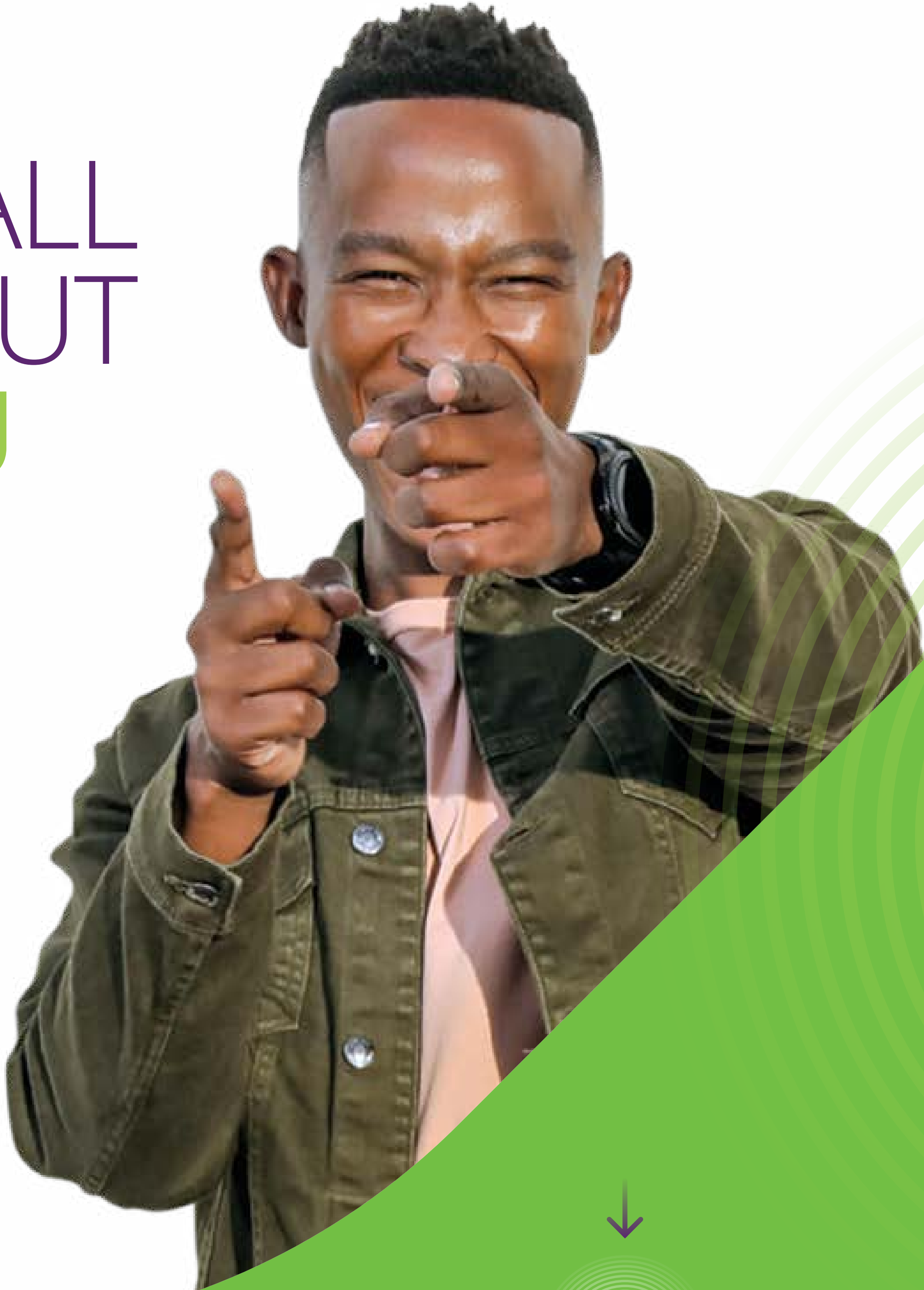
# IT'S ALL ABOUT YOU



OUTSURANCE

Annual report **2019**

# Contents



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*Further information can be found in this report.*

# Who **we are**

## SOUTHERN AFRICA

**4 040** Employees

**55%** Contribution to Group gross written premiums

**89.2%** South African Customer Satisfaction Index (SAcsi)

Contribution to Group normalised earnings **65%**

**OUTSURANCE** – **South African** personal and commercial lines short-term insurer. 100%

**OUTSURANCE Life** – **South African** Life and Funeral insurer. 100%

**OUTSURANCE Namibia** – **Namibian** personal and commercial lines short-term insurer. 49%

**OUTVEST** – **South African** digital investment platform. 100%

INSURANCE = CAR • HOME • BUSINESS • LIFE

INVESTMENT

## AUSTRALASIA

**1 371** Employees

**45%** Contribution to Group gross written premiums

**85.8%** Australasian Customer Satisfaction Index (ACSI)

Contribution to Group normalised earnings **25%**

**youi AUSTRALIA** – **Australian** personal lines short-term insurer. 84.5%

**youi NEW ZEALAND** – **New Zealand** personal lines short-term insurer. 84.5%

INSURANCE = CAR • HOME

## UNITED KINGDOM

Contribution to Group normalised earnings **10%**

**Hastings** – The Group acquired a 14.7% indirect stake in **Hastings Group Holdings plc** in 2017.

Hastings is a fast growing digital insurer operating in the United Kingdom with a unique digitally enabled business model. Hastings provides personal lines insurance cover through direct and price comparison website channels.

14.7%

*Further information can be found on our website.*

# Our **transformation vision**

To be a proud, representative and responsible South African organisation

## Our **people**

As an employer, we ensure equal opportunities in an inclusive and diverse work environment.

## Our **customers**

As a financial service provider and industry leader we provide:

- Value for money products
- Leading service quality
- Accessible products and distribution channels
- Consumer education
- Fair customer treatment

## Our **suppliers**

As a user of services, we provide an inclusive and diverse supplier base with whom we have fair, consistent and transparent relationships with.

## Our **communities**

As a member of the community, we strive to invest in impactful projects for the betterment of our South African society.

# OUR VALUES

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

# How **we performed in 2019**

NORMALISED EARNINGS
R2 634 million
DOWN BY 12.5%

ANNUALISED NEW PREMIUM WRITTEN
R3 893 million
UP BY 27.5%

GROSS WRITTEN PREMIUM
R16 135 million
UP BY 7.4%

DILUTED NORMALISED EARNINGS PER SHARE
68.6 cents
DOWN BY 10.5%

ORDINARY DIVIDEND PER SHARE
55.5 cents
UP BY 3.7%

SPECIAL DIVIDEND PER SHARE
12.0 cents

25.5%
NORMALISED ROE

OUTBONUS PAYMENTS IN 2019
R415 million

ENTERPRISE AND SUPPLIER DEVELOPMENT 2018 – 2022
R80 million
COMMITTED FUNDS

TOTAL NUMBER OF JOBS CREATED IN SOUTH AFRICA AND AUSTRALIA
1069

BEE LEVEL
Level 4

TOTAL SOUTH AFRICAN ACI %
71%

# Our awards

## OUTsurance awards


2018 Pretoria Readers Choice Award


2019 Beeld Award


Ask Afrika Certificate


Thomas Reuters Embracing Technology Award


Thomas Reuters Innovation Award

## Youi awards


2018 Austrial HR Awards – Recognition Program


2018 Austrial HR Awards – Technology Strategy


2018 Product Review Award


2019 Canstar Award


2019 Mozo Claims Experience

# Executive **review**

The highlight of the 2019 financial year has been the improvement in the growth profile of the Group's major operations. Gross written premiums grew by 7.4% compared to 0.8% of the prior financial year. Youi Australia delivered a notable improvement, returning to positive growth and delivering 5.3% premium growth in dollar terms.

