinsurance	**7 938 499**	7 467 432	6.3%	**15 012 096**
Commission and other income	**11 563**	5 204	>100.0%	**12 203**
Investment income	**72 961**	56 530	29.1%	**116 364**
Interest income on financial assets using the effective interest rate method	**214 932**	236 262	(9.0%)	**451 972**
Net (losses) / gains from fair value adjustments on financial assets	**(51 896)**	(37 681)	(37.7%)	**80 575**
Income	**8 186 059**	7 727 747	5.9%	**15 673 210**
Policyholder benefits on insurance contracts net of reinsurance	**(4 253 711)**	(3 829 716)	(11.1%)	**(7 592 360)**
Gross policyholder benefits under insurance contracts	**(4 846 968)**	(4 214 837)	(15.0%)	**(8 347 417)**
Reinsurers' share of insurance contract claims	**593 257**	385 121	54.0%	**755 057**
Transfer to policyholder liabilities under insurance contracts	**11 670**	(24 047)	>100.0%	**(122 571)**
Acquisition expenses	**(23 594)**	(17 158)	(37.5%)	**(45 135)**
Marketing and administration expenses	**(2 219 608)**	(2 022 021)	(9.8%)	**(4 215 067)**
Fair value adjustment to financial liabilities	**(74 009)**	(103 794)	28.7%	**(169 016)**
Result of operating activities	**1 626 807**	1 731 011	(6.0%)	**3 529 061**
Finance charges	**(2 032)**	(35)	>100.0%	**(55)**
Equity accounted earnings	**33 819**	114 456	(70.5%)	**157 907**
Impairment of investment in associate	**–**	–	–	**(450 000)**
Profit before taxation	**1 658 594**	1 845 432	(10.1%)	**3 236 913**
Taxation	**(486 520)**	(532 496)	8.6%	**(1 064 504)**
Net profit for the year from continuing operations	**1 172 074**	1 312 936	(10.7%)	**2 172 409**
Discontinued operations[1]				
Net profit for the year from discontinued operations	**104 481**	2 081	>100.0%	**9 480**
Net profit for the year	**1 276 555**	1 315 017	(2.9%)	**2 181 889**
Net profit attributable to:				
Ordinary shareholders	**1 222 227**	1 288 537	(5.1%)	**2 100 387**
Non-controlling interest	**54 328**	26 480	>100.0%	**81 502**
Net profit for the year	**1 276 555**	1 315 017	(2.9%)	**2 181 889**
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss				
Exchange differences on foreign operations	**(16 598)**	20 116	>100.0%	**(77 925)**
Fair value losses on financial assets at fair value through other comprehensive income	**(2 207)**	(5 398)	59.1%	**(4 038)**
Deferred income tax relating to items that may subsequently be reclassified to profit or loss	**618**	1 511	59.1%	**1 131**
Items that will not subsequently be reclassified				
Other comprehensive income of associate	**11 407**	–	100.0%	**3 430**
Total comprehensive income for the year	**1 269 775**	1 331 246	(4.3%)	**2 104 487**
Total comprehensive income attributable to:				
Ordinary shareholders	**1 217 238**	1 305 631	(6.5%)	**2 037 564**
Non-controlling interest	**52 537**	25 615	>100.0%	**66 923**
Total comprehensive income for the year	**1 269 775**	1 331 246	(4.3%)	**2 104 487**
Earnings attributable to shareholders				
Earnings per share (cents)				
Basic earnings per share	**32,68**	34,35		**55,99**
Diluted earnings per share	**31,56**	33,53		**54,62**
Weighted average number of ordinary shares ('000)	**3 740 358**	3 751 369		**3 751 288**
Weighted average number of diluted ordinary shares ('000)	**3 839 224**	3 827 309		**3 824 968**

1 *The New Zealand discontinued operations have been disclosed separately. Refer to page 31 for details.*

