OUTSURING YOUR EVERYTHING

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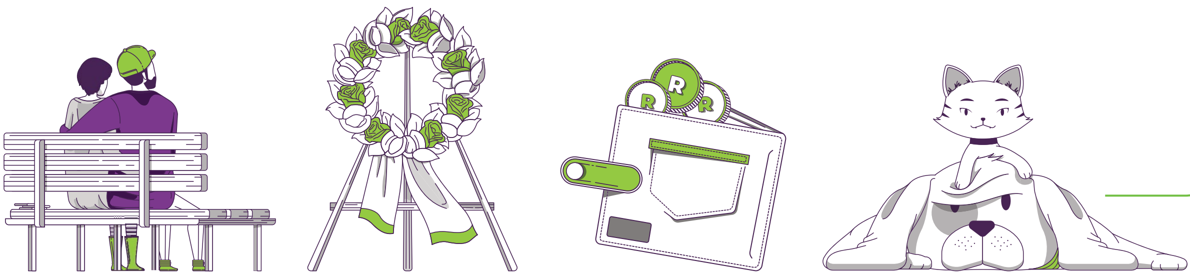

OUTsurance Holdings Limited

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

OUTSURANCE

You always get something out.

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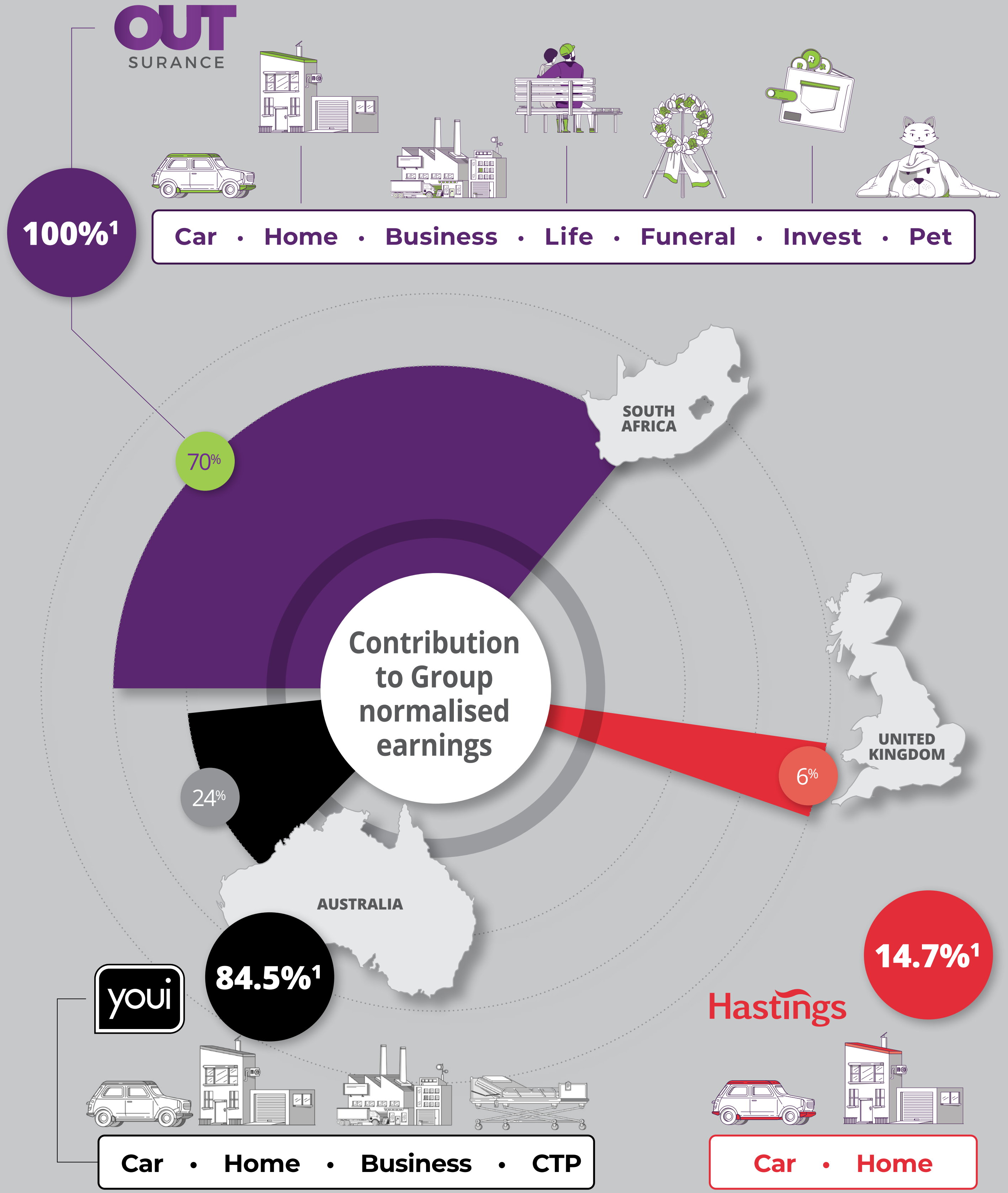
Who we are



1 Ownership.

Financial performance
for the six months ended 31 December 2020

NORMALISED EARNINGS

R1 437 million

Up by **22.9%**

OPERATING PROFIT

R1 766 million

Up by **17.1%**

INTERIM ORDINARY DIVIDEND PER SHARE

24.7 cents per share

Unchanged

DILUTED NORMALISED EARNINGS PER SHARE

38.5 cents per share

Up by **23.4%**

NORMALISED ROE

24.9%

ANNUALISED NEW PREMIUM WRITTEN

R2 869 million

Up by **39.6%**

GROSS WRITTEN PREMIUM

R10 144 million

Up by **18.0%**

Introduction

This report covers the consolidated financial results of OUTsurance Holdings Limited for the six months ended 31 December 2020.

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

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

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

The Group underwrites short-term insurance products in South Africa, Australia and Namibia. OUTsurance Life and OUTvest offer life and investment products to the South African market. The Group holds a significant interest in Hastings Group Holdings Ltd, a United Kingdom based motor insurer.

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

Overview of Group results

During the six months under review, the Group's operations continued to show financial and operational resilience evidenced by a satisfactory financial and operating performance.

The Group's strategy of expanding its insurance product range and distribution channels continued to gain traction over the last twelve months. These included the expansion of the OUTsurance tied-agency force (OUTsurance Brokers), the growth of Youi's partnership with Blue Zebra Insurance (BZI), the launch of Youi's Compulsory Third Party (CTP) insurance product in New South Wales, the establishment of Shoprite as a funeral channel and opening up IFA distribution for OUTvest.

The Group's premium growth continues to accelerate, aided by the weaker Rand over the last year. Gross written premiums accelerated by 18% despite the low premium inflation experienced across the motor insurance portfolio. Premium inflation on property insurance continues to show positive momentum, particularly in Australia where the higher cost of reinsurance and large natural catastrophes in 2020 are priced in. The Group's overall new business premium growth accelerated by a strong 39.6%.

Motor accident claims frequencies largely normalised from the lows experienced during the start of the pandemic. The lower claims frequencies coupled with reduced natural perils losses in Australia and South Africa contributed to the 22.9% increase in the Group's normalised earnings result. Despite the lower interest rate environment, investment income increased significantly as equity markets recovered during the reporting period.

Despite the negative impact of the early lockdown, OUTsurance recorded 4% growth in gross written premium and 6.2% growth in annualised new business premium written. This growth is driven by a strong recovery in OUTsurance Personal sales and the growing distribution footprint of OUTsurance Business. Lapse experience in the core OUTsurance Personal operation remained resilient against the difficult economic backdrop. The OUTsurance Business operation has been more affected as small and medium sized businesses suffered the effects of the lockdown. The continued expansion of the OUTsurance Broker footprint has significantly increased the new business cadence of OUTsurance Business and represents major financial investment for the Group.

OUTsurance Business has largely settled its business interruption claims obligations to customers operating in the tourist and hospitality sectors. The settlement of these claims has assisted our customers to navigate the severe economic effects of the pandemic on this sector.

The cost-efficiency of OUTsurance Personal continued to improve despite pandemic related operational costs. The lower cost ratio is attributed to the satisfactory growth of the in-force book over the last year coupled with expense containment measures which are expected to normalise over the next six months. OUTsurance's overall cost-to-income ratio has increased as a result of the large investment to expand OUTsurance Brokers.

Youi grew gross written premiums by 38.5% and 18.3% in Rand and Australian Dollars. This strong growth is attributed to continued organic growth in the direct Youi Personal book as well as the introduction of the BZI channel. The launch of the CTP product in New South Wales has opened a new product opportunity for Youi and a more compelling overall customer proposition for the New South Wales market.

A key feature of the Youi net earned premium result is the large increase in reinsurance cost since 1 July 2020. Reinsurance premiums increased significantly since 1 July 2020 following the severe natural catastrophe events experienced in the 2019 and 2020 financial years. Reinsurance markets have also hardened globally as catastrophe and pandemic related losses are adjusted for. Youi has allowed for the increased cost of reinsurance in premium inflation, the effect of which will take time to reflect in net earned premium.

Youi only experienced one large catastrophe hailstorm during the period under review resulting in a retained loss of $10 million. This compares to a retained loss of $31 million in the comparative six months impacted by the Australian bushfires.

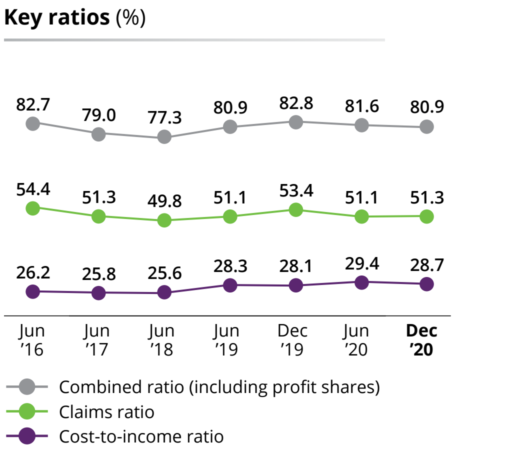
Youi's cost to income ratio has increased in line with expectations attributed to the BZI and CTP growth initiatives. The cost-to-income ratio is further influenced by compliance projects focused on the implementation of various new regulatory requirements following the Royal Commission.

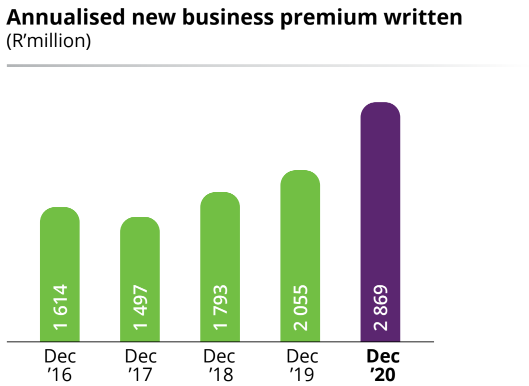
OUTsurance Life remains prudently reserved for the mortality impact of the pandemic. The earnings of OUTsurance Life was materially impacted by higher claims and the impact of volatile long-term interest rates on the measurement of the policyholder liability.