The Group achieved a normalised earnings result of R2.63 billion for the year which is 12.5% lower than the prior year. The lower normalised earnings result is attributed to higher claims and cost ratios across the Group, coupled with a lower earnings contribution from our investment in Hastings.

In the 2018 annual report, we cautioned that the claims ratios achieved by OUTsurance and Youi were unsustainably low and that we expected these ratios to normalise. The Group's claims ratio increased to 51.1% for the year under review. The OUTsurance claims ratio increased towards the management target range and was driven by specific pricing actions and higher natural perils claims. In 2018, Youi experienced unusually low natural perils claims. This trend reversed in 2019 with notably higher weather related claims. Notwithstanding these losses, our reinsurance programme which allows for significant lateral cover, played a valuable role to contain losses to within appetite. The impact of the weather related claims is further elaborated on in the Financial Review section of this report.

During 2019, the management team made significant investments in marketing and acquisition capability to drive profitable top line growth and build the necessary capacity to support the face-to-face distribution strategy of OUTsurance Business. As a result, annualised new business premium written increased by a strong 27.5% with acquisition costs increasing by 27.9%. We monitor the success of our marketing efforts closely and respond to opportunities to write new business and dial back efforts where the marginal benefit of increased spending is diluted. Although acquisition costs increased materially, our expenditure when considered as a percentage of new business was reasonably stable and within our profitability targets. Over the last two financial years, significant investments have been made to bolster our data analytics, information technology and risk and compliance capacity. These investments are necessitated by the changing regulatory, technology and competitive landscape. The Group's overall cost-to-income ratio increased to 28.3% as a result of the increased acquisition and support costs across the Group.

Another highlight of 2019 was the success achieved in expanding our tied-agent capacity for OUTsurance Business. The expansion of this distribution channel is a large investment and our major growth and diversification strategy in South Africa. During 2019 the size of the tied-agency force more than doubled. Our agents, armed with our unique brand promise, are well received by business clients. Although early results are encouraging, the creation of a tied-agency force is capital intensive and a multi-year investment. We will continue with the expansion project in the medium-term with investment likely to peak over the next two financial years.

We are proud of every job opportunity created in the Group as South Africa continues to suffer from unsustainably high unemployment rates and the Australian economy experiences growth challenges. During the 2019 financial year, our Group created 1 069 new job opportunities enabled by our organic growth and collaborative efforts across the Group. Our call centre collaboration with Hastings Direct is delivering an excellent customer service outcome to their customers.

## **Executive review** *continued*

We continue to experience declining motor claims frequencies in both South Africa and Australia. In South Africa this trend is more pronounced due to the economic conditions where less kilometres are driven and ride sharing has provided a tangible alternative to driving. The other factor at play is the continuous enhancement in vehicle safety technology which we expect will be an ongoing trend. These factors have contributed to the low premium inflation experienced in recent years. Changes in vehicle technology and driving behaviour, illustrate the importance of diversifying our insurance portfolio to achieve larger shares of the commercial and life insurance markets, as well as enter other non-motor classes of insurance. We also anticipate that home insurance will be subject to higher inflationary trends in future due to the change in weather patterns and more technology being embedded in the average household. The quality of the OUTsurance and Youi home insurance offering is a strategic focus area to enable market share growth in this segment.

When it comes to service quality, we never rest on our laurels and continue to drive improvement in all our processes and products to be better tomorrow than we were today. A particular focus point in the near-term is to evaluate all our claims processes to remove friction and minimise customer complaint levels. We will do this in partnership with our large network of service providers.

Our relentless focus on awesome service and fair claims outcomes is again evidenced by our low ombudsman complaints and overturned rates when compared to our peers. We are very proud of this outcome and aim to do better every year.

The life insurance market segment tends to be more exposed to the impact of recessionary economic conditions due to the discretionary nature of this product. These conditions have impacted on the recent growth profile of OUTsurance Life. In the year under review, we entered the funeral insurance market, which is the largest life insurance market segment in South Africa. Our entry approach has been measured to ensure the optimal distribution strategy is adopted.

The direct market for life insurance and savings products enjoys a small share of the available market. To access a bigger opportunity for OUTsurance Life and OUTvest, we will adopt an omni-channel approach and introduce face-to-face distribution capability over time.

When it comes to distribution of our short-term and long-term insurance products across the Group, we believe that in future customers will be best served by an omni-channel service model where customers have the freedom to choose between call centre, face-to-face or digital interaction. Our medium-term strategic efforts are aimed at enabling leading omni-channel distribution and service capabilities across the Group.

The motor insurance market in the United Kingdom has experienced difficult trading conditions over the last two years evidenced by low premium inflation and increasing claims costs. This has negatively impacted the earnings position of Hastings as insurance margins have contracted and premium growth slowed as management maintained disciplined pricing. With its leading capabilities in the price comparison website channel, Hastings remains well positioned for growth. In the near-term, the uncertainties concerning Brexit and regulatory reform will continue to weigh on the motor insurance sector.

Economic conditions in the South African market are expected to remain challenging in the medium-term as a result of the recessionary climate and the constrained fiscal position of Government. Our focus on maintaining pricing discipline and incrementally improving our operations remains our best defence during market cyclicality. We believe delivering a wider insurance product range coupled with an omni-channel distribution capability will result in continuous profitable growth.

We would like to thank our 5 411 colleagues at OUTsurance and Youi for their dedicated and invaluable contribution to disrupt the industries we operate in, providing our customers with simplified and high quality outcomes and proudly serving all our stakeholders.

**Marthinus Visser**
Chief Executive Officer

**Laurie Dippenaar**
Chairman

23 August 2019

# Our strategy

| | OUTsurance | | | Youi | | |
|---|---|---|---|---|---|---|
| **Product strategy** | Expand the the short-term insurance offering to participate in a wider product segment of the personal lines market. | Revitalise the OUTsurance Life product proposition to access a broader market segement. | Expand the OUTvest product range to include retirement products. | Improved focus on Youi's home insurance product | Explore new product opportunities to enable growth and diversify Youi's earnings | Continue to strengthen the YouiRewards proposition as a key differentiator. |
| **Distribution channel** | Continued expansion of the tied-agency capacity to distribute the OUTsurance Business products. | Develop a face-to-face distribution capability for the distribution of life and investment products. | | Consider alternative distribution channels as part of new product exploration. | | |

**Our people**

Provide sustainable work opportunities within a business culture which promotes fairness, diversity and inclusion.

**Our customers**

Be the leader in awesome customer service and claims outcomes in the markets we serve.