Consolidated statement of **financial position**

at 31 December

	Six months ended 31 December 2019 R'000	Six months ended 31 December 2018 R'000	Year ended 30 June 2019 R'000
ASSETS			
Deferred income tax	**159 983**	139 828	**179 327**
Investment in associates	**3 617 823**	4 154 140	**3 622 848**
Intangible assets	**33 184**	–	**13 704**
Property and equipment	**1 008 948**	1 061 623	**1 038 227**
Right-of-use assets	**81 160**	–	**–**
Employee benefits	**44 176**	90 865	**87 089**
Reinsurers' share of insurance contract provisions	**1 077 754**	508 170	**690 946**
Deferred acquisition costs	**353 176**	336 095	**360 029**
Financial assets			
Fair value through profit or loss	**2 166 173**	1 646 849	**2 035 365**
Fair value through other comprehensive income	**2 868 993**	2 900 503	**3 027 100**
Amortised cost	**4 866 033**	5 236 505	**5 195 221**
Derivative financial instruments	**21 844**	15 466	**35 658**
Insurance and other receivables	**2 680 344**	2 670 606	**2 764 112**
Tax receivable	**202 254**	184 897	**117 636**
Cash and cash equivalents	**907 832**	919 841	**781 811**
TOTAL ASSETS	**20 089 677**	19 865 388	**19 949 073**
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	**37 335**	37 474	**37 442**
Share premium	**2 277 967**	2 424 112	**2 388 721**
Other reserves			
Share-based payment reserve	**11 722**	9 054	**8 787**
Foreign currency translation reserve	**279 509**	378 643	**294 316**
Other reserves	**10 517**	–	**12 106**
Equity accounted reserve	**52 468**	29 506	**41 282**
Transactions with non-controlling interest	**(97 150)**	–	**(97 150)**
Retained earnings	**7 425 706**	7 912 343	**7 809 350**
Total shareholders' equity	**9 998 074**	10 791 132	**10 494 854**
Non-controlling interest	**493 481**	377 671	**483 339**
TOTAL EQUITY	**10 491 555**	11 168 803	**10 978 193**
LIABILITIES			
Deferred income tax	**42 573**	39 324	**56 134**
Lease liability	**83 553**	–	**–**
Insurance contract liabilities	**8 062 284**	7 243 771	**7 457 013**
Investment contract liability	**8 766**	–	**–**
Share-based payment liability	**58 032**	58 468	**83 555**
Employee benefits	**181 713**	150 380	**272 812**
Financial liabilities at fair value through profit or loss	**74 021**	103 794	**65 222**
Derivative financial instruments	**30 989**	3 967	**25 381**
Tax liabilities	**4 430**	76 220	**21 718**
Insurance and other payables	**1 051 761**	1 020 661	**989 045**
TOTAL LIABILITIES	**9 598 122**	8 696 585	**8 970 880**
TOTAL EQUITY AND LIABILITIES	**20 089 677**	19 865 388	**19 949 073**

Consolidated statement of **changes in equity**

For the six months ended 31December

	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 reserves R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Non-controlling interest R'000	Total R'000
Opening balance 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 period	–	–	–	–	–	–	–	1 315 017	1 315 017	–	1 315 017
Total other comprehensive income / (loss) for the period	–	–	–	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 in subsidiary	–	–	–	–	–	–	–	(26 652)	(26 652)	26 652	–
Profit / (loss) 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
Opening balance as at 1 July 2019	**37 442**	**2 388 721**	**12 106**	**294 316**	**8 787**	**(97 150)**	**41 282**	**7 809 350**	**10 494 854**	**483 339**	**10 978 193**
Change in accounting policy	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(58)**	**(58)**	**–**	**(58)**
Adjusted balance as at 1 July 2019	**37 442**	**2 388 721**	**12 016**	**294 316**	**8 787**	**(97 150)**	**41 282**	**7 809 292**	**10 494 796**	**483 339**	**10 978 135**
Total profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 276 555**	**1 276 555**	**–**	**1 276 555**
Total other comprehensive income / loss for the period	**–**	**–**	**(1 589)**	**(16 598)**	**–**	**–**	**11 407**	**–**	**(6 780)**	**–**	**(6 780)**
Issue of share capital	**(107)**	**(110 754)**	**–**	**–**	**–**	**–**	**–**	**–**	**(110 861)**	**–**	**(110 861)**
Share-based payment expense	**–**	**–**	**–**	**–**	**2 935**	**–**	**–**	**2 780**	**5 715**	**–**	**5 715**
Transactions with non-controlling interests in subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(886)**	**(886)**	**886**	**–**
Profit / (loss) attributable to non-controlling interests	**–**	**–**	**–**	**1 791**	**–**	**–**	**–**	**(54 328)**	**(52 537)**	**52 537**	**–**
Transaction share option spread payment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reserve adjustment of associate entities	**–**	**–**	**–**	**–**	**–**	**–**	**(221)**	**–**	**(221)**	**–**	**(221)**
Ordinary dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1 607 707)**	**(1 607 707)**	**(43 281)**	**(1 650 988)**
Balance at 31 December 2019	**37 335**	**2 277 967**	**10 517**	**279 509**	**11 722**	**(97 150)**	**52 468**	**7 425 706**	**9 998 074**	**493 481**	**10 491 555**