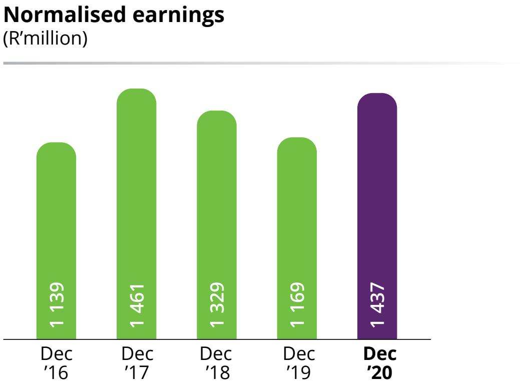
OUTsurance and Youi continues to invest in the digitalisation of customer service initiatives as well as the modernisation of the core insurance and finance systems. These investments will deliver long-term cost-efficiency as customer contact interactions are optimised and modern system architecture is embedded.

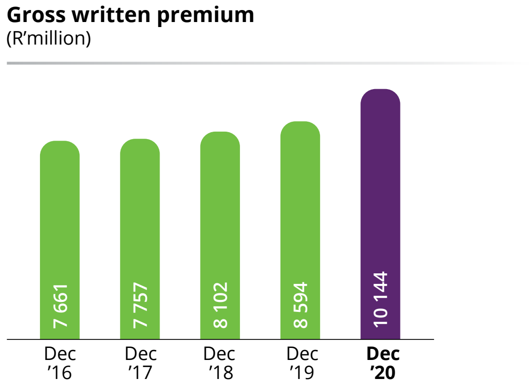
During November 2020, the joint offer to privatise Hastings was successfully completed in partnership with RMI Holdings and Sampo. Hastings will benefit from operating within a private capacity which is more conducive to long-term decision making and investment directed to growth and diversification. Together with RMI Holdings, the Group has an option to acquire an additional 10% interest in Hastings at a price equal to the joint offer price. This option expires in May 2022. Hastings has delivered a satisfactory financial and operational performance during 2020 aided by the impact of reduced motor claims frequencies in the United Kingdom.

Overview of Group results *continued*









Group – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2020**	2019	% change	**2020**
Gross written premium	**10 144**	8 594	18.0%	**17 455**
Net earned premium	**8 873**	7 963	11.4%	**16 178**
Operating profit (from continued operations)	**1 766**	1 508	17.1%	**3 234**
Normalised earnings	**1 437**	1 169	22.9%	**2 411**
Normalised ROE (%)[1]	**24.9%**	23.2%		**22.9%**
Normalised earnings per share (cents)	**38.7**	31.2	24.0%	**64.6**
Diluted normalised earnings per share (cents)	**38.5**	31.2	23.4%	**64.6**
Dividend declared per share (cents)	**24.7**	24.7	–	**53.7**
Claims ratio (including non-claims bonuses) (%)	**51.3%**	53.4%		**51.1%**
Cost-to-income ratio (%)	**28.7%**	28.1%		**29.4%**
Combined ratio (%)[2]	**80.9%**	82.8%		**81.6%**

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, from continued operations, contributed to the Group results as follows:

	Operating profit			Year ended 30 June
	Six months ended 31 December			
R'million	**2020**	2019	% change	**2020**
OUTsurance[1]	**1 196**	1 081	10.6%	**2 275**
OUTsurance Life	**1**	78	(98.7%)	**6**
Youi Group	**588**	363	62.0%	**970**
Central and new business development[2]	**(19)**	(14)	35.7%	**(17)**
Operating Profit Group	**1 766**	**1 508**	**17.1%**	**3 234**

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

	Normalised earnings			Year ended 30 June
	Six months ended 31 December			
R'million	**2020**	2019	% change	**2020**
OUTsurance	**1 018**	862	18.1%	**1 669**
OUTsurance Life	**18**	70	(74.3%)	**14**
Youi Group	**406**	248	63.7%	**678**
Minorities	**(63)**	(38)	65.8%	**(105)**
Central and new business development[1]	**(33)**	(40)	(17.5%)	**(47)**
Earnings from associates	**91**	67	35.8%	**202**
Normalised Group	**1 437**	**1 169**	**22.9%**	**2 411**

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.

Overview of Group results *continued*

BUSINESS UNIT PERFORMANCE

OUTsurance

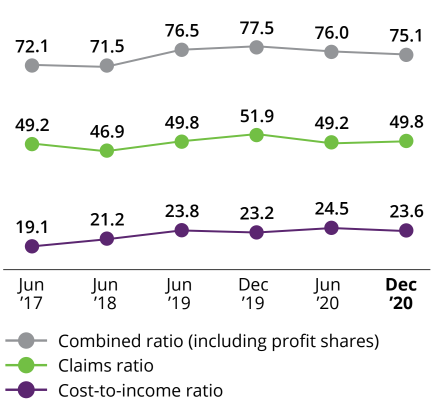
OUTsurance delivered a satisfactory operational and financial result considering the difficult economic environment and large investment in distribution capacity. Operating profit was 10.6% higher at R1 196 million and headline earnings increased by 18.1% to R1 018 million.

OUTsurance recorded 4% growth in gross written premium and 6.2% growth in annualised new business premium written aided by a strong recovery in OUTsurance Personal sales and the growing distribution footprint of OUTsurance Business. Lapse experience in the core OUTsurance Personal operation remained resilient against the difficult economic backdrop.

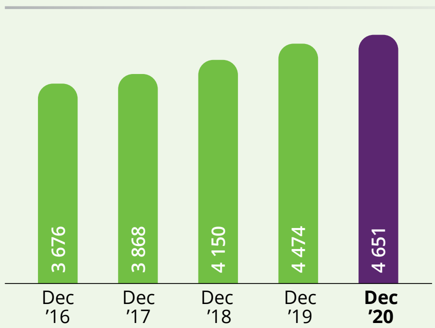
The claims ratio decreased from 51.9% to 49.8% as a result of lower natural peril claims and reduced motor claims frequency. The lower motor claims was partially offset by increased property claims. Higher property claims are attributed to wetter weather conditions and the impact of electrical claims associated with loadshedding. Rating actions will reduce the non-motor claims ratio over the next twelve months. The company has settled all of its business interruption related claims during the six month period and was sufficiently reserved at the end of the previous financial year.

The cost-to-income ratio for the reporting period increased from 23.2% to 23.6%, but compares favourably against the cost-to-income ratio of the 2020 financial year. The increase is as a direct result of the continued investment in the OUTsurance Business' Broker force.

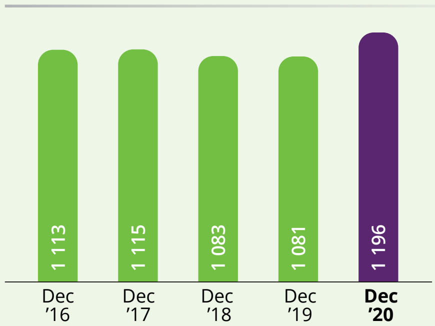
Key ratios (%)



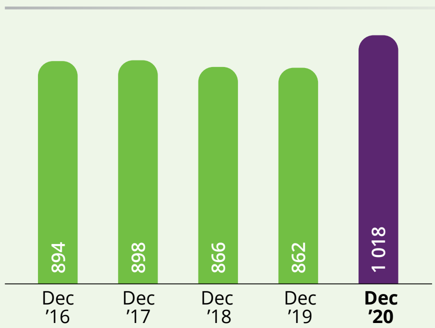
Gross written premium
(R'million)



Operating profit
(R'million)



Normalised earnings
(R'million)



Overview of Group results *continued*

OUTsurance – key performance indicators

R'million	Six months ended 31 December 2020	Six months ended 31 December 2019	% change	Year ended 30 June 2020
Gross written premium	**4 651**	4 474	4.0%	**8 856**
Net earned premium	**4 552**	4 376	4.0%	**8 723**
Operating profit	**1 196**	1 081	10.6%	**2 275**
Headline earnings	**1 018**	862	18.1%	**1 669**
Claims ratio (including bonuses) (%)	**49.8%**	51.9%		**49.2%**
Accident year claims ratio (%)	**54.3%**	53.8%		**52.1%**
Prior year development (%)	**(4.5%)**	(1.9%)		**(2.9%)**
Cost-to-income ratio (%)	**23.6%**	23.2%		**24.5%**
Combined ratio (%)[1]	**75.1%**	77.5%		**76.0%**

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 2020	Six months ended 31 December 2019	% change	Year ended 30 June 2020
Gross written premium	**3 822**	3 704	3.2%	**7 343**
Net earned premium	**3 747**	3 626	3.3%	**7 238**
Operating profit	**1 151**	980	17.4%	**2 296**
Claims ratio (including bonuses) (%)	**49.7%**	51.3%		**46.4%**
Cost-to-income ratio (%)	**21.1%**	21.1%		**21.3%**
Combined ratio (%)[1]	**70.8%**	75.3%		**70.0%**

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

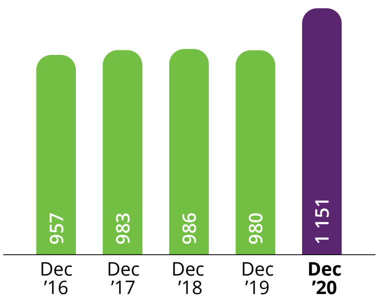
Excluding the FirstRand Homeowners book, OUTsurance Personal grew gross premium income by 5.5% which is attributed to strong new business growth over the last year despite challenging market conditions and an ageing insured vehicle pool. Including the FirstRand Homeowners book, gross written premium grew by 3.2%. OUTsurance Personal achieved annualised new business premium growth of 9.3% for the six months under review. The low level of motor premium inflation continues to be impacted by macro economic effects and reduced claims frequencies. Premium inflation on property risks accelerated above inflation as claims frequency and severity is impacted by loadshedding related power surges.

The cost-to-income ratio for OUTsurance Personal has remained flat when compared to 31 December 2019 at 21.1%. OUTsurance continues to incur higher operational costs associated with the pandemic. Excluding these costs, the expense ratio is positively impacted by premium growth and efficiency gains linked to process digitalisation.

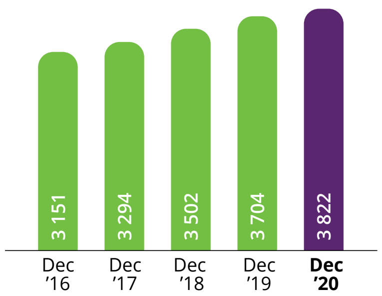
FirstRand discontinued the referral of new business leads for Homeowners cover with effect 1 January 2021. The existing book will run-off with the profit share arrangement remaining intact. This arrangement represents 8.8% of the total OUTsurance Personal net premium income and less than 3% of operating profit.