Continue to expand on the self-service capabilities offered through our digital channels.

Targeted focus to minimise customer complaints across all claims processes.

**Our suppliers**

Partner with our supplier network to ensure the best customer service outcomes.

Enable more diverse and broader access to our procurement spend by empowering and developing small businesses through our transformation initiative.

Seek increased transformation spend through our KWANDE supplier development programme.

**Our technology**

Continue to invest in the redevelopment of our core insurance systems to enable a more flexible, cost-efficient and modern long-term technology infrastructure.

**Our communities**

Invest in impactful projects to contribute positively to the societies we serve.

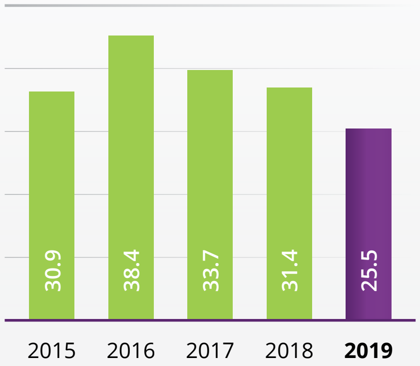
**Our shareholders**

Deliver sustainable and capital efficient financial returns commensurate with the markets in which we operate.

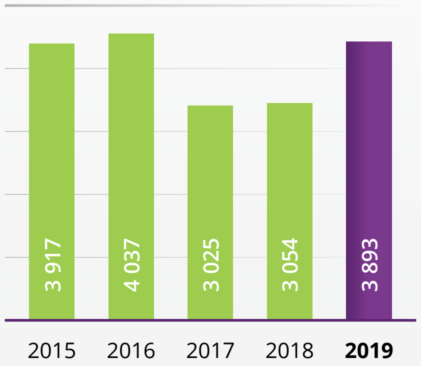
# Financial **review**

## Group key performance indicators

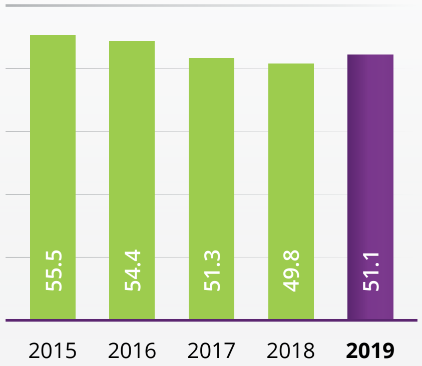
**Normalised ROE** (%)



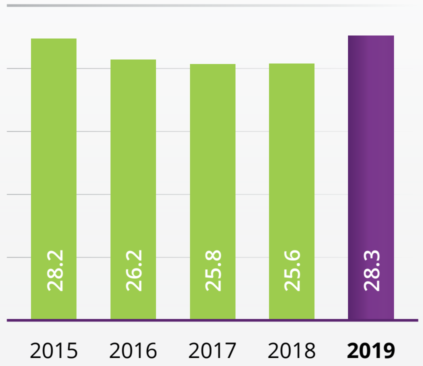

**Annualised new business premium written** (R'million)




**Claims ratio** (%)




**Cost-to-income ratio** (%)




## ROE

The Group achieved a normalised ROE of 25.5% for the financial year ended 30 June 2019. The lower ROE is associated with the decrease in Group profitability overlaid with the surplus capital position of the Group. The Group targets a ROE of between 25% and 35% which is the primary indicator of shareholder value creation. The special dividend distributions in 2018 and 2019 is aimed at reducing the surplus capital position. The special dividend distributions are elaborated on in the dividend section of this report.

## New policy inceptions

(measured in terms of annualised premiums)

The Group experienced strong new business growth in 2019 with annualised new business premium increasing by 27.5%. This growth rate is attributed to large investments in marketing and sales capacity at both OUTsurance and Youi.

## Claims ratio

The claims ratio is the primary operational measure to evaluate the financial performance of the Group's various short-term insurance operations. For the year under review, the Group achieved a claims ratio of 51.1%. Despite the impact of higher natural perils claims, the claims ratio continued to benefit from lower motor accident frequencies experienced in South Africa and Australia.

In the prior year, the natural perils claims experienced by Youi Australia was unusually low. This compares to 2019 where various large natural catastrophes impacted the claims ratio. Youi procures significant lateral natural catastrophe reinsurance cover which limited the impact of natural claims in 2019. Before taking into account the mitigating effect of reinsurance, Youi's gross claims ratio was 10% higher as a result of the higher natural peril claims.

## Cost-to-income ratio

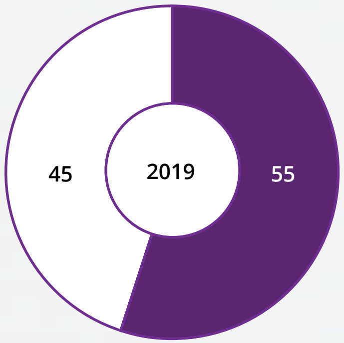
The cost-to-income ratio is a key measure of the Group's operational efficiency. The largest contributors to the Group's cost base are acquisition and call centre related costs. We deem acquisition costs as largely discretionary with spend varying based on the opportunity and cost of writing new business during insurance cycles. Over the last year, the Group increased acquisition costs by 27.9% which includes the extension of the Business OUTsurance tied-agency force. This increase in acquisition costs compares favourably to a 27.5% increase in the value of annualised new business premium written.

The level of premium inflation experienced in both the South African and Australasian operations lagged general inflation. This is attributed to enhancements in our pricing practices related to renewals, a focus on pricing for customer lifetime value and the impact of lower claims frequencies. Premium inflation has started to recover from the lows experienced in the first half of the 2019 financial year. The low level of premium inflation contributed to the negative cost jaws.

The Group's cost-to-income ratio increased from 25.6% to 28.3%. The Group's expenditure on strategic research and development as well as new business ventures increased in 2019. Excluding these items, the cost to income ratio for the insurance operations increased from 25.2% to 27.8%.

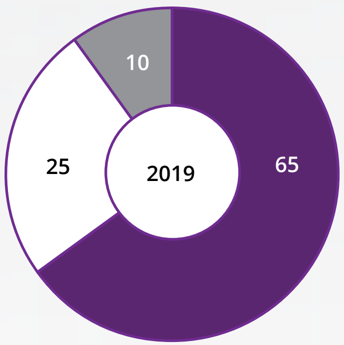
# Group key performance indicators *continued*

## Diversification of premium revenue and earnings




**Gross written premium** (%)

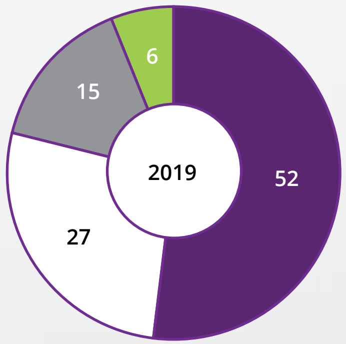
| | |
|---|---|
| Southern Africa | 55 (2018: 56) |
| Australasia | 45 (2018: 44) |