1 Included in other reserves is available-for-sale reserve in December 2018 and other comprehensive income reserve in December 2019.

Consolidated statement of **cash flows**
for the six months ended 31 December

	Six months ended 31 December 2019 R'000	Six months ended 31 December 2018 R'000	Year ended 30 June 2019 R'000
OPERATING ACTIVITIES			
Cash generated from operations	**1 841 990**	1 871 110	**3 640 000**
Interest received	**244 095**	257 118	**500 308**
Dividends received	**43 798**	36 309	**69 411**
Interest paid	**(2 032)**	(36)	**(56)**
Cashflows on assets backing policyholder liabilities	**(105 996)**	–	**(232 756)**
Proceeds on disposal of financial assets[1]	**6 714 861**	4 951 984	**8 078 411**
Purchase of financial assets[1]	**(6 301 458)**	(4 656 567)	**(7 866 612)**
Taxation paid	**(581 251)**	(609 322)	**(1 337 576)**
Ordinary dividends paid	**(1 607 707)**	(1 505 480)	**(2 433 814)**
Preference dividends paid	**(65 209)**	(92 655)	**(196 449)**
Dividends paid to non-controlling interest	**(43 281)**	(86 488)	**(111 216)**
Cash inflow from operating activities	**137 810**	165 973	**109 651**
INVESTING ACTIVITIES			
Acquisition of investment in associate	**–**	(909)	**(908)**
Convertible loan to associate	**(12 200)**	–	**–**
Dividends received from associate	**62 230**	83 300	**219 520**
Proceeds from sale of insurance business	**119 228**	–	**–**
Property and equipment acquired to maintain and expand operations	**(35 145)**	(36 605)	**(99 950)**
Proceeds on disposal of property and equipment	**1 507**	214	**1 543**
Development of intangible assets	**(19 892)**	–	**(13 704)**
Proceeds on disposal of financial assets[2]	**–**	102 748	**102 285**
Purchase of financial assets[2]	**(2 517)**	(29 522)	**(175 092)**
Cash inflow from investing activities	**113 211**	119 226	**33 694**
FINANCING ACTIVITIES			
Purchase of shares from non-controlling interest	**–**	–	**(10 996)**
Shares issued to non-controlling interest	**–**	212 595	**212 595**
Purchase of treasury shares by share scheme participants	**125 271**	114 777	**281 901**
Purchase of treasury shares by share trust from share scheme participants	**(236 132)**	(164 414)	**(366 961)**
Payment of principal element of lease liability	**(15 985)**	–	**–**
Cash (outflow) / inflow from financing activities	**(126 846)**	162 958	**116 539**
Increase in cash and cash equivalents	**124 175**	448 157	**259 884**
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents	**781 811**	467 355	**467 355**
Effect of exchange rates on cash and cash equivalents	**1 846**	4 329	**54 572**
Increase in cash and cash equivalents	**124 175**	448 157	**259 884**
Closing balance of cash and cash equivalents	**907 832**	919 841	**781 811**

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 2019.

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 16: Leases

IFRS 16, leases, which replaced IAS 17, Leases, and related interpretations, was applied effective from 1 July 2019.