Overview of Group results *continued*

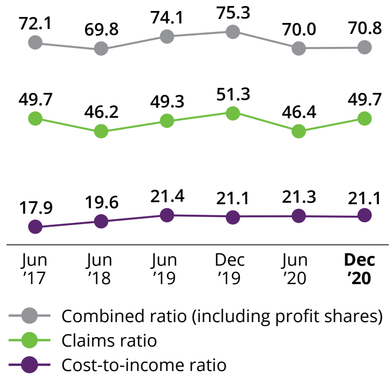
OUTsurance Personal – operating profit (R'million)



OUTsurance Personal – gross written premium (R'million)



OUTsurance Personal – key ratios (%)



OUTsurance Business – key performance indicators

R'million	Six months ended 31 December 2020	2019	% change	Year ended 30 June 2020
Gross written premium	**829**	770	7.7%	**1 513**
Net earned premium	**805**	750	7.3%	**1 485**
Operating profit	**110**	108	1.9%	**35**
Claims ratio (including bonuses) (%)	**50.1%**	54.6%		**63.1%**
Cost-to-income ratio (%)	**36.4%**	32.4%		**36.2%**
Combined ratio (%)[1]	**86.5%**	87.0%		**99.3%**

1 After profit share distributions paid to FirstRand Limited.

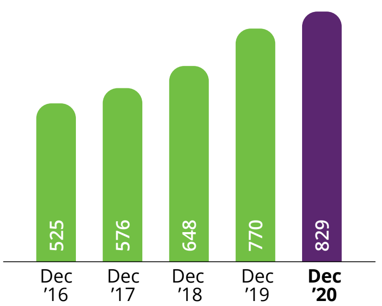
OUTsurance Business delivered 7.7% growth in gross written premium owing to the growing new business contribution from the OUTsurance Broker force (previously referred to as tied-agents). This growth compares to 18.1% achieved in the 2019 financial year. The Business Direct channel was negatively impacted by the effect the pandemic had on small and medium enterprises. The sales disruption during the early hard lockdown, lower average premium values and marginal increase in lapses contributed to the negative gross written premium growth of this channel. The OUTsurance Broker channel grew gross premiums in excess of 60% compared to the prior six months.

The claims ratio has decreased from 54.6% in 2019 to 50.1% despite higher property claims and new business strain in the Broker channel.

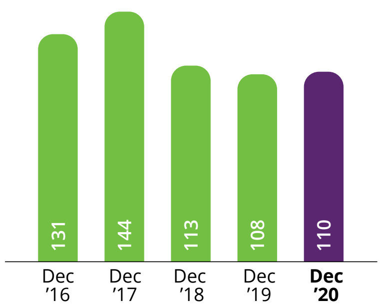
The increase in the cost-to-income ratio from 32.4% to 36.4% is explained by the large increase in distribution capacity.

The OUTsurance Broker channel incurred a loss of R103 million for the six months under review compared to a R99 million loss on a comparative basis.

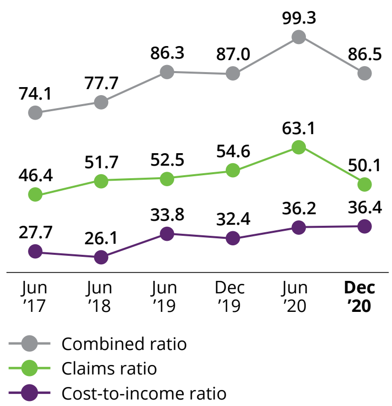
OUTsurance Business – gross written premium (R'million)

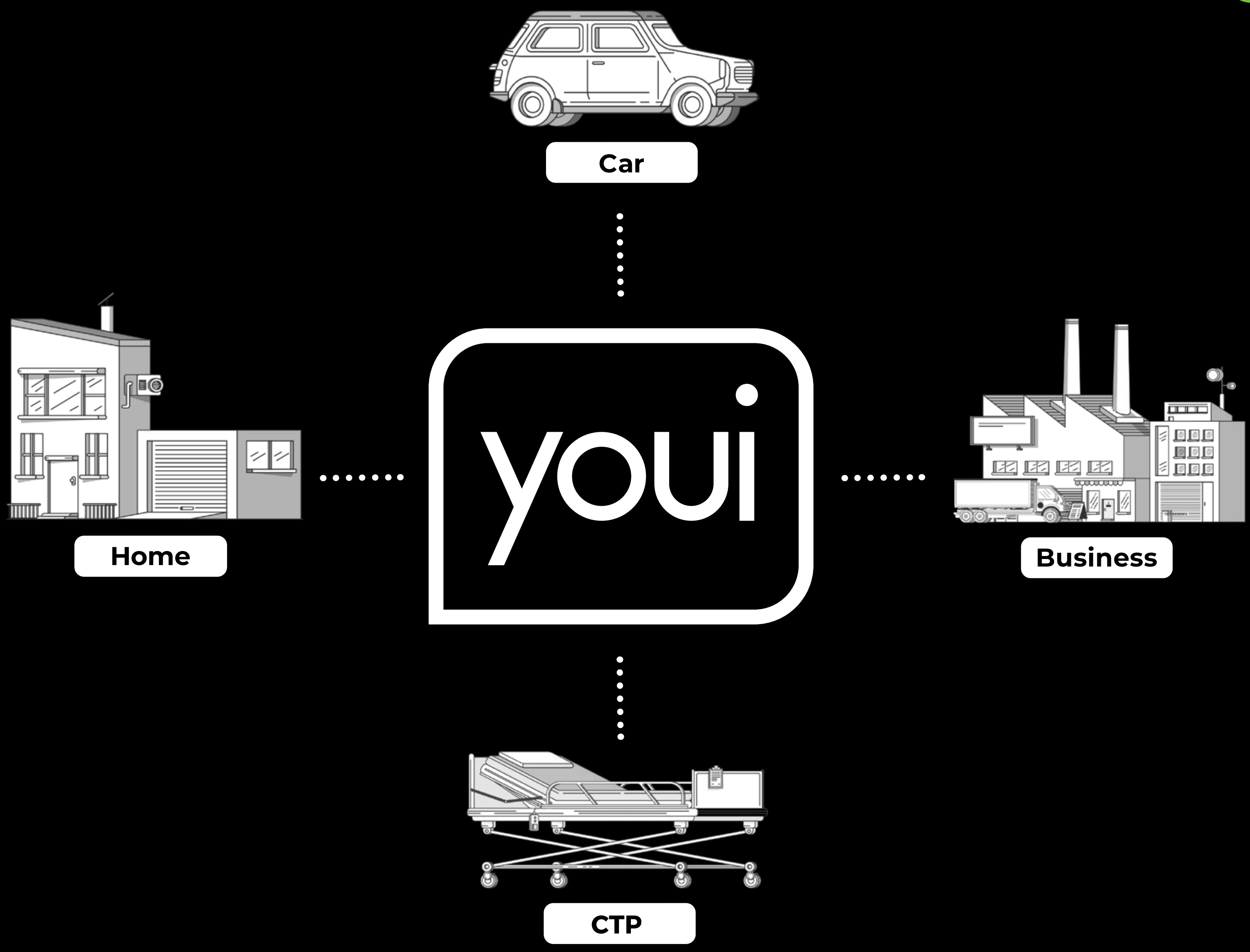


OUTsurance Business – operating profit (R'million)



OUTsurance Business – key ratios (%)





INSURANCE FOR INDIVIDUALS

Overview of Group results *continued*

Youi – Australia

Youi experienced favourable trading conditions for the six months under review as new business growth accelerated and lower natural peril claims were incurred.

Youi grew gross written premiums by 38.5% and 18.3% in Rand and Australian Dollars respectively and is driven by continued organic growth in the direct Youi Personal book as well as the introduction of the BZI channel. The BZI channel has bolstered new business growth and positively contributes towards a higher mix of home insurance and geographic diversification. The new business effect of BZI benefitted from the renewal of BZI's in-force book onto Youi's licence since March 2020. As a result, the new business contribution from BZI will slow down from the second half of the financial year where growth will be driven by new customer policies only. In late 2020, BZI launched a commercial insurance product underwritten by Youi.

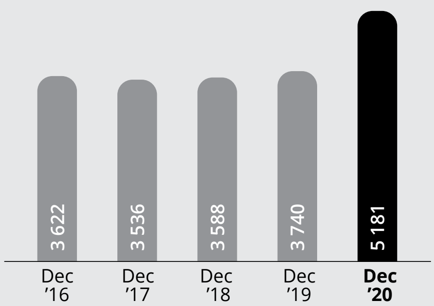
A key feature of the Youi net earned premium result is the significant increase in reinsurance cost since 1 July 2020. Reinsurance premiums increased significantly since 1 July 2020 following the severe natural catastrophe events experienced in the 2019 and 2020 financial years. Reinsurance markets have also hardened globally as catastrophe and pandemic related losses are adjusted for. Youi has allowed for the increased cost of reinsurance in premium inflation, the effect of which will take time to reflect in net premium growth.

Youi's claims ratio has reduced from 57.9% in 2019 to 53.4% in 2020. This reduction is as a direct result of fewer catastrophe events occurring in Australia compared to the prior period.

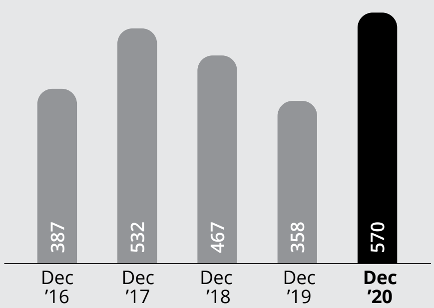
Youi only experienced one large catastrophe hailstorm during the period under review resulting in a retained loss of $10 million. This compares to a retained loss of $31 million in the comparative six months impacted by the Australian bushfires and hail events.

Youi's cost-to-income ratio has increased in line with expectations from 32.5% in 2019 to 32.8% in 2020. This is attributed to the BZI and CTP growth initiatives and increased support costs associated with new regulations.

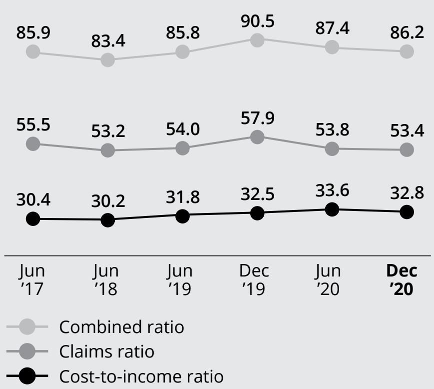
Gross written premium
(R'million)



Operating profit
(R'million)



Key ratios (%)



Overview of Group results *continued*

The weaker Rand has had a material impact on the translated earnings and premium growth of Youi.