**Normalised earnings** (%)

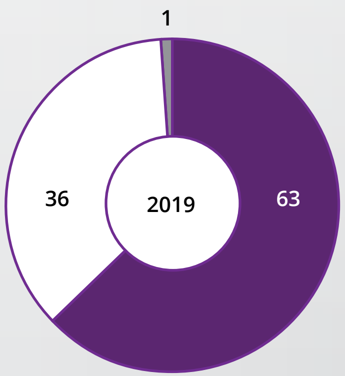
| | |
|---|---|
| Southern Africa | 65 (2018: 61) |
| Australasia | 25 (2018: 27) |
| United Kingdom | 10 (2018: 12) |

## Diversification of premium revenue by product




**South Africa** (%)

| | |
|---|---|
| Personal – motor | 52 (2018: 52) |
| Personal – property | 27 (2018: 28) |
| Commercial | 15 (2018: 14) |
| Life | 6 (2018: 6) |




**Australasia** (%)

| | |
|---|---|
| Personal – motor | 63 (2018: 62) |
| Personal – property | 36 (2018: 37) |
| Commercial | 1 (2018: 1) |

# Overview of results

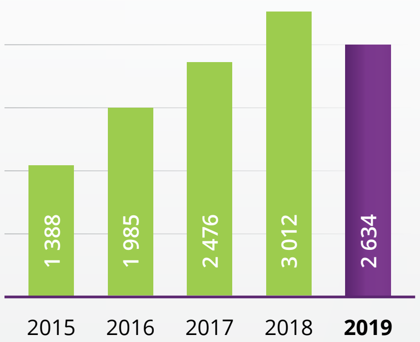
The primary results and accompanying commentary are presented on a normalised basis which most appropriately reflects the economic performance of the Group and its operating units. Normalised earnings are specifically adjusted for non-operating items related to the Group's indirect investment in Hastings Group Holdings plc.

*These adjustments are disclosed in the earnings reconciliation on page 20.*

The Group's operating profit declined by 9.6% for the year under review. This decline is explained by the higher natural perils losses experienced by Youi, the investment in marketing and sales capacity across the Group and the large investment to expand OUTsurance's commercial insurance tied-agency force.

Normalised earnings decreased by 12.5% to R2 634 million where a reduced earnings contribution from Hastings also contributed to lower earnings. The comparative result benefitted from abnormally low natural perils claims and an unsustainably low OUTsurance claims ratio. The Group's five-year compound annual growth rate in diluted normalised earnings per share is 15.3%.

**Normalised earnings** (R'million)




# Group key financial ratios

The key financial outcomes of the Group are presented below:

| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Gross written premium | **16 135** | 15 027 | 7.4% |
| Net earned premium | **15 063** | 14 174 | 6.3% |
| Operating profit from insurance operations | **3 199** | 3 538 | (9.6%) |
| Normalised earnings | **2 634** | 3 012 | (12.5%) |
| Normalised ROE (%)[1] | **25.5%** | 31.4% | |
| Normalised earnings per share (cents) | **70.2** | 80.1 | (12.4%) |
| Diluted normalised earnings per share (cents) | **68.6** | 76.7 | (10.6%) |
| Dividend declared per share (cents) | **55.5** | 53.5 | 3.7% |
| Special dividend per share (cents) | **12.0** | 7.0 | |
| Claims ratio (including non-claims bonuses) (%) | **51.1%** | 49.8% | |
| Cost-to-income ratio (%) | **28.3%** | 25.6% | |
| Combined ratio[2] (%) | **80.9%** | 77.3% | |

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

# Sources of operating profit and normalised earnings

The various operating entities contributed to the Group as follows:

| | Operating profit | | | Normalised earnings | | |
|---|---|---|---|---|---|---|
| R'million | 2019 | 2018 | % change | 2019 | 2018 | % change |
| OUTsurance | **2 127** | 2 365 | (10.1%) | **1 812** | 1 909 | (5.1%) |
| OUTsurance Life | **68** | 32 | >100% | **80** | 53 | 52.5% |
| Youi Group | **1 004** | 1 141 | (12.0%) | **673** | 803 | (16.3%) |
| Youi Australia | **992** | 1 096 | (9.5%) | **686** | 696 | (1.4%) |
| Youi New Zealand | **12** | 7 | 71.4% | **23** | 104 | (77.9%) |
| Central funding costs | **–** | – | – | **(64)** | (61) | (5.1%) |
| Consolidation and restatements | **–** | 38 | >(100%) | **29** | 64 | – |
| **Total from insurance operations** | **3 199** | 3 538 | (9.6%) | **2 564** | 2 765 | (7.3%) |
| Central and new business development[1] | **(26)** | (21) | (23.8%) | **(167)** | (138) | (21.1%) |
| Earnings from associates | **237** | 385 | (38.4%) | **237** | 385 | (38.4%) |
| **Total Group** | **3 409** | 3 902 | (12.6%) | **2 634** | 3 012 | (12.5%) |

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

# Business unit performance

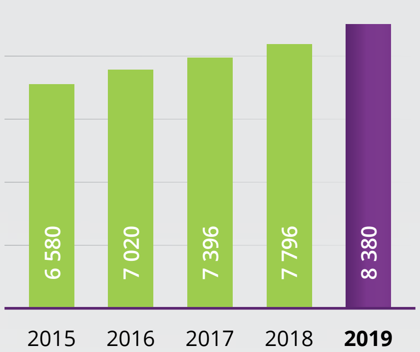
## OUTsurance

OUTsurance consists of two operating units, OUTsurance Personal and OUTsurance Business. OUTsurance Personal incorporates the OUTsurance Homeowners operation which is a collaboration with FirstRand Bank Limited.

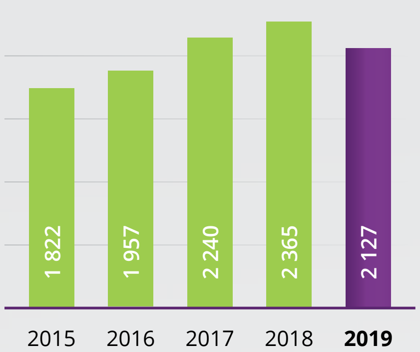
OUTsurance Business is the major strategic growth area in the South African business. A significant investment is underway to expand the size of the tied-agency force to enable face-to-face distribution of the business insurance product suite. This investment explains Business OUTsurance's lower operating profit contribution in 2019.

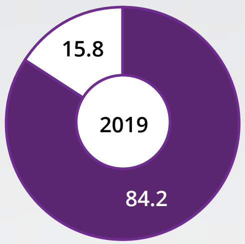
These business units contribute to OUTsurance's gross written premium and operating profit as follows:

**Gross written premium** (%)



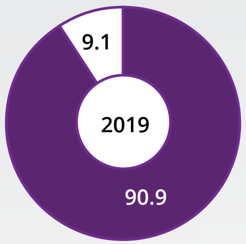

**Operating profit** (R'million)




**Contribution to gross written premium** (%)

| | |
|---|---|
| ● OUTsurance Personal | 84.2 (2018: 85.0) |
| ○ OUTsurance Business | 15.8 (2018: 15.0) |




**Contribution to operating profit** (%)

| | |
|---|---|
| ● OUTsurance Personal | 90.9 (2018: 88.9) |
| ○ OUTsurance Business | 9.1 (2018: 11.1) |

### Overview of OUTsurance results

OUTsurance delivered a pleasing operational and financial performance considering the investments made in new business growth and the strategic expansion of OUTsurance Business. Total operating profit was lower by 10.1% to R2 127 million and headline earnings decreased by 5.1% to R1 812 million.