The IFRS 16 classification, measurement, presentation and disclosure requirements are applied using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 was recognised as an adjustment to the opening balances of the statement of financial position, with no restatement of comparatives.

Application of IFRS 16

Agreements where the counterparty retains control of the underlying asset are classified as leases.

The Group leases various offices, motor vehicles and office equipment. Until the 2019 financial year, leases of property and equipment were classified as operating leases under the principles of IAS 17. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest (the incremental borrowing rate) on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Periods covered by an option to extend the lease is included if the Group is reasonably certain to exercise that option taking into account, among others, the remaining term of the original lease, refurbishments, changing technology and cost-saving initiatives. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

> fixed payments (including in-substance fixed payments, but excluding payments for service components), less any lease incentives receivable;

> amounts expected to be payable by the lessee under residual value guarantees;

> the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

> payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

For leases which had previously been classified as operating leases under IAS 17, the lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 ranged from 8.24% to 9.38%. The Group previously had no finance leases under IAS 17.

The incremental borrowing rate utilised by OUTsurance Holdings is a risk free rate with a market risk premium / spread added to it.

Notes to the consolidated financial statements *continued*

Basis of preparation *continued*

On date of initial application, 1 July 2019, the lease liability of the Group was as follows, with any reclassifications noted:

	2019 R'000
Operating lease commitments disclosed as at 30 June 2019	85 742
(Less): contracts reassessed as service agreements	(4 007)
Add: Contracts reassessed under IFRS 16	17 237
Restated operating lease commitments as at 30 June 2019	**98 972**
Discounted using the lessee's incremental borrowing rate on 1 July 2019	**92 312**
(Less): short-term leases recognised on a straight-line basis as expense	(1 787)
Lease liability recognised as at 1 July 2019	**90 525**
Of which are:	
Current lease liabilities	25 255
Non-current lease liabilities	65 270
	90 525

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 R'000	1 July 2019 R'000
Properties	53 589	67 360
Equipment	145	165
Motor vehicles	27 426	22 631
Total right-of-use assets	**81 160**	**90 156**

The change in accounting policy affected the following items in the statement of financial position on 1 July 2019:

	Before 30 June 2019 R'000	Change R'000	After 1 July 2019 R'000
Lease liabilities	–	90 525	90 525
Right-of-use assets	–	90 156	90 156
Deferred income tax liability	56 134	121	56 255
Retained earnings	7 809 350	(58)	7 809 292

Notes to the consolidated financial statements *continued*

Basis of preparation *continued*

Segment assets and segment liabilities for December 2019 both increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments were affected by the change in policy as at 31 December 2019:

	Youi Australia R'000	Youi New Zealand R'000	OUTsurance R'000	Unallocated and consolidation adjustments R'000	Group total R'000
Segment balance sheet information					
Right-of-use asset	**47 479**	**12 524**	**392 032**	**(370 875)**	**81 160**
Lease liability	**48 521**	**12 839**	**407 649**	**(385 456)**	**83 553**

There has been no change in earnings per share with the adoption of IFRS 16.

In applying IFRS 16 for the first time, the group has used the following permitted practical expedients:

> reliance on previous assessments on whether leases are onerous;

> the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;

> the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

> the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

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 2019.

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 2019				
Financial assets				
Equity securities				
Listed preference shares	**390 908**	**–**	**–**	**390 908**
Exchange traded funds	**912 062**	**–**	**–**	**912 062**
Collective investment schemes	**–**	**116 698**	**–**	**116 698**
Debt securities				
Unsecured loan	**–**	**–**	**39 586**	**39 586**
Zero-coupon deposits	**–**	**698 153**	**–**	**698 153**
Government, municipal and public utility securities	**–**	**292 571**	**–**	**292 571**
Money market securities <1 year	**–**	**1 249 388**	**–**	**1 249 388**
Money market securities >1 year	**–**	**1 341 533**	**–**	**1 341 533**
Zero-coupon deposits backing endowment policies	**–**	**8 766**	**–**	**8 766**
Derivative financial instrument				
Collateralised swaps	**–**	**37 448**	**–**	**37 448**
	1 302 970	**3 744 557**	**39 586**	**5 087 113**
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit or loss	**–**	**–**	**74 021**	**74 021**
Investment contract liability	**–**	**8 766**	**–**	**8 766**
Derivative financial instruments				
Interest rate swaps	**–**	**30 989**	**–**	**30 989**
	–	**39 755**	**74 021**	**113 776**