Youi Australia – key performance indicators

R'million	Six months ended 31 December 2020	Six months ended 31 December 2019	% change	Year ended 30 June 2020
Rand (R'million)				
Gross written premium	**5 181**	3 740	38.5%	**7 942**
Gross written premium (before COVID-19 discounts)	**5 249**	3 740	40.3%	**8 018**
Net earned premium	**4 038**	3 312	21.9%	**6 926**
Operating profit	**570**	358	59.2%	**949**
Headline earnings	**400**	243	64.6%	**647**
Australian Dollars (A$'million)				
Gross written premium	**440**	372	18.3%	**754**
Gross written premium (before COVID-19 discounts)	**446**	372	19.9%	**761**
Net earned premium	**342**	330	3.6%	**657**
Operating profit	**48**	36	33.3%	**90**
Headline earnings	**34**	24	41.7%	**61**
Ratios				
Claims ratio (%)	**53.4%**	57.9%		**53.8%**
Accident year claims ratio (%)	**58.9%**	62.6%		**55.8%**
Prior year development (%)	**(5.5%)**	(4.7%)		**(2.0%)**
Cost-to-income ratio (%)[1]	**32.8%**	32.5%		**33.6%**
Combined ratio (%)	**86.2%**	90.5%		**87.4%**
AUD / ZAR exchange rate				
– Closing	**11.30**	9.83	15.0%	**11.96**
– Average	**11.76**	10.05	17.0%	**10.54**

1 *Excluding once-off operational loss items.*

Overview of Group results *continued*

OUTsurance Life

OUTsurance Life realised a 98.7% reduction in operating profit. Earnings were materially impacted by the effects of the volatile interest rate environment where long-term yields reduced during the period. Also contributing to the reduction in operating profit are significantly higher COVID-19 claims and the maintenance of additional COVID-19 reserves.

New business volumes and lapses have remained resilient with the funeral segment accelerating on the back of the Shoprite partnership.

Overall OUTsurance Life grew gross written premium by 13.9% with headline earnings decreasing by 74.3% to R18 million. Since June 2020, the embedded value increased by 7.2% to R1.3 billion.

A prudent COVID-19 reserve is being maintained to allow for adverse mortality and lapsation linked to the pandemic. The reserve amounts to R36 million compared to R37 million at year end. Experience to date indicates that the reserve is appropriately prudent.

OUTsurance Life – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2020**	2019	% change	**2020**
Gross written premium	**312**	274	13.9%	**551**
Operating profit	**1**	78	(98.7%)	**6**
Normalised earnings	**18**	70	(74.3%)	**14**
Embedded value	**1 267**	1 182	7.2%	**1 194**
VNB margin (before COVID-19 reserve adjustments)	**5.7%**	4.3%	32.6%	**5.2%**
VNB margin (after COVID-19 reserve adjustments)	**3.0%**	4.3%	(30.2%)	**5.2%**

OUTsurance Namibia

OUTsurance Namibia generated R74 million in gross written premiums for the six months under review which is 8.6% lower than the prior period due to lower new business activity. The headline earnings result was higher by 8.3%. The increase in headline earnings is as a result of a lower cost-to-income ratio which arose due to reduced acquisition costs.

OUTsurance Namibia – key performance indicators

	Six months ended 31 December			Year ended 30 June
R'million	**2020**	2019	% change	**2020**
Gross written premium	**74**	81	(8.6%)	**164**
Net earned premium	**68**	76	(10.5%)	**160**
Headline earnings	**13**	12	8.3%	**29**
Claims ratio (%)	**51.3%**	51.1%		**48.7%**

EARNINGS FROM ASSOCIATES

The Group owns a 14.7% indirect interest in Hastings Group Holdings (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 delivered a satisfactory operational and financial result for the financial year ending 31 December 2020. Policy count grew by 8% on the back of improved retention and solid new business performance. Premium growth was negatively impacted by lower new business premiums as the market reduced pricing on the back of lower pandemic related motor claims.

The claims ratio benefitted from the lower frequencies with management applying prudent reserving assumptions to allow for increased uncertainty and more severe bodily injury claims during the lockdown periods.

Hastings continues to make significant investments in the digitalisation of its customer experience and the expansion of its home insurance offering.

The financial performance in the second half of the financial year was impacted by the transaction costs related to the joint offer to privatise Hastings.

Overview of Group results *continued*

The table below sets out the key performance indicators of Hastings for the year:

	12 months to 31 December		
£'million	**2020**	2019	% change
Gross written premiums	**980.4**	961.6	2.0%
Adjusted operating profit[1]	**130.8**	109.7	19.2%
Profit after tax	**85.4**	69.7	22.5%
Calendar year claims ratio[2]	**76.5%**	82.6%	

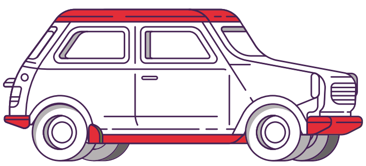
1 Before transaction costs related to the privatisation of Hastings.
2 Net of the Ogden rate change in the 2019 financial year.

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

Normalised earnings from associates

	Six months ended 31 December			Year ended 30 June
R'million	**2020**	2019	% change	**2020**
Main Street (49%)	**(63)**	33	(>100.0%)	**116**
Share of Hastings earnings (14.7%)[4]	**(56)**	54	(>100.0%)	**175**
Share of Hastings headline earnings adjustment (14.7%)[4,5]	**2**	–	100%	**–**
Interest on debt funding	**(13)**	(19)	(31.6%)	**(35)**
Other income and expenses[3]	**4**	(2)	>100.0%	**(23)**
Normalised adjustments related to Main Street	**149**	33	>100.0%	**34**
Amortisation of intangible assets	**36**	33	9.1%	**34**
Hastings transaction costs[2]	**113**	–	100.0%	**–**
Main Street normalised earnings from associate	**86**	66	30.3%	**150**
OUTsurance Namibia and other associate earnings	**5**	1	>100.0%	**6**
Total normalised earnings from associates[1]	**91**	67	35.8%	**156**
GBP / ZAR average exchange rate	**21.37**	18.55	15.2%	**19.84**

1 Refer to page 17 for the normalised earnings adjustments.
2 Transaction related expenses incurred by Hastings and Main Street in privatisation transaction.
3 The increase is as a result of the fair value movement of the derivative structure in place.
4 Prior year share was 14.6%.
5 Loss on dilution of Mainstreets holdings in Hastings from 29.71% to 29.67%.



Overview of Group results *continued*

CAPITAL AND DIVIDENDS

Capital position

At 31 December 2020, the Group and its regulated subsidiaries and associates traded from strong capital positions as summarised in the table below. The Solvency Coverage Ratios for the Group and South African regulated entities are presented based on the Financial Insurance Standards. The ratios for the Youi entities and OUTsurance Namibia are based on the local prudential regulatory requirements.

	Six months ended 31 December			Year ended 30 June
Solvency coverage ratio	**2020**	2019	Target	**2020**
Group	**2.3**	2.5	1.4	**2.5**
Short-term insurance				
OUTsurance	**1.8**	2.2	1.2	**1.9**
OUTsurance Namibia	**2.2**	1.8	1.2	**2.3**
Youi Group	**3.2**	3.5	2.0	**3.5**
Long-term insurance				
OUTsurance Life	**3.1**	3.3	1.5	**3.0**

Interim dividend

The Group declared an interim dividend of 24.7 cents per ordinary share which is equal to the interim dividend declared in the prior year. Youi has not declared an interim dividend for the period under review. The decision not to declare a dividend provides Youi with an opportunity to assess the impact of the changing reinsurance market dynamics on its balance sheet. A full year dividend will be considered at financial year-end following the reinsurance renewal cycle.

	Interim dividend			Full year dividend
	2020	2019	% change	**2020**
Cents per ordinary share	**24.7**	24.7	–	**53.7**

LOOKING AHEAD

The shape of the South African and Australian economic recovery over the next six months remains uncertain, however the roll-out of large vaccine programs is a cause for optimism. South Africa's strained fiscal position and rising unemployment are particular local concerns impacting the size and profitability of the insurance market.

The Group is inwardly focussed to deliver against our strategic plan to grow our product and channel capabilities to supplement the growth of our core operations. During the next six months, OUTsurance Life and OUTvest will deploy a face-to-face distribution model, including Independent Financial Advisors, to enable a wider customer reach beyond the direct market. Youi will focus on the roll-out of business insurance through the BZI channel and scale the newly established CTP product.

Maintaining pricing discipline, superior underwriting and leading customer service remains our core focus to grow sustainably and achieve profitable growth.

EVENTS AFTER REPORTING PERIOD

The directors are not aware of any material events as defined in the IAS 10, occurring between 31 December 2020 and the date of the authorisation of the financial results.

Marthinus Visser
Chief Executive Officer

1 March 2021

Herman Bosman
Chairman

1 March 2021

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, the Group's associate, Main Street, purchased an additional 0.3% interest in Hastings following a restructuring process in Hastings plc that was finalised during November 2020. The additional 0.3% acquired did not result in a change in the shareholding between the Group and RMI Holdings, which is split 49% : 51% respectively.

The transaction costs incurred were R112.5 million. In addition to this customer lists to the value of R16.4 million were recognised on the additional 0.3% in the Group. Please refer to the note on pages 5 and 35 for further information regarding this transaction.

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 (via Main Street). These intangible assets represent the value of the Hastings customer lists and brand which were created in accordance with the requirements of IFRS 3 Business Combinations. IFRS 3 requires that an acquirer attributes the premium paid over the net asset value of the acquiree in a business combination to identifiable intangible assets to reduce the amount of goodwill recognised. The intangible assets related to the indirect acquisition of Hastings are recognised on the statement of financial position of Main Street and amortised over a period of five years. The amortisation of these assets is excluded from Group normalised earnings as illustrated in the table below:

Headline and normalised earnings reconciliation

	Six months ended 31 December			Year ended 30 June
R'000	**2020**	2019	% change	**2020**
IFRS profit attributable to equity holders	**1 349 818**	1 276 555	5.7%	**2 539 707**
Non-controlling interest	**(63 035)**	(54 328)	(16.0%)	**(121 765)**
IFRS earnings attributable to ordinary shareholders	**1 286 783**	**1 222 227**	**5.3%**	**2 417 943**
Adjusted for:				
Profit on sale of insurance business	**–**	(103 021)		**(103 021)**
Minority share of profit on sale of insurance business	**–**	15 968		**15 968**
Impairment of investment in associate	**–**	–		**2 636**
Loss on dilution of equity accounted investment	**1 787**	–		**7 029**
Loss on disposal of property and equipment	**127**	365		**1 307**
Tax effect of headline earnings adjustments	**(35)**	(40)		**(303)**
Headline earnings	**1 288 662**	**1 135 499**	**13.5%**	**2 341 558**
Adjusted for:				
Amortisation of intangible assets related to Main Street 1353[1]	**35 510**	33 318		**69 641**
Hastings restructuring costs	**112 523**	–		**–**
Normalised earnings	**1 436 695**	**1 168 817**	**22.9%**	**2 411 200**
Normalised earnings per share (cents)	38.7	31.2	24.0%	64.6
Diluted normalised earnings per share (cents)[2]	38.5	31.2	23.4%	64.6

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.