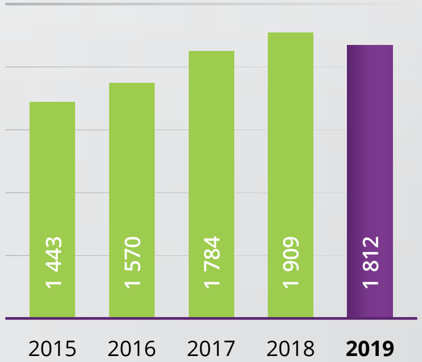
OUTsurance delivered its strongest gross written premium growth since 2015 driven by additional investment in marketing and the expansion of the tied-agency force. The increase in the cost-to-income ratio is reflective of this investment.

### OUTsurance – key performance indicators

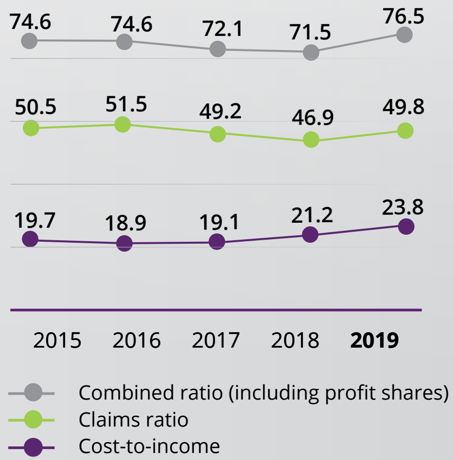
| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Gross written premium | **8 380** | 7 796 | 7.5% |
| Net earned premium | **8 242** | 7 626 | 8.1% |
| Operating profit | **2 127** | 2 365 | (10.1%) |
| Headline earnings | **1 812** | 1 909 | (5.1%) |
| Claims ratio (including bonuses) (%) | **49.8%** | 46.9% | |
| Accident year claims ratio (%) | **51.2%** | 49.0% | |
| Prior year development (%) | **(1.4%)** | (2.1%) | |
| Cost-to-income ratio (%) | **23.8%** | 21.1% | |
| Combined ratio (%)[1] | **76.5%** | 71.5% | |

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

**Headline earnings** (R'million)




**Key ratios** (%)



## Business unit performance *continued*

### OUTsurance Personal – key performance indicators

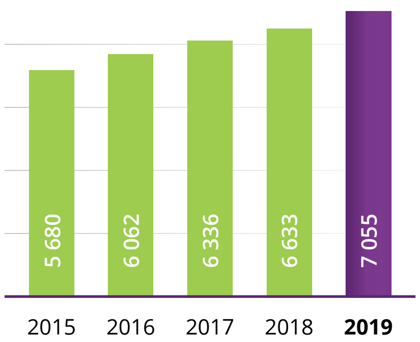
| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Gross written premium | **7 055** | 6 633 | 6.4% |
| Net earned premium | **6 941** | 6 498 | 6.8% |
| Operating profit | **1 970** | 2 140 | (7.9%) |
| Claims ratio (including bonuses) (%) | **49.3%** | 46.2% | |
| Cost-to-income ratio (%) | **21.4%** | 19.6% | |
| Combined ratio (%)[1] | **74.1%** | 69.8% | |

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

OUTsurance Personal delivered 6.4% growth in gross written premium driven by increased marketing spend. Excluding the FirstRand Homeowners arrangement, gross written premium grew by 7.1%, driven by annualised new business premium written growth of 22%.

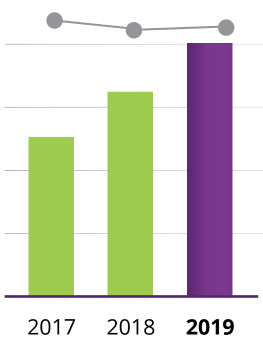
Premium inflation, especially on the motor book, remained well below general inflation for the year under review. This outcome is as a result of lower accident claims frequency which can be attributed to the economic conditions, improvements in motor safety and the impact of ride sharing. The growth achieved is therefore mostly explained by volume expansion.

**OUTsurance Personal – gross written premium** (R'million)



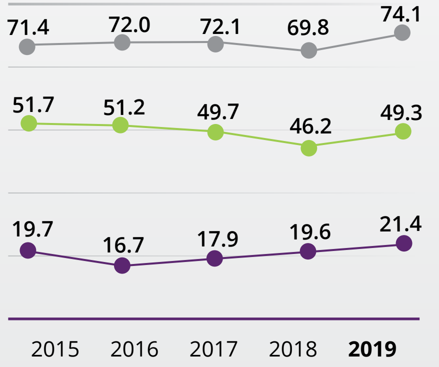

The graph below shows the relationship between the new business acquisition cost and the annualised new business premium written.

**OUTsurance Personal – new business acquisition**



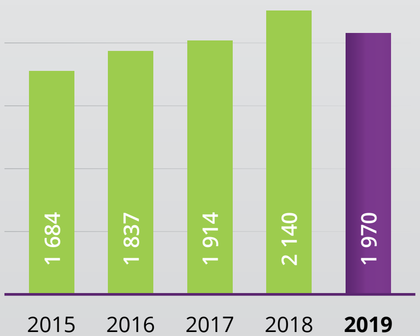

The cost-to-income ratio increased from 19.6% to 21.4%. This increase is largely attributed to a material increase in marketing and sales related costs. The claims ratio increased from an unsustainably low 46.2% in the prior year to 49.3% as a result of pricing strategies aimed at achieving a claims ratio in line with management targets. OUTsurance Personal also incurred more natural perils claims in 2019 which contributed to the higher result.

**OUTsurance Personal – key ratios** (%)




OUTsurance Personal generated an operating profit of R1 970 million which is 7.9% lower than 2018.

**OUTsurance Personal – operating profit** (R'million)



## Business unit performance *continued*

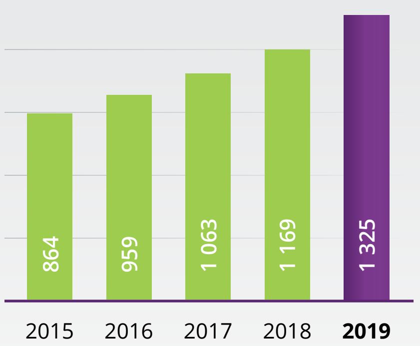
### OUTsurance Business – key performance indicators

| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Gross written premium | **1 325** | 1 169 | 13.3% |
| Net earned premium | **1 301** | 1 135 | 14.6% |
| Operating profit | **197** | 267 | (26.2%) |
| Claims ratio (including bonuses) (%) | **52.5%** | 51.7% | |
| Cost-to-income ratio (%) | **33.8%** | 26.1% | |
| Combined ratio (%)[1] | **86.3%** | 77.7% | |

OUTsurance Business is undergoing significant investment to increase the capacity of the tied-agency force as a core distribution channel for commercial insurance products. During the course of 2019, the size of the tied-agency force more than doubled. As a result of this investment, operating profit declined by 26.2% to R197 million.