	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 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
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
Derivative financial instrument				
Collateralised swaps	–	15 466	–	15 466
	1 054 700	3 529 009	34 802	4 618 511
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit or loss	–	–	103 794	103 794
Derivative financial instruments				
Interest rate swaps	–	3 967	–	3 967
	–	3 967	103 794	107 761

Notes to the consolidated financial statements *continued*

Financial risk management *continued*

There were no transfers between levels for the six months ended 31 December 2019.

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 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.

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 accrediting 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 designed at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

The Group makes use of an interest rate swap as well as a collateralised swap arrangement to manage the interest rate risk contained in the non-bonus policyholder liability. The interest rate swap is a fixed for floating instrument. 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. The fair value of collateralised swap arrangement, whereby the R2048 government bond serves as collateral and is the underlying, is determined in the same manner as other money market instruments held by the Group.

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

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.

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.

Notes to the consolidated financial statements *continued*

Financial risk management *continued*

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

	Six months ended 31 December	
	2019 R'000	2018 R'000
Opening balance at 1 July	**65 222**	92 655
Preference dividend paid	**(65 210)**	(92 655)
Preference dividend accrued	**74 009**	103 794
Closing balance at 31 December	**74 021**	103 794

Segment information

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

> Personal insurance: This segment provides short-term insurance products to individuals. Personal insurance business is conducted in OUTsurance Insurance Company Limited, Youi Pty Limited (Australia) and Youi NZ Pty Limited;

> Commercial insurance: This segment provides short-term insurance products to small and medium sized businesses. Commercial insurance business is conducted in OUTsurance Insurance Company Limited; and

> Life insurance: This segment provides long-term insurance products to individuals. Life insurance business is conducted in OUTsurance Life Insurance Company Limited.

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

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

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 Group Personal R'000	OUTsurance Life R'000	Central and new business development R'000	Group Total R'000
Six months ended 31 December 2019						
Gross written premium	3 703 584	770 414	3 740 196	273 936	–	8 488 130
Outward reinsurance premiums	(56 072)	(12 968)	(260 482)	(23 870)	–	(353 392)
Change in provision for unearned premium	(20 979)	(7 507)	(167 753)	–	–	(196 239)
Earned premium, net of reinsurance	3 626 533	749 939	3 311 961	250 066	–	7 938 499
Other income	–	–	3 744	9	7 810	11 563
Policyholder benefits on insurance contracts net of reinsurance	(1 863 196)	(407 256)	(1 917 985)	(63 910)	(1 364)	(4 253 711)
Transfer to policyholder liabilities under insurance contracts	–	–	–	11 670	–	11 670
Marketing, acquisition and administration expenses[1]	(763 587)	(245 362)	(1 079 648)	(125 475)	(25 122)	(2 239 194)
Fair value adjustment to financial liabilities	(74 009)	–	–	–	–	(74 009)
Underwriting result	925 741	97 321	318 072	72 360	(18 676)	1 394 818
Investment income on technical reserves	54 636	10 615	43 086	5 553	–	113 890
Operating profit	980 377	107 936	361 158	77 913	(18 676)	1 508 708
Equity accounted earnings						33 819
Operating profit including associate earnings						1 542 527
Net investment income on shareholder investment capital						116 067
Profit before tax						1 658 594
Profit from discontinued operation						104 481
						1 763 075

1 Excludes investment management expenses of R4.0 million.
2 Includes Homeowners cover book sourced from FirstRand Limited.

Excluded from operating profit in Youi is an amount of R1.6 million related to the profit from Youi New Zealand's discontinued operations for the period. Refer to the discontinued operations note on page 31.