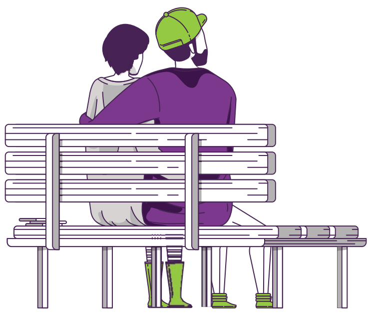
2 The weighted average number of diluted ordinary shares were restated for the prior year interim results. Refer to the basic earnings per share note for more information.

Overview of Group results *continued*

Calculation of normalised earnings per share

R'000	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020
Basic normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 436 695**	1 168 817	**2 411 200**
Weighted average number of shares in issue ('000)	**3 716 822**	3 740 358	**3 730 904**
Basic normalised earnings per share (cents)	**38.7**	31.2	**64.8**
Diluted normalised earnings per share[1]			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 436 695**	1 168 817	**2 411 200**
Diluted normalised earnings attributable to the Youi Group (R'000)	**(1 740)**	(946)	**(1 117)**
Total diluted normalised earnings attributable to ordinary shareholders (R'000)	**1 434 955**	1 167 871	**2 410 083**
Diluted weighted average number of shares in issue ('000)	**3 724 480**	3 744 624	**3 732 022**
Weighted average number of shares in issue ('000)	**3 716 822**	3 740 358	**3 730 904**
Dilution impact of share incentive scheme ('000)	**7 658**	4 266	**1 118**
Diluted normalised earnings per share (cents)	**38.5**	31.2	**64.6**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

1 *The weighted average number of diluted ordinary shares were restated for the prior year interim results. Refer to the basic earnings per share note for more information.*




R500

Consolidated statement of comprehensive income

for the six months ended 31 December

R'000	Six months ended 31 December 2020	Six months ended 31 December 2019	% change	Year ended 30 June 2020
Gross insurance premium written	**10 144 074**	8 488 130	19.5%	**17 349 327**
Outward reinsurance premiums	**(699 980)**	(353 392)	(98.1%)	**(774 408)**
Net premiums	**9 444 094**	8 134 738	16.1%	**16 574 919**
Change in provision for unearned premiums	**(571 804)**	(196 239)	(>100%)	**(422 148)**
Earned premiums, net of reinsurance	**8 872 290**	7 938 499	11.8%	**16 152 771**
Other income	**9 402**	11 563	(18.7%)	**25 658**
Investment income	**39 417**	72 961	(46.0%)	**131 890**
Interest income on financial assets using the effective interest rate method	**129 442**	214 932	(39.8%)	**389 418**
Net gain / (loss) from fair value adjustments on financial assets	**224 595**	(51 896)	>100%	**(295 010)**
Income	**9 275 146**	8 186 059	13.3%	**16 404 727**
Policyholder benefits on insurance contracts net of reinsurance	**(4 506 396)**	(4 253 711)		**(8 145 979)**
Gross policyholder benefits under insurance contracts	**(5 680 273)**	(4 846 968)	(17.2%)	**(9 810 020)**
Reinsurers' share of insurance contracts	**1 173 877**	593 257	97.9%	**1 664 041**
Transfer to policyholder liabilities under insurance contracts	**(157 451)**	11 670	(>100%)	**(33 702)**
Acquisition expenses	**(46 001)**	(23 594)	95.0%	**(40 814)**
Marketing and administration expenses	**(2 526 633)**	(2 219 608)	13.8%	**(4 734 130)**
Fair value adjustment to financial liabilities	**(54 176)**	(74 009)	(26.8%)	**(138 656)**
Result of operating activities	**1 984 489**	1 626 807	22.0%	**3 311 446**
Finance charges	**(2 366)**	(2 032)	16.4%	**(7 669)**
Equity accounted earnings	**(58 762)**	33 819	(>100%)	**122 244**
Impairment of investment in associate	**–**	–		**(2 636)**
Profit before taxation	**1 923 361**	1 658 594	16.0%	**3 423 385**
Taxation	**(573 543)**	(486 520)	(17.9%)	**(988 159)**
Net profit for the year from continuing operations	**1 349 818**	1 172 074	15.2%	**2 435 226**
Discontinued operations				
Net profit for the year from discontinued operations	**–**	104 481	(>100%)	**104 481**
Net profit for the year	**1 349 818**	1 276 555	5.7%	**2 539 707**
Net profit attributable to:				
Ordinary shareholders	**1 286 783**	1 222 227	5.3%	**2 417 942**
Non-controlling interest	**63 035**	54 328	16.0%	**121 765**
Net profit for the year	**1 349 818**	1 276 555	5.7%	**2 539 707**
Other comprehensive income				
Items that may subsequently be reclassified to profit or loss				
Exchange differences on foreign operations	**(254 474)**	(16 598)	(>100%)	**731 293**
Fair value losses on financial assets at fair value through other comprehensive income	**(6 276)**	(2 207)	(>100%)	**(13 803)**
Deferred income tax relating to items that may subsequently be reclassified to profit or loss	**1 758**	618	>100%	**3 886**
Items that will not subsequently be reclassified				
Other comprehensive income of associate	**(30 364)**	11 407	(>100%)	**137 903**
Total comprehensive income for the year	**1 060 462**	1 269 775	(16.5%)	**3 398 986**
Total comprehensive income attributable to:				
Ordinary shareholders	**1 034 305**	1 217 238		**3 169 488**
Non-controlling interest	**26 157**	52 537		**229 498**
Total comprehensive income for the year	**1 060 462**	1 269 775	(16.5%)	**3 398 986**
Earnings attributable to shareholders				
Earnings per share (cents)				
Basic earnings per share	**34.62**	32.68		**64.81**
Diluted earnings per share[1]	**34.50**	32.61		**64.75**
Weighted average number of ordinary shares ('000)	**3 716 822**	3 740 358		**3 730 904**
Weighted average number of diluted ordinary shares ('000)	**3 724 480**	3 744 624		**3 732 022**

1 *The weighted average number of diluted ordinary shares were restated for the prior year interim results. Refer to the basic earnings per share note for more information.*

Consolidated statement of financial position

at 31 December

R'000	Six months ended 31 December 2020	2019	Year ended 30 June 2020
ASSETS			
Deferred income tax	**248 457**	159 983	**295 151**
Investment in associates	**3 619 384**	3 617 823	**3 732 470**
Intangible assets	**160 389**	33 184	**113 144**
Right-of-use assets	**68 719**	81 160	**82 973**
Property and equipment	**1 104 865**	1 008 948	**1 147 548**
Employee benefits	**913**	44 176	**4 092**
Reinsurers' share of insurance contract provisions	**2 276 159**	1 077 754	**1 338 183**
Deferred acquisition costs	**477 170**	353 176	**463 420**
Financial assets			
Fair value through profit or loss	**2 330 249**	2 166 173	**2 351 817**
Fair value through other comprehensive income	**3 180 582**	2 868 993	**3 219 143**
Measured at amortised cost	**5 934 271**	4 866 033	**5 781 780**
Derivative financial instruments	**39 813**	21 844	**–**
Insurance and other receivables	**3 658 854**	2 680 344	**3 537 949**
Tax receivable	**26 667**	202 254	**17 055**
Cash and cash equivalents	**1 333 116**	907 832	**1 225 950**
TOTAL ASSETS	**24 459 608**	20 089 677	**23 310 675**
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	**37 184**	37 335	**37 151**
Share premium	**2 120 861**	2 277 967	**2 086 480**
Other reserves			
Share-based payment reserve	**16 823**	11 722	**13 314**
Foreign currency translation reserve	**700 280**	279 509	**917 876**
Other reserves	**14 671**	10 517	**14 189**
Equity accounted reserve	**155 632**	52 468	**186 539**
Transaction with non-controlling interest	**(114 551)**	(97 150)	**(104 704)**
Retained earnings	**7 905 354**	7 425 706	**7 699 337**
Total shareholders' equity	**10 836 254**	9 998 074	**10 850 182**
Non-controlling interest	**608 678**	493 481	**635 842**
TOTAL EQUITY	**11 444 932**	10 491 555	**11 486 024**
LIABILITIES			
Deferred income tax	**35 462**	42 573	**62 140**
Insurance contract liabilities	**10 646 961**	8 062 284	**9 601 061**
Investment contract liabilities	**33 666**	8 766	**23 508**
Share-based payment liability	**116 774**	58 032	**90 620**
Employee benefits	**281 132**	181 713	**414 588**
Financial liabilities at fair value through profit or loss	**54 176**	74 021	**64 648**
Derivative financial instruments	**137 054**	30 989	**150 613**
Lease liabilities	**74 721**	83 553	**88 689**
Tax liabilities	**126 959**	4 430	**72 880**
Financial liabilities at amortised cost	**–**	–	**100 000**
Insurance and other payables	**1 507 771**	1 051 761	**1 155 904**
TOTAL LIABILITIES	**13 014 676**	9 598 122	**11 824 651**
TOTAL EQUITY AND LIABILITIES	**24 459 608**	20 089 677	**23 310 675**