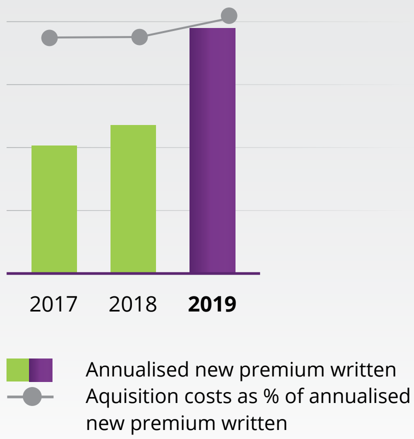
OUTsurance Business grew gross written premium by 13.3% with new business premium written increasing by 71.3%.

**OUTsurance Business – gross written premium** (R'million)



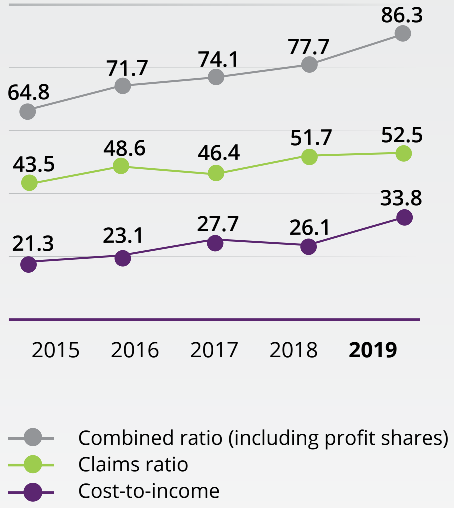

The graph below shows the relationship between the new business acquisition cost and the annualised new business premium written.

**OUTsurance Business – new business acquisition**




The claims ratio of OUTsurance Business increased from 51.7% to 52.5%. The upward trend in the claims ratio is explained by the new business strain associated with the rapid expansion of OUTsurance Business. The increase in the cost-to-income ratio from 26.1% to 33.8% reflects the large investment made in the expansion of the tied-agency force. The tied-agents represent a net cost to the business until such time that full productivity is reached where commission income replaces company funded remuneration. This cost-to-income ratio is expected to show further deterioration as this sales force continues to expand in the near term.

**OUTsurance Business – key ratios** (%)



## Business unit performance *continued*

## Youi – Australia

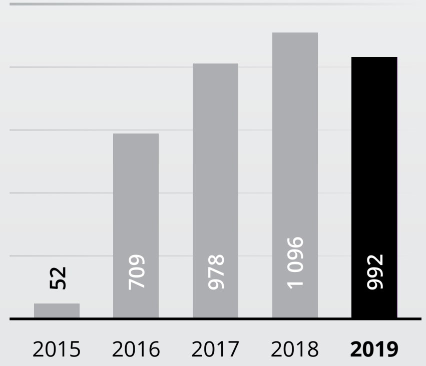
Despite the impact of multiple natural catastrophe events and increased investment to drive new business, Youi Australia delivered satisfactory profitability for the 2019 financial year. Operating profit and earnings are lower by 9.5% and 1.4% respectively. The business delivered a combined ratio of 85.8%.

Youi Australia's gross written premiums grew by 7.4% in Rand terms and by 5.3% in Australian dollars. This growth rate represents a significant improvement on the negative outcome of the 2018 financial year. Annualised new business premium written increased by 20.1% on the back of increased marketing and sales related expenditure. The level of premium inflation recorded in the core motor book trailed general inflation due to improvements in pricing sophistication which contained average premium adjustments.

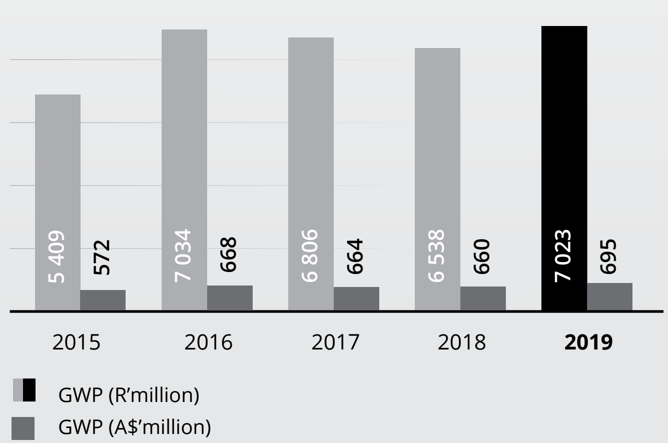
The accident year claims ratio of 56.1% was unchanged from the prior year. The impact of the multiple natural catastrophes in 2019 was offset by lower attritional claims and by the impact of the conservative natural perils reinsurance strategy. Before taking into account reinsurance recoveries, Youi's gross claims ratio was 10% higher as a result of the increased natural perils claims.

The cost-to-income ratio increased from 30.2% to 31.8% driven by higher marketing and sales expenditure coupled with increased spend on information technology and compliance capacity. Youi Australia will continue to invest in new business expansion strategies which are likely to increase the cost-to-income ratio in the near-term.

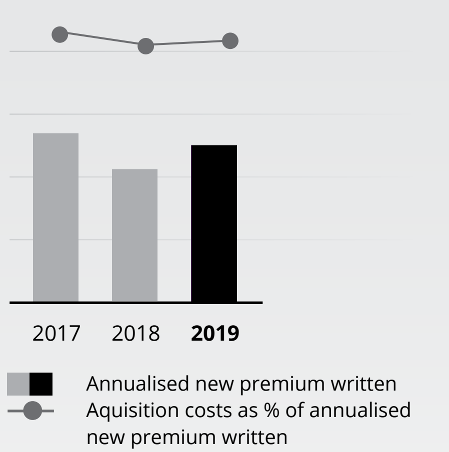
**Youi Australia –**
**Operating profit** (R'million)



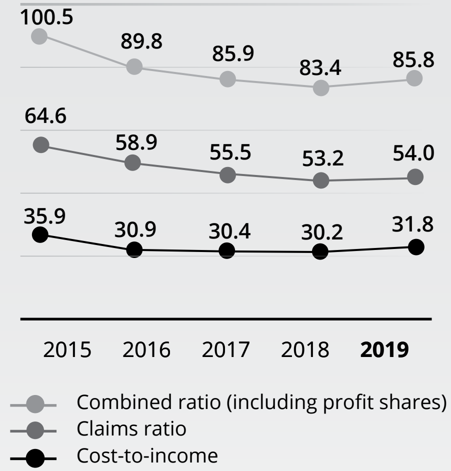

**Youi Australia – gross written premium**




**Youi Australia – new business acquisition**




**Youi Australia – key ratios** (%)



## Business unit performance *continued*

### Youi Australia – key performance indicators

| | 2019 | 2018 | % change |
|---|---|---|---|
| **Rand (R'million)** | | | |
| Gross written premium | **7 023** | 6 538 | 7.4% |
| Net earned premium | **6 309** | 6 061 | 4.1% |
| Operating profit | **992** | 1 096 | (9.5%) |
| Headline earnings | **686** | 696 | (1.4%) |
| **Australian Dollars ($'million)** | | | |
| Gross written premium | **695** | 660 | 5.3% |
| Net earned premium | **624** | 612 | 2.0% |
| Operating profit | **98** | 110 | (10.9%) |
| Headline earnings | **68** | 70 | (2.9%) |
| **Ratios** | | | |
| Claims ratio (%) | **54.0%** | 53.2% | |
| Accident year claims ratio (%) | **56.1%** | 56.1% | |
| Prior year development (%) | **(2.1%)** | (2.9%) | |
| Cost-to-income ratio (%) | **31.8%** | 30.2% | |
| Combined ratio (%) | **85.8%** | 83.4% | |
| **Exchange rates (AUD/ZAR)** | | | |
| – Closing | **9.88** | 10.15 | (2.6%) |
| – Average | **10.11** | 9.90 | 2.1% |