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 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)	(975 445)	(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*

Discontinued operation

On 25 September 2019 OUTsurance Holdings Limited agreed to transfer the New Zealand insurance portfolio business to Tower Insurance Limited, New Zealand's third largest general insurer for consideration of N$12.6 million. Following regulatory approval by the Reserve Bank of New Zealand, the transfer was effected on 31 December 2019.

The associated assets and liabilities have consequently been presented as discontinued operations in the 31 December half year financial statements.

The insurance business was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated statement of profit or loss and OCI has been represented to show the discontinued operation separately from continuing operations.

The sale provides an opportunity for Youi to unlock value on favourable terms and, going forward, will allow the Youi group to focus on its Australian business where the greater scale and diversity of the market offers more growth opportunities for a challenger brand like Youi.

Statement of comprehensive income

for the six months ended 31 December

	Six months ended 31 December		Year ended 30 June
	2019 R'000	2018 R'000	**2019 R'000**
Gross insurance premium	**105 832**	114 448	**228 910**
Outward reinsurance premiums	**(89 138)**	(93 145)	**(183 086)**
Net premiums	**16 694**	21 303	**45 824**
Change in provision for unearned premiums	**8 157**	4 325	**4 852**
Earned premiums, net of reinsurance	**24 851**	25 628	**50 676**
Commission income	**33 217**	36 535	**71 820**
Interest income on financial assets using the effective interest rate method	**713**	636	**1 382**
Income	**58 781**	62 799	**123 878**
Policyholder benefits on insurance contract net of reinsurance	**(13 728)**	(11 934)	**(28 421)**
Gross policyholder benefits under insurance contracts	**(54 295)**	(50 907)	**(116 238)**
Reinsurers' share of insurance contract claims	**40 567**	38 973	**87 817**
Marketing and administration expenses	**(43 407)**	(48 783)	**(85 976)**
Result of operating activities	**1 646**	2 082	**9 481**
Finance charges	**(186)**	(1)	**(1)**
Profit on sale of business unit	**103 021**	–	**–**
Net profit for the year from discontinued operations	**104 481**	2 081	**9 480**

Cash flows from discontinued operations

	Six months ended 31 December		Year ended 30 June
	2019 R'000	2018 R'000	**2019 R'000**
Cash inflow from operating activities	**1 765**	148 577	**167 911**
Cash inflow / (outflow) from investing activities	**77 325**	(151 158)	**(167 275)**
Effect of exchange rates on cash and cash equivalents	**(13)**	2 581	**(636)**
Increase in cash and cash equivalents	**79 077**	–	**–**

Notes to the consolidated financial statements *continued*

Discontinued operation *continued*

Discontinued operations

Carrying value amounts of assets and liabilities as at date of sale were:

	2019 R'000
Assets	
Reinsurance share of insurance contract provisions	**23 195**
Financial assets	
Amortised cost	**41 902**
Insurance and other receivables	**91 939**
Total assets	**157 036**
Liabilities	
Insurance contract liabilities	**145 463**
Insurance and other payables	**11 573**
Total liabilities	**157 036**

Basic headline earnings per share

	Six months ended 31 December		Year ended 30 June
	2019	2018	**2019**
Basic headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 119 531**	1 289 270	**2 555 074**
Weighted average number of shares in issue ('000)	**3 740 358**	3 751 369	**3 751 288**
Headline earnings per share – basic (cents)	**29,93**	34,37	**68,11**
Diluted headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 119 531**	1 289 270	**2 555 074**
Diluted headline earnings attributable to Youi Holdings Group (R'000)	**(7 591)**	(5 342)	**(11 232)**
Diluted headline earnings attributable to ordinary shareholders (R'000)	**1 111 940**	1 283 928	**2 543 842**
Weighted average number of shares in issue ('000)	**3 740 358**	3 751 369	**3 751 288**
Dilution impact of share incentive scheme ('000)	**98 865**	75 940	**73 410**
Diluted weighted average number of shares in issue ('000)	**3 839 223**	3 827 309	**3 824 698**
Headline earnings per share – diluted (cents)	**28,96**	33,55	**66,51**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