Consolidated statement of changes in equity

For the six months ended 31December 2020

R'000	Share capital	Share premium	Other reserves[1]	Foreign Currency translation reserve	Share-based payments reserve	Transactions with non-controlling interest	Equity accounted reserve	Retained earnings	Total ordinary shareholders' interest	Non-controlling interest	Total
Balance as at 30 June 2019	37 442	2 388 721	12 106	294 316	8 787	(97 150)	41 282	7 809 350	10 494 854	483 339	10 978 193
Change in accounting policy (IFRS 16)	–	–	–	–	–	–	–	(57)	(57)	–	(57)
Adjusted balance at 1 July 2019	37 442	2 388 721	12 106	294 316	8 787	(97 150)	41 282	7 809 293	10 494 797	483 339	10 978 136
Total profit for the year	–	–	–	–	–	–	–	2 539 707	2 539 707	–	2 539 707
Total other comprehensive income for the year	–	–	(9 917)	731 293	–	–	137 903	–	859 279	–	859 279
(Loss) / profit attributable to non-controlling interests	–	–	–	(107 733)[3]	–	–	–	(121 765)[2]	(229 498)	229 498	–
Sale of treasury shares to non-controlling interests	(291)	(302 241)	–	–	–	–	–	–	(302 532)	–	(302 532)
Preference share capital issued by OUTsurance Life	–	–	10 000	–	–	–	–	–	10 000	–	10 000
Reserve adjustment of associate entities	–	–	–	–	–	–	7 354	–	7 354	–	7 354
Share options spread transactions	–	–	–	–	–	–	–	3 180	3 180	–	3 180
Share-based payment expense	–	–	–	–	4 527	–	–	–	4 527	–	4 527
Transactions with non-controlling interests of subsidiary	–	–	–	–	–	(7 554)	–	(1 195)	(8 749)	(6 555)	(15 304)
Shares issued to non-controlling interest	–	–	2 000	–	–	–	–	–	2 000	–	2 000
Ordinary dividend paid	–	–	–	–	–	–	–	(2 529 883)	(2 529 883)	(70 440)	(2 600 323)
Balance as at 30 June 2020	**37 151**	**2 086 480**	**14 189**	**917 876**	**13 314**	**(104 704)**	**186 539**	**7 699 337**	**10 850 182**	**635 842**	**11 486 024**
Total profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 349 818**	**1 349 818**	**–**	**1 349 818**
Total other comprehensive income for the year	**–**	**–**	**(4 518)**	**(254 474)**	**–**	**–**	**(30 364)**	**–**	**(289 356)**	**–**	**(289 356)**
(Loss) / profit attributable to non-controlling interests	**–**	**–**	**–**	**36 878[3]**	**–**	**–**	**–**	**(63 035)[2]**	**(26 157)**	**26 157**	**–**
Purchase of treasury shares	**33**	**34 381**	**–**	**–**	**–**	**–**	**–**	**–**	**34 414**	**–**	**34 414**
Share options spread transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 091**	**1 091**	**–**	**1 091**
Reserve adjustment of associate entities	**–**	**–**	**–**	**–**	**–**	**–**	**(543)**	**–**	**(543)**	**–**	**(543)**
Share-based payment expense	**–**	**–**	**–**	**–**	**3 509**	**–**	**–**	**–**	**3 509**	**–**	**3 509**
Transactions with non-controlling interests of subsidiary	**–**	**–**	**–**	**–**	**–**	**(9 847)**	**–**	**(713)**	**(10 560)**	**(8 917)**	**(19 477)**
Shares issued to non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 183**	**1 183**
Issue of equity financial instrument	**–**	**–**	**5 000**	**–**	**–**	**–**	**–**	**–**	**5 000**	**–**	**5 000**
Ordinary dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1 081 144)**	**(1 081 144)**	**(45 587)**	**(1 126 731)**
Balance as at 31 December 2020	**37 184**	**2 120 861**	**14 671**	**700 280**	**16 823**	**(114 551)**	**155 632**	**7 905 354**	**10 836 254**	**608 678**	**11 444 932**

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

Consolidated statement of cash flows

for the six months ended 31 December

R'000	Six months ended 31 December 2020	Six months ended 31 December 2019	Year ended 30 June 2020
OPERATING ACTIVITIES			
Cash generated by operations	**1 971 726**	1 841 990	**3 798 621**
Interest received	**134 133**	244 095	**446 043**
Dividends received	**47 956**	43 798	**75 265**
Interest paid	**(2 366)**	(2 032)	**(7 669)**
Cashflows on assets backing policyholder liabilities	**210 238**	(105 996)	**(200 568)**
Proceeds on disposal of financial assets[1]	**5 981 840**	6 714 861	**8 020 080**
Purchase of financial assets[1]	**(6 102 536)**	(6 301 458)	**(7 935 283)**
Taxation paid	**(714 468)**	(581 251)	**(916 667)**
Ordinary dividends paid	**(1 081 144)**	(1 607 707)	**(2 529 883)**
Preference dividends paid	**(64 648)**	(65 209)	**(139 230)**
Dividends paid to non-controlling interest	**(45 587)**	(43 281)	**(70 440)**
Cash inflow from operating activities	**335 144**	137 810	**540 269**
INVESTING ACTIVITIES			
Acquisition of investment in associate	**–**	–	**(4 987)**
Loans to associates	**(19 600)**	(12 200)	**–**
Dividends received from associate	**13 230**	62 230	**160 230**
Property and equipment acquired to maintain and expand operations	**(49 607)**	(35 145)	**(79 338)**
Proceeds on disposal on intangible assets	**–**	–	**24**
Proceeds on disposal of property and equipment	**195**	1 507	**3 303**
Purchase of intangible assets	**(53 079)**	(19 892)	**(84 882)**
Net Proceeds from sale of New Zealand insurance business	**–**	119 228	**77 917**
Purchase of financial assets[2]	**(2 089)**	(2 517)	**(5 056)**
Cash (outflow) / inflow from financing activities	**(110 950)**	113 211	**67 211**
FINANCING ACTIVITIES			
Proceeds from issue of preference shares	**–**	–	**10 000**
Proceeds from issue of equity financial instrument	**5 000**	–	**2 000**
Shares issued to non-controlling interest	**1 183**	–	**–**
Selling of shares to scheme participants	**138 358**	125 271	**125 271**
Purchase of treasury shares by share trust from share scheme participants	**(103 944)**	(236 132)	**(427 803)**
Repayment of lease liability	**(19 495)**	(15 985)	**(33 746)**
Financial liabilities at amortised cost raised	**–**	–	**100 000**
Financial liabilities at amortised cost repaid	**(100 000)**	–	**–**
Cash outflow from financing activities	**(78 898)**	(126 846)	**(224 278)**
Increase in cash and cash equivalents	**145 296**	124 175	**383 202**
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents	**1 225 950**	781 811	**781 811**
Effect of exchange rate on cash and cash equivalents	**(38 130)**	1 846	**60 937**
Increase in cash and cash equivalents	**145 296**	124 175	**383 202**
Closing balance of cash and cash equivalents	**1 333 116**	907 832	**1 225 950**

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

Notes to the consolidated financial statements

BASIS OF PREPARATION

The Group's interim results are prepared in accordance with International Financial Reporting Standards (IFRS), as a minimum the requirements of IAS 34 (Interim financial reporting), the requirements of the Companies Act of South Africa, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The interim results should be read in conjunction with the Annual Financial Statements for the year ended 30 June 2020.

The accounting policies and methods of computation used in the interim results are the same as those used in the OUTsurance Group's Annual Financial Statements, except for the mandatory adoption of amendments to IFRS effective for 1 January 2020 and the early adoption of certain amendments as listed below.

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

Mandatory adoption of IFRS amendments

Amendment to IFRS 3 Business combinations – Definition of a business

This amendment revises the definition of a business. The objective of the amendment is to clarify whether a transaction should be accounted for as a business combination or an asset acquisition.

The amendment will be applied prospectively.

Amendment to IAS 1 Presentation of financial statements and IAS 8, Accounting policies, changes in accounting estimates and errors on the definition of material.

The amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs are to:

> Use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;

> Clarify the explanation of the definition of material; and

> Incorporate some of the guidance in IAS 1 about immaterial information.

New standards not yet effective:

IFRS 17 Insurance Contracts (effective 1 January 2023) will have a significant financial reporting impact for the Group. The Group's IFRS 17 project team is continuing with the implementation of IFRS 17, with oversight from senior management as well as the Audit, Risk and Compliance committee.

The Group is in process of building and testing the CSM engine for life insurance contracts and will commence with the parallel run for the contracts qualifying for the PAA model in the second half of the 2021 financial year. The Group is upskilling the wider support functions on a continuous basis with an in depth training programme. The design of the general ledger, has been started and is currently being tested by the project team.

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 2020.

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).

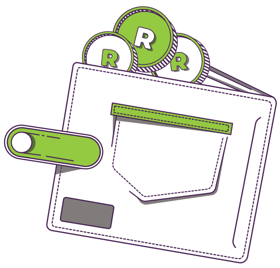
> Level 3 – fair value is determined through valuation techniques which use significant unobservable inputs.

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:

R'000	Level 1	Level 2	Level 3	Total
Group at 31 December 2020				
Financial assets				
Fair value through profit and loss				
Debt securities				
Unsecured loan	–	–	42 279	42 279
Zero-coupon deposits	–	655 167	–	655 167
Zero-coupon deposits backing endowment policies	–	33 666	–	33 666
Convertible loan	–	–	14 030	14 030
Equity securities				
Listed preference shares	310 252	–	–	310 252
Exchange traded funds	1 152 635	–	–	1 152 635
Collective investment schemes	–	122 220	–	122 220
Derivative financial instruments				
Collateralised swaps	–	39 813	–	39 813
Fair value through other comprehensive income				
Debt securities				
Government, municipal and public utility securities	–	315 394	–	315 394
Money market securities <1 year	–	1 371 225	–	1 371 225
Money market securities >1 year	–	1 500 199	–	1 500 199
Expected credit loss	–	(19 194)	–	(19 194)
Equity securities				
Unlisted equity	–	–	12 958	12 958
Amortised cost				
Debt securities				
Term deposits	–	5 934 271	–	5 934 271
Total financial assets	**1 462 887**	**9 952 761**	**69 267**	**11 484 915**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Debt securities	–	–	54 176	54 176
Derivative financial instruments				
Interest rate swaps	–	137 054	–	137 054
Investment contract liability	–	33 666	–	33 666
Total financial liabilities	**–**	**170 720**	**54 176**	**224 896**



Notes to the consolidated financial statements *continued*

FINANCIAL RISK MANAGEMENT *CONTINUED*

R'000	Level 1	Level 2	Level 3	Total
Group at 31 December 2019				
Financial assets				
Fair value through profit and loss				
Debt securities				
Unsecured loan		–	39 586	39 586
Zero-coupon deposits	–	698 153	–	698 153
Zero-coupon deposits backing endowment policies		8 766	–	8 766
Equity securities				
Listed preference shares	390 908	–	–	390 908
Exchange traded funds	912 062	–	–	912 062
Collective investment schemes	–	116 698	–	116 698
Derivative financial instrument				
Collateralised swaps	–	37 448	–	37 448
Fair value through other comprehensive income				
Debt securities				
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	–	1 341 534	–	1 341 534
Expected credit loss		(14 499)	–	(14 499)
Amortised cost				
Term deposits		4 866 033	–	4 866 033
Total financial assets	1 302 970	8 596 092	39 586	9 938 648
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Debt securities	–	–	74 021	74 021
Derivative financial instruments				
Interest rate swaps	–	30 989	–	30 989
Investment contract liability	–	8 766	–	8 766
Total financial liabilities	–	39 755	74 021	113 776

There were no transfers between levels for the six months ended 31 December 2020.

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.

FINANCIAL RISK MANAGEMENT *CONTINUED*

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 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 the following:

> Profits arising out of the profit sharing arrangements that accrue on a monthly basis and which are distributed as preference dividends biannually to FirstRand Bank Limited. 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.

> ASISA Enterprise Development Fund loan (This instrument is classified as an Unsecured Loan).

> The loan with AutoGuru Australia Pty Limited (AutoGuru). The only significant unobservable input in the calculation is the market value of the AutoGuru shares, as this is an unlisted private company.

> Unlisted equity.

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:

Reconciliation of level 3 financial instruments

R'000	Six months ended 31 December 2020	2019
Opening balance at 1 July	**64 648**	65 222
Preference dividend paid	**(64 648)**	(65 210)
Preference dividend accrued	**54 176**	74 009
Closing balance at 31 December	**54 176**	74 021

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

> claims ratio of the pool of business;

> expense ratio of the pool of business; and

> investment income on this pool of business.