## Youi – New Zealand

Youi New Zealand's operational and financial performance was in line with expectations. For the year under review, Youi New Zealand grew gross written premium by 1.8% in Rand terms. Operating profit increased by 78% to R12 million.

## OUTsurance Life

OUTsurance Life delivered an improved financial performance for the financial year ending 30 June 2019. Operating profit more than doubled, benefitting from the positive impact of interest rate movements. Headline earnings increased by 50.9% to R80 million.

New business costs increased as a result of the establishment of a funeral insurance product during the year under review. Gross written premiums grew by 7.2%.

The embedded value increased by 39.3% to R1 140 million which is attributed to policy growth coupled with a lower cost of capital. The reduction in the cost of capital is associated with a review of the target capital range and the establishment of a new asset-liability matching framework related to the interest rate risk contained in the policyholder liability.

The key performance indicators of OUTsurance Life are presented below:

| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Gross written premium | **503** | 469 | 7.2% |
| Operating profit | **68** | 32 | >100% |
| Headline earnings | **80** | 53 | 50.9% |
| Embedded value | **1 140** | 818 | 39.3% |

The embedded value of OUTsurance Life is further analysed on page 63.

## OUTsurance Namibia

OUTsurance Namibia's headline earnings decreased by 26.8% to R30 million. This negative performance is largely driven by lower premium income and a significantly higher cost-to-income ratio. Trading conditions in Namibia remained difficult as recessionary economic conditions negatively impact the insurance market. The higher cost-to-income ratio is attributed to the lower premium income and the impact of regulatory and taxation changes on the cost base.

| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Gross written premium | **178** | 190 | (6.3%) |
| Net earned premium | **167** | 187 | (10.7%) |
| Headline earnings | **30** | 41 | (26.8%) |
| Claims ratio (%) | **51.1%** | 49.7% | |

Business unit performance *continued*

## Earnings from associates

The Group owns an indirect interest of 14.7% in Hastings Group Holdings plc (Hastings). This interest is held through a 49% interest in Main Street 1353 (Main Street). The balance of Main Street is owned by our parent company. The Group holds minority interests in CoreShares and AutoGuru, two start-up businesses which are complimentary to the Group's operations.

As a result of difficult trading conditions in the UK motor insurance market, coupled with the impact of the Ogden rate review, the earnings contribution from Hastings has declined by 35.7% to R214 million. More information related to the Hastings performance can be found at www.hastingsplc.com.

The following table sets out the normalised earnings from associates:

| R'million | 2019 | 2018 | % change |
|---|---|---|---|
| Main Street (49%) | **164** | 293 | (44.0%) |
| Share of Hastings earnings (14.7%) | **211** | 333 | (36.6%) |
| Interest on debt funding | **(45)** | (43) | (4.6%) |
| Other Main Street | **(2)** | 3 | >(100%) |
| OUTsurance Namibia and other | **(7)** | 12 | >(100%) |
| **IFRS equity accounted earnings** | **157** | 305 | (38.4%) |
| Normalised adjustments relating to Hastings[1] | **79** | 79 | |
| **Total normalised earnings from associate** | **236** | 384 | |
| GBP / ZAR average exchange rate | **18.25** | 17.30 | 5.5% |

*1 Refer to page 20 for the normalised earnings adjustments.*

During the course of the year, the Group impaired the carrying amount of the investment in Main Street. This write down was prompted by a review following the material reduction in the listed share price of Hastings since the Group acquired its interest in June 2017.

At acquisition, the share price was trading at levels in excess of 300p. When the Group acquired the 49% interest in Main Street, the initial take-on value was marked to market to reflect the significant appreciation in the share price of Hastings from 248p to 312p between the date on which the purchase agreement was reached to acquire the interest and the effective date of the transaction. This movement resulted in a derivative gain of R750 million being capitalised to the carrying value of the investment in Main Street. This accounting treatment resulted in the initial carrying value being recognised significantly above the actual acquisition cost of the investment.

When measured against the current market capitalisation of Hastings, the carrying value of the investment should be considered for impairment. IAS 28 considers a significant or prolonged reduction in the market value of an associate as an indication of impairment resulting in an impairment test being performed. This impairment test resulted in a R450 million reduction in the carrying value of the investment in Main Street. The carrying value reflects management's assessment of the value-in-use. This impairment is ignored for the purposes of calculating headline and normalised earnings. The original derivative gain was also excluded from the 2017 normalised earnings result.

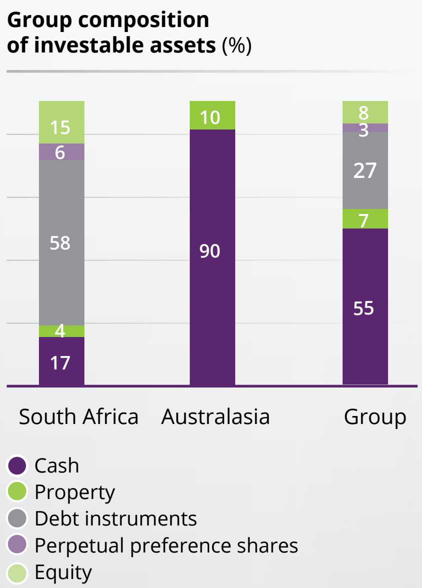
# Balance sheet management

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

The interest rate risk embedded in the policyholder liability of the life insurance operation is largely hedged through an interest rate derivative structure. This approach reduces earnings volatility, minimises interest rate risk and reduces regulatory capital.

## Composition of investable assets

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




## Balance sheet management *continued*

### Capital position

At 30 June 2019, the Group and its regulated subsidiaries and associates traded from strong capital positions as summarised in the table below. The Solvency Coverage Ratios for the Group and South African regulated entities are presented based on the Financial Insurance Standards (formerly referred to as the Solvency Assessment and Management framework). The ratios for the Youi Group and OUTsurance Namibia are based on the local prudential regulatory requirements.

The Youi Group is reducing a large proportion of the tier two capital which supported the business during its strong growth phase. The release of this capital coupled with a reduction in the strategic capital buffer held on the OUTsurance balance sheet supports the payment of a special dividend as detailed below. This special dividend will reduce the surplus capital position of the Group.