Notes to the consolidated financial statements *continued*

Basic earnings per share

	Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
Basic earnings per share			
Earnings attributable to ordinary shareholders from continued operations (R'000)	**1 117 746**	1 286 455	**2 090 907**
Earnings attributable to ordinary shareholders from discontinued operations (R'000)	**104 481**	2 082	**9 480**
Total earnings attributable to ordinary shareholders (R'000)	**1 222 227**	1 288 537	**2 100 387**
Weighted average number of shares in issue ('000)	**3 740 358**	3 751 369	**3 751 288**
Earnings per share from continued operations – basic (cents)	**29,88**	34,29	**55,74**
Earnings per share from discontinued operations – basic (cents)	**2,80**	0,06	**0,25**
Total earnings per share (cents)	**32,68**	34,35	**55,99**
Diluted earnings per share			
Diluted earnings attributable to ordinary shareholders from continued operations (R'000)	**1 110 209**	1 281 152	**2 079 841**
Diluted earnings attributable to ordinary shareholders from discontinued operations (R'000)	**101 281**	2 046	**9 322**
Total diluted earnings attributable to ordinary shareholders (R'000)	**1 211 490**	1 283 193	**2 089 163**
Diluted weighted average number of shares in issue ('000)	**3 839 223**	3 827 309	**3 824 698**
Diluted earnings per share from continued operations (cents)	**28,92**	33,47	**54,38**
Diluted earnings per share from discontinued operations (cents)	**2,64**	0,05	**0,24**
Total diluted earnings per share (cents)	**31,56**	33,53	**54,62**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

Restatement of comparatives

31 December 2018	Amount as previously reported R'000	Amount as restated R'000	Difference R'000	Explanation
Statement of financial position				
Assets				
Financial assets at fair value through profit or loss	1 658 348	1 646 849	(11 499)	Disclosure of the derivative financial instrument separately
Derivative financial instrument	–	15 466	15 466	Disclosure of the derivative financial instrument separately
	1 658 348	1 662 315	3 967	
Liabilities				
Derivative financial instruments	–	(3 967)	(3 967)	Disclosure of the derivative financial instrument separately
Total	1 658 348	1 658 348	–	

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 SAM 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 SAM 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).

The tables below provide a breakdown of the EV for OUTsurance Life from June to December 2019:

Embedded value of covered business	**31 December 2019 R'000**	31 December 2018 R'000	**30 June 2019 R'000**
Covered business ANW	**945 964**	904 957	**979 369**
Free surplus	**331 234**	154 618	**402 201**
Required capital	**614 730**	750 339	**577 168**
Present value of in-force business (PVIF)	**560 805**	425 946	**525 327**
Cost of required capital	**(325 210)**	(484 182)	**(364 470)**
Embedded value of covered business	**1 181 559**	846 721	**1 140 226**
Present value of gross premiums (in-force book)	**3 340 543**	2 906 799	**3 225 049**
Annualised return on embedded value	**24.8%**	6.0%	**39.3%**

OUTsurance Life embedded value *continued*

Embedded Value of Covered Business *continued*

From June 2019 to December 2019, the embedded value of OUTsurance Life increased by R41.3 million. This allowed for the R100 million dividend paid out at the beginning of the financial year. The annualised return on embedded value was 24.8%. This is attributable to positive contributions to the embedded value from the ANW, present value of future profits (PVIF), and the CoRC. The movement was largely driven by the profits realised from in-force business. This growth was partially offset by the expense outlay associated with writing new business. The yield movements between June and December 2019 resulted in an increased PVIF and reduced CoRC. However, they also reduced the fair value of balance sheet assets resulting in a reduced ANW.