A specific valuation technique is used to value the AutoGuru convertible loan:

> 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. market value of the AutoGuru ordinary shares as well as a risk adjusted market interest rate.

Included as a Level 3 financial asset is the loan made to the ASISA Enterprise Development Fund to the value of R49 million. This loan relates to funding provided for a BBBEE supplier development scheme that the Group is partaking in. The loan has a five-year term with no contractual interest rate. In calculating the fair value of the loan at 31 December 2020, the interest rate attached to a risk-free government bond with a term based on the remaining contract period at the date of fair value measurement was utilised as the discount rate. This resulted in the value of R49 million being discounted at 4.53% (2019: 6.72%), arriving at a fair value of R42.3 million (2019: R39.6 million). This discount will unwind over the remaining maturity period.

The fair value of the loan is sensitive to movements in the interest rate of the risk-free government bond utilised in the calculation. A 1% movement in the interest rate would result in the following fair value being recognised at 31 December 2020:

R'000	Current	1% increase in interest rate	1% decrease in interest rate
31 December 2020			
Fair value	**42 279**	**40 969**	**43 022**
31 December 2019			
Fair value	39 586	38 997	42 535

Notes to the consolidated financial statements *continued*

SEGMENT INFORMATION

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

1 Excludes investment management expenses of R4.3 million.
2 Includes Homeowners cover book sourced from FirstRand Limited.

Notes to the consolidated financial statements *continued*

SEGMENT INFORMATION *continued*

R'000	Short term insurance			Long term insurance		
	Outsurance Personal[2]	Outsurance Commercial	Youi Australia Group Personal	Outsurance Life	Central and new business development	Group Total
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	318 071	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 R4.3 million.
2 Includes Homeowners cover book sourced from FirstRand Limited.

Basic headline earnings per share

for the six months ended 31 December

	Six months ended 31 December		Year ended 30 June
	2020	Restated 2019	**2020**
Basic headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 288 662**	1 119 531	**2 341 558**
Weighted average number of shares in issue ('000)	**3 716 822**	3 740 358	**3 730 904**
Headline earnings per share – basic (cents)	**34.67**	29.93	**62.76**
Diluted headline earnings per share			
Headline earnings attributable to ordinary shareholders (R'000)	**1 288 662**	1 119 531	**2 341 558**
Diluted headline earnings attributable to Youi Holdings Group (R'000)	**(1 740)**	(669)	**(1 117)**
Diluted headline earnings attributable to ordinary shareholders (R'000)	**1 286 922**	118 862	**2 340 441**
Weighted average number of shares in issue ('000)	**3 716 822**	3 740 358	**3 730 904**
Dilution impact of share incentive scheme ('000)[1]	**7 658**	4 266	**1 118**
Diluted weighted average number of shares in issue ('000)[1]	**3 724 480**	3 744 624	**3 732 022**
Headline earnings per share – diluted (cents)[1]	**34.55**	29.88	**62.71**

1 The 31 December 2019 diluted weighted average number of shares were overstated by 94.6 million shares due to an incorrect calculation of the dilution impact of the share incentive scheme. The correction of the calculation resulted in the diluted earnings per share changing from 28.96 cents per share to 29.88 cents per share.

Basic earnings per share

for the six months ended 31 December

	Six months ended 31 December		Year ended 30 June
	2020	2019	**2020**
Basic earnings per share			
Earnings attributable to ordinary shareholders from continued operations (R'000)	**1 286 783**	1 117 746	**2 417 942**
Earnings attributable to ordinary shareholders from discontinued operations (R'000)	**–**	104 481	**–**
Total earnings attributable to ordinary shareholders (R'000)	**1 286 783**	1 222 227	**2 417 942**
Weighted average number of shares in issue ('000)	**3 716 822**	3 740 358	**3 730 904**
Earnings per share from continued operations – basic (cents)	**34.62**	29.88	**64.81**
Earnings per share from discontinued operations – basic (cents)	**–**	2.80	**–**
Total earnings per share (cents)	**34.62**	32.68	**64.81**
Diluted earnings per share[1]			
Diluted earnings attributable to ordinary shareholders from continued operations (R'000)	**1 285 043**	1 119 182	**2 417 942**
Diluted earnings attributable to ordinary shareholders from discontinued operations (R'000)	**–**	102 099	**–**
Total diluted earnings attributable to ordinary shareholders (R'000)	**1 285 043**	1 221 281	**2 417 942**
Diluted weighted average number of shares in issue ('000)	**3 724 480**	3 744 624	**3 732 022**
Diluted earnings per share from continued operations (cents)	**34.50**	29.89	**64.75**
Diluted earnings per share from discontinued operations (cents)	**–**	2.72	**–**
Total diluted earnings per share (cents)	**34.50**	32.61	**64.75**
Total number of shares in issue ('000)	**3 798 908**	3 798 908	**3 798 908**

1 The 31 December 2019 diluted weighted average number of shares were overstated by 94.6 million shares due to an incorrect calculation of the dilution impact of the share incentive scheme. The correction of the calculation resulted in the diluted earnings per share changing from 31.56 cents per share to 32.61 cents per share.

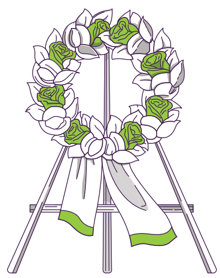
Insurance contract liabilities

for the six months ended 31 December

	31 December 2020			30 June 2020		
R'000	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Short term insurance contracts						
Claims provisions	**3 820 320**	**(1 469 941)**	**2 350 379**	3 249 268	(1 185 788)	2 063 480
Unearned premium provision	**5 567 448**	**(651 435)**	**4 916 013**	5 292 647	(33 894)	5 258 753
Insurance contract non-claims bonuses provision	**529 932**	**–**	**529 932**	523 618	–	523 618
Long term insurance contracts						
Policyholder liabilities	**729 261**	**(154 783)**	**574 478**	535 528	(118 501)	417 027
Closing balance	**10 646 961**	**(2 276 159)**	**8 370 802**	9 601 061	(1 338 183)	8 262 878

Analysis of movement in short-term insurance contract liabilities

	31 December 2020			30 June 2020		
R'000	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Analysis of movement in claims provision						
Opening balance	**3 249 268**	**(1 185 788)**	**2 063 480**	2 346 603	(530 657)	1 815 946
Current year	**2 504 141**	**(880 764)**	**1 623 377**	2 422 013	(952 267)	1 469 746
Claims incurred	**4 910 479**	**(808 436)**	**4 102 043**	8 774 642	(1 546 262)	7 228 380
Claims paid	**(2 975 775)**	**29 424**	**(2 946 351)**	(7 102 043)	670 014	(6 432 029)
Claims handling expenses raised	**260 259**	**–**	**260 259**	432 680	–	432 680
Risk margins raised	**309 178**	**(101 752)**	**207 426**	316 734	(76 019)	240 715
Prior year	**(1 779 288)**	**516 389**	**(1 262 899)**	(1 831 042)	443 342	(1 387 700)
Claims incurred	**182 279**	**(255 291)**	**(73 012)**	(107 391)	(1 178)	(108 569)
Claims paid	**(1 616 025)**	**740 000**	**(876 025)**	(1 439 971)	429 673	(1 010 298)
Claims handling expenses released	**(108 910)**	**–**	**(108 910)**	(54 740)	–	(54 740)
Risk margins released	**(236 632)**	**31 680**	**(204 952)**	(228 940)	14 847	(214 093)
Foreign exchange movement	**(153 801)**	**80 222**	**(73 579)**	348 823	(173 041)	175 782
Discontinued operations	**–**	**–**	**–**	(37 129)	26 835	(10 294)
Closing balance	**3 820 320**	**(1 469 941)**	**2 350 379**	3 249 268	(1 185 788)	2 063 480



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

Analysis of movement in unearned premium provision (UPP)

R'000	31 December 2020 Gross	Reinsurance	Net	30 June 2020 Gross	Reinsurance	Net
Opening balance	**5 292 647**	**(33 894)**	**5 258 753**	4 152 121	(55 672)	4 096 449
UPP raised	**5 612 156**	**(1 254 622)**	**4 357 534**	8 384 640	(599 610)	7 785 030
UPP earned	**(5 040 352)**	**600 411**	**(4 439 941)**	(7 932 629)	569 747	(7 362 882)
Foreign exchange difference	**(297 003)**	**36 670**	**(260 333)**	810 553	51 584	862 137
Discontinued operations	**–**		**–**	(122 038)	57	(121 981)
Closing balance	**5 567 448**	**(651 435)**	**4 916 013**	5 292 647	(55 672)	5 258 753
Analysis of movement in insurance contract non-claims bonusses						
Opening balance	**523 618**	**–**	**523 618**	470 347	–	470 347
Charge to profit or loss	**248 647**	**–**	**248 647**	497 600	–	497 600
Non-claims bonuses paid during the year	**(242 333)**	**–**	**(242 333)**	(444 329)	–	(444 329)
Closing balance	**529 932**	**–**	**529 932**	523 618	–	523 618

Analysis of change in policyholder liabilities

R'000	Gross policyholder liability	Reinsurers' share of policyholder liability	Net policyholder liability	Negative rand reserve	Net policyholder liability including deferral of acquisition costs
31 December 2020					
Opening balance	**705 337**	**(118 502)**	**586 835**	**(169 808)**	**417 027**
Policyholder Liability	**647 319**	**(98 561)**	**548 758**	**(169 808)**	**378 950**
Incurred but not reported claims	**25 186**	**(7 798)**	**17 388**	**–**	**17 388**
Claims provisions	**32 832**	**(12 143)**	**20 689**	**–**	**20 689**
Transfer to policyholder liabilities under insurance contracts	**220 937**	**(36 281)**	**184 656**	**(27 205)**	**157 451**
Unwind of discount rate	**25 707**	**7 556**	**33 264**	**–**	**33 264**
Experience variance	**12 518**	**(2 302)**	**10 217**	**–**	**10 217**
Modelling methodology changes	**–**	**–**	**–**	**–**	**–**
Change in non-economic assumptions	**33**	**(26)**	**7**	**–**	**7**
Change in economic assumptions	**130 263**	**(16 136)**	**114 127**	**–**	**114 127**
New business	**2 211**	**(2 093)**	**118**	**–**	**118**
Incurred but not reported claims	**–**	**–**	**–**	**–**	**–**
Change in claims provision	**23 808**	**(13 087)**	**10 721**	**–**	**10 721**
Change in negative rand reserve	**–**	**–**		**(27 205)**	**(27 205)**
COVID-19 adjustment	**26 397**	**(10 195)**	**16 202**	**–**	**16 202**
Closing balance	**926 274**	**(154 783)**	**771 491**	**(197 013)**	**574 478**
Policyholder Liability	**844 448**	**(121 755)**	**722 693**	**(197 013)**	**525 680**
Incurred but not reported claims	**31 752**	**(10 319)**	**21 433**	**–**	**21 433**
Claims provisions	**50 074**	**(22 709)**	**27 365**	**–**	**27 365**