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

Reconciliation back to IFRS figure	31 December 2019 R'000	31 December 2018 R'000	30 June 2019 R'000
Ordinary shareholders funds on a published basis	**703 918**	719 662	**734 628**
Adjustment for Regulatory Basis Changes	**242 046**	185 295	**244 741**
Covered business ANW	**945 964**	904 957	**979 369**

Embedded Value Earnings

The table 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 2019 (6 months)				
Embedded value at end of the period	945 964	560 805	(325 210)	**1 181 559**
Dividends paid	100 000	–	–	**100 000**
Embedded value at beginning of the period	979 369	525 327	(364 470)	**1 140 226**
Embedded value earnings for the period	66 595	35 478	39 260	**141 333**
Annualised return on embedded value	24.8%			

Components of embedded value earnings	ANW R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
at December 2019 (6 months)				
Expected contribution from still-in-force business	112 947	(103 422)	2 562	**12 087**
Expected profit transfer	112 947	(112 947)	–	**–**
Expected return on covered business	–	9 525	2 562	**12 087**
Expected contribution from new business	(53 111)	88 598	(24 931)	**10 556**
New business strain	(76 198)	76 198	–	**–**
New business value at point of sale	–	35 487	(24 931)	**10 556**
Adjustment for policies no longer in-force	23 087	(23 087)	–	**–**
Expected return on ANW	37 201	–	–	**37 201**
Operating experience variances	46 823	12 116	7 022	**65 961**
Change in valuation methods and assumptions	(77 265)	38 186	54 607	**15 528**
Methodology	–	617	2 376	**2 993**
Non-economic assumptions	–	14 866	24 797	**39 663**
Economic assumptions	(77 265)	22 703	27 434	**(27 128)**
Embedded value earnings	66 595	35 478	39 260	**141 333**

OUTsurance Life embedded value *continued*

Embedded Value Earnings *continued*

Value of new business

Value of new business (6 months)	31 December 2019 R'000	31 December 2018 R'000	30 June 2019 R'000
Gross value of new business	35 487	32 781	35 803
Cost of required capital	(24 931)	(18 083)	(24 447)
Value of new business	**10 556**	14 698	**11 356**
Present value of gross premiums (new business)	**244 708**	208 069	**231 337**
New business margin	**4.3%**	7.1%	**4.9%**

The new business margin has decreased from 4.9% at June 2019 to 4.3% at December 2019. This decrease was driven by a combination of the underwritten life products lower sales volumes leading to higher per policy expenses as well as the 10% premium discount campaign. The new business margin for underwritten life has reduced from 8.3% to 7.1%. The new business margin for the funeral product has increased considerably from (15.5%) to (3.4%) as the product begins to scale leading to lower per policy expenses.

Sensitivities

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

Value of in-force sensitivity analysis at December 2019	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change
Base	560 805	(325 210)	235 595	
1% increase in the risk discount rate	575 015	(336 295)	238 720	1,3%
1% decrease in the interest rate environment	560 805	(334 486)	226 319	(3,9%)
10% decrease in maintenance expenses	582 519	(325 212)	257 307	9,2%
10% decrease in new business acquisition expenses	560 805	(325 210)	235 595	0,0%
10% decrease in lapse rates	564 640	(334 191)	230 449	(2,2%)
5% decrease in morbidity and mortality rates	610 975	(325 482)	285 493	21,2%

Value of in-force sensitivity analysis at December 2019 (6 months)	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change
Base	35 487	(24 931)	10 556	
1% increase in the risk discount rate	31 004	(26 460)	4 544	(57,0%)
1% decrease in the interest rate environment	41 186	(24 829)	16 357	55,0%
10% decrease in maintenance expenses	37 031	(24 932)	12 099	14,6%
10% decrease in new business acquisition expenses	43 106	(24 931)	18 175	72,2%
10% decrease in lapse rates	45 550	(26 147)	19 403	83,8%
5% decrease in morbidity and mortality rates	37 881	(24 934)	12 947	22,7%

Economic assumptions

	2019 December	2018 December	2019 June
Discounted Mean Term (in years)	10.52	11.36	11.24
Fixed-interest securities (backing non-bonus liabilities)	10.4%	10.6%	10.4%
Fixed-interest securities (backing bonus liabilities)	8.2%	8.8%	8.3%
Inflation rate	7.8%	7.6%	7.7%
Risk discount rate	14.4%	14.6%	14.4%

Glossary

Annualised premium income	Annualised premium value of all new client policies incepted during the period under review. This measure excludes the renewal of existing client policies.
Capital adequacy ratio (CAR)	Eligible capital divided by the solvency capital requirement.
Claims ratio	Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure 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.

You always get
something out.

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 and Ms M Ramathe

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