Analysis of change in policyholder liabilities *continued*

R'000	Gross policyholder liability	Reinsurers' share of policyholder liability	Net policyholder liability	Negative rand reserve	Net policyholder liability including deferral of acquisition costs
30 June 2020					
Opening balance	648 814	(104 617)	544 197	(160 872)	(160 872)
Policyholder Liability	589 818	(85 200)	504 618	(160 872)	(160 872)
Incurred but not reported claims	–	–	–	–	–
Claims provisions	58 996	(19 417)	39 579	–	–
Transfer to policyholder liabilities under insurance contracts	56 522	(13 884)	42 638	(8 936)	33 702
Unwind of discount rate	138 275	8 633	146 908	–	146 908
Experience variance	24 649	(20 272)	4 377	–	4 377
Modelling methodology changes	62 751	(15 081)	47 670	–	47 670
Change in non-economic assumptions	(10 465)	839	(9 626)	–	(9 626)
Change in economic assumptions	(212 737)	31 374	(181 363)	–	(181 363)
New business	623	(546)	77	–	77
Incurred but not reported claims	–	–	–	–	–
Change in claims provision	(979)	(523)	(1 502)	–	(1 502)
Change in negative rand reserve	–	–		(8 936)	(8 936)
COVID-19 adjustment	54 405	(18 308)	36 097	–	36 097
Closing balance	705 336	(118 501)	586 835	(169 808)	417 027
Policyholder Liability	647 319	(98 561)	548 758	(169 808)	378 950
Incurred but not reported claims	–	–	–	–	–
Claims provisions	58 017	(19 940)	38 077	–	38 077

RELATED PARTY TRANSACTIONS

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

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

OUTsurance funded a portion of the purchase price through a loan of R88.2 million to Main Street, which was also used to cover certain transaction costs. The remaining balance on this loan at 31 December 2020 is R19.6 million which will be repaid via future dividend payments from Main Street

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

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

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

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

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

	Six months ended 31 December		Year ended 30 June
R'000	**2020**	2019	**2020**
Opening balance	**3 640**	3 524	**3 524**
Share of earnings from associate	**(64)**	33	**116**
Dividends received from associate	**–**	(49)	**(147)**
NAV adjustments of Main Street	**(41)**	12	**147**
FCTR movement	**(55)**	16	**199**
Currency derivative reserve movement	**14**	(4)	**(52)**
Closing balance	**3 535**	3 520	**3 640**

OUTsurance Life embedded value

EMBEDDED VALUE OF COVERED BUSINESS

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

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

The embedded value of covered business consists of:

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

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

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

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

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

The CoRC is the difference between the current required capital and the present value, at the risk discount rate, of the projected release of the required capital, allowing for appropriate after-tax investment returns on the assets supporting the projected required capital. This metric is deemed more appropriate than the 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 2020:

	31 December		30 June
R'000	**2020**	2019[1]	**2020**
Embedded value of covered business			
Covered business ANW	**645 641**	945 964	**627 165**
Free surplus	**622 405**	331 234	**605 481**
Required Capital	**23 236**	614 730	**21 684**
Present value of in-force business (PVIF)	**638 368**	560 805	**580 090**
Cost of required Capital	**(16 971)**	(325 210)	**(13 475)**
Embedded value of covered business	**1 267 038**	1 181 559	**1 193 780**
Present value of gross premiums (in-force book)	**5 599 103**	3 340 543	**3 225 049**
Annualised return on embedded value	**12.3%**	24.8%	**9.6%**

1 *The December 2019 figures were based on an old methodology, which is the primary contributor to the differences between the December 2019 figures and the other disclosed periods.*

Embedded value of covered business *continued*

From June 2020 to December 2020, the embedded value of OUTsurance Life increased by R73.3million. The annualised return on embedded value was 12.3%. This is attributable to positive contributions to the embedded value from the ANW and the present value of future profits (PVIF). The movement was largely driven by the profits realised from in-force business. However, this growth was partially offset by the expense outlay associated with writing new business. The yield movements between June and December 2020 resulted in an increase in both PVIF and CoRC but decreased the ANW.

Embedded value earnings

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

R'000	ANW	PVIF	Cost of required capital	**Embedded value**
Embedded value earnings for the reporting period at December 2020 (6 months)				
Embedded value at end of the period	645 641	638 368	(16 971)	**1 267 038**
Embedded value at beginning of the period	627 165	580 090	(13 475)	**1 193 780**
Embedded value earnings for the period	18 476	58 278	(3 496)	**73 258**
Annualised return on embedded value	12.3%			
Embedded value operating return	16 723	35 335	(1 385)	**50 673**
Value of new business at point of sale	(45 303)	57 332	(4 488)	**7 541**
Expected return on covered business	–	34 498	3 911	**38 409**
Expected profit transfer	43 687	(43 687)	–	**–**
Operating experience variances	29 746	2 194	112	**32 052**
Operating model changes	–	–	(807)	**(807)**
Operating assumption changes	(11 407)	(15 002)	(113)	**(26 522)**
Embedded value non-operating return	6 695	22 943	(2 111)	**27 527**
Investment return variances	95 210	–	–	**95 210**
Effect of economic assumptions changes	(88 515)	22 943	(2 111)	**(67 683)**
Other	(4 942)	–	–	**(4 942)**
Embedded value earnings	18 476	58 278	(3 496)	**73 258**

Value of new business

R'000	31 December **2020**	31 December 2019[1]	30 June **2020**
Value of new business (12 months)			
Gross value of new business	**24 059**	35 487	**15 509**
Cost of required capital	**(8 976)**	(24 931)	**(6 061)**
Value of new business	**15 083**	10 556	**9 448**
Present value of gross premiums (new business)	**509 748**	244 708	**426 775**
New business margin	**3.0%**	4.3%	**2.2%**

1 *The December 2019 figures were based on an old methodology, which is the primary contributor to the differences between the December 2019 figures and the other disclosed periods.*

The new business margin has increased from 2.2% at June 2020 to 3% at December 2020. This increase was mainly driven by the growth in Shoprite Funeral business. The new business margin for underwritten life has reduced from 3.7% to 0.0% due to impact of COVID-19 on per policy expenses. Reduced profitability of future projections due to COVID-19 adjustments as well as the allocation of research and development costs to the underwritten life product also contributed to the reduction in margin. The new business margin for the funeral product has increased from negative 1.6% to positive 2.2% due to the repricing that was done over the past year.

Embedded value of covered business *continued*

Sensitivities

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

R'000	Gross value of in-force	Cost of required capital	Net value of in-force	% change
Value of in-force sensitivity analysis at December 2020				
Base	**638 368**	**(16 971)**	**621 397**	
1% increase in the risk discount rate	**609 829**	**(16 881)**	**592 948**	**(4.6%)**
1% decrease in the interest rate environment	**606 793**	**(22 982)**	**583 811**	**(6.0%)**
10% decrease in maintenance expenses	**660 130**	**(15 243)**	**644 887**	**3.8%**
10% decrease in new business acquisition expenses	**638 368**	**(16 971)**	**621 397**	**–**
10% decrease in lapse rates	**644 882**	**(17 951)**	**626 931**	**0.9%**
5% decrease in morbidity and mortality rates	**677 859**	**(15 313)**	**662 546**	**6.6%**
Value of new business sensitivity analysis at December 2020 (12 months)				
Base	**24 059**	**(8 976)**	**15 083**	
1% increase in the risk discount rate	**19 226**	**(9 700)**	**9 526**	**(36.8%)**
1% decrease in the interest rate environment	**30 632**	**(9 125)**	**21 507**	**42.6%**
10% decrease in maintenance expenses	**28 087**	**(8 490)**	**19 597**	**29.9%**
10% decrease in new business acquisition expenses	**41 431**	**(8 976)**	**32 455**	**>100%**
10% decrease in lapse rates	**42 709**	**(7 351)**	**35 358**	**>100%**
5% decrease in morbidity and mortality rates	**27 669**	**(8 687)**	**18 982**	**25.8%**

Economic assumptions

	31 December		30 June
	2020	2019	**2020**
Discounted Mean Term (in years)	**9.53**	10.52	**9.30**
Fixed-interest securities (bond curve – non-bonus ALM)	**10.7%**	10.4%	**11.4%**
Fixed-interest securities (swap curve – bonus ALM)	**7.1%**	8.2%	**7.8%**
Inflation rate	**6.6%**	7.8%	**7.6%**
Risk discount rate	**14.7%**	14.4%	**15.4%**

Glossary

Actuarial Practice Note (APN) 107	The guidance note on embedded value financial disclosures of South African long-term insurers issued by the Actuarial Society of South Africa.
Adjusted net worth (ANW)	Excess value of all assets attributed to covered business but not required to back the liabilities of covered business.
Annualised premium income	Annualised premium value of all new client policies incepted during the period under review. This measure excludes the renewal of existing client policies.
Claims ratio	Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure includes policyholder liability transfers relating to long-term insurance business.
Combined ratio	Net incurred claims (including non-claims bonuses) plus total operating expenses plus profit share distributions divided by net earned premium. This ratio provides a measure of the surplus generated from the Group's insurance activities.
Cost-to-income ratio	Total operating expenses divided by net earned premium. Total operating expenses excludes profit share distributions to FirstRand Limited relating to the Homeowners Cover product.
Cost of required capital	The present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.
Covered business	Business regulated by the FSB as long-term insurance business.
Embedded value (EV) of covered business	The present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business. Consists of: Adjusted net worth, plus Value of in-force covered business, less The cost of required capital.
Free surplus	ANW less the required capital attributed to covered business.
Normalised earnings	Normalised earnings adjustments are applied where the Group believes that certain transactions create a mismatch between the Group's accounting and economic performance. Normalised earnings is therefore considered to most accurately reflect the Group's economic performance.
Normalised ROE	Normalised earnings divided by average normalised ordinary shareholders equity.
Present value of new business premiums	The discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business.
Profitability of new covered business	Ratio of the net value of new business to present value of new business premiums (gross of reinsurance).
Solvency capital requirement (SCR) / Required capital	The amount of regulatory capital required as determined by the local regulatory authorities.
Underwriting results	Net earned premium less net claims loss, management and administrator expenses
Value of in-force covered business (PVIF)	The discounted value of the projected stream of after tax shareholder profits arising from existing in-force covered business.
Value of new business	Present value of the expected after-tax shareholder cash flows less cost of required capital arising at the point of sale in respect of new covered business contracts sold in the reporting period.
Weighted number of ordinary shares	Weighted number of ordinary shares in issue during the reporting period.

You always get
something out.

Company information

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Mr G L Marx, Mr R Pretorius
Mr M Visser (Chief Executive Officer),
Mr R Ndlovu, Ms T Moabi,
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