The table below shows the solvency coverage ratios of the Group and its regulated entities at 30 June 2019. These ratios are before the payment of final and special dividends.

| Solvency coverage ratio | 2019 | 2018 | Target |
|---|---|---|---|
| **Group** | **2.4** | 2.4 | 1.4 |
| **Short-term insurance** | | | |
| OUTsurance | **2.3** | 2.5 | 1.25 |
| OUTsurance Namibia | **2.1** | 2.5 | 1.20 |
| Youi Group | **4.5** | 4.3 | 2.00 |
| **Long-term insurance** | | | |
| OUTsurance Life | **3.2** | 2.8 | 1.30 – 1.70 |

### Dividends

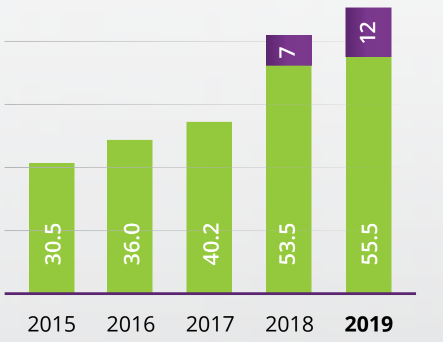
The Group declared a final dividend of 30.8 cents per ordinary share resulting in a full year ordinary dividend per share of 55.5 cents, 3.7% higher than the 2018 dividend.

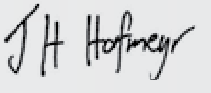
The increase in the dividend is supported by a higher dividend received from the Hastings investment, a dividend distribution from OUTsurance Life and a reduced effective number of shares in issue.

In addition to the ordinary dividend, the Group declared a special dividend of 12 cents per ordinary share. The special dividend is supported by the capital considerations as outlined above.

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

**Dividend history** (cents per share)



**Jan Hofmeyr**
Group Chief Financial Officer
23 August 2019

# 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.

| R'million | 2019 | 2018 | % change | 2017 |
|---|---|---|---|---|
| IFRS profit attributable to equity holders | **2 182** | 2 964 | (26.4%) | 3 253 |
| Non-controlling interest | **(82)** | (56) | (46.4%) | (40) |
| **IFRS earnings attributable to ordinary shareholders** | **2 100** | 2 908 | (27.8%) | 3 212 |
| *Adjusted for:* | | | | |
| Impairment of available-for-sale reserve | **–** | 23 | | 13 |
| Impairment of investment in associate[1] | **450** | – | | – |
| Loss on disposal of property and equipment | **7** | 6 | | 1 |
| Tax effect of headline earnings adjustments | **(2)** | (4) | | (3) |
| **Headline earnings** | **2 555** | 2 933 | (13.0%) | 3 223 |
| *Adjusted for:* | | | | |
| Add back of gain on derivative related to Main Street acquisition[1] | **–** | – | | (750) |
| Amortisation of intangible assets related to Main Street[2] | **79** | 79 | | 3 |
| **Normalised earnings** | **2 634** | 3 012 | (12.5%) | 2 476 |
| Normalised earnings per share (cents)[3] | **70.2** | 80.1 | | 65.8 |
| Diluted nornalised earnings per share (cents)[4] | **68.6** | 76.7 | | 63.3 |

*1 When the Group acquired the 49% interest in Main Street (which owns 30% of Hastings Group Holdings plc) in 2017, the initial take-on value was marked to market to reflect the significant appreciation in the share price of Hastings from 248p to 312p between the date on which the purchase agreement was reached to acquire the interest and the effective date. This movement resulted in a derivative gain of R750 million being capitalised to the carrying value of the investment in Main Street. This accounting treatment resulted in the initial carrying value being recognised significantly above the actual acquisition cost of the investment. When measured against the current market capitalisation of Hastings, the carrying value of the investment should be considered for impairment. IAS 28 considers a significant or prolonged reduction in the market value of an associate as an indication of impairment resulting in an impairment test being performed. This impairment test resulted in a R450 million reduction in the carrying value of the investment in Main Street. The carrying value reflects management's assessment of the value-in-use.*

*2 For the current and comparative periods, normalised earnings is specifically adjusted for the amortisation of the intangible assets associated with the acquisition of the Group's indirect interest in Hastings Group Holdings plc (via Main Street 1353). These intangible assets represent the value of the of the Hastings customer list 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 is recognised on the statement of financial position of Main Street 1353 and amortised over a period of five years.*

*3 Normalised earnings per share is calculated using a weighted average number of shares of 3 751 288 272 (2018: 3 761 457 135).*

*4 Diluted earnings per share is calculated using a diluted weighted average number of shares of 3 824 698 272 (2018: 3 825 617 135).*

# Five year financial review

| R'million | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Statement of profit or loss and other comprehensive income – IFRS** | | | | | |
| Gross written premium | **16 135** | 15 027 | 14 908 | 14 754 | 12 469 |
| Underwriting result[1] | **2 881** | 3 217 | 2 954 | 2 328 | 1 533 |
| Profit before tax | **3 246** | 4 072 | 4 331 | 2 913 | 1 971 |
| Headline earnings attributable to ordinary shareholders | **2 555** | 2 933 | 3 223 | 1 985 | 1 388 |
| Earnings attributable to ordinary shareholders | **2 100** | 2 908 | 3 212 | 1 983 | 1 346 |
| Earnings per share (cents) | | | | | |
| – Basic | **56.0** | 77.3 | 85.4 | 56.9 | 38.7 |
| – Diluted | **54.6** | 74.0 | 82.6 | 54.7 | 37.5 |
| Headline earnings per share (cents) | | | | | |
| – Basic | **68.1** | 78.0 | 85.7 | 57.0 | 39.9 |
| – Diluted | **66.5** | 74.6 | 82.9 | 54.7 | 39.2 |
| Dividend declared per share (cents) | **55.5** | 53.5 | 40.2 | 36.0 | 30.5 |
| Special dividend declared per share (cents) | **12.0** | 7.0 | – | – | – |
| | | | | | |
| **Statement of financial position – IFRS** | | | | | |
| Total assets | **19 894** | 19 503 | 18 165 | 14 716 | 11 858 |
| Total equity | **10 978** | 11 144 | 9 824 | 5 896 | 4 711 |
| Average equity attributable to ordinary shareholders | **11 061** | 10 466 | 7 601 | 5 170 | 4 490 |
| | | | | | |
| **Key ratios** | | | | | |
| Claims ratio (including non-claims bonuses) (%) | **51.1%** | 49.8% | 51.3% | 54.4% | 55.5% |
| Cost-to-income ratio (%) | **28.3%** | 25.6% | 25.8% | 26.2% | 28.2% |
| Combined ratio (%) | **80.9%** | 77.3% | 79.0% | 82.7% | 86.3% |
| | | | | | |
| **Normalised results** | | | | | |
| Normalised gross written premium | **16 135** | 15 027 | 14 908 | 14 754 | 12 469 |
| Normalised earnings | **2 634** | 3 012 | 2 476 | 1 985 | 1 388 |
| | | | | | |
| Normalised earnings per share (cents) | | | | | |
| – Basic | **70.2** | 80.1 | 65.8 | 57.0 | 39.9 |
| – Diluted | **68.6** | 76.7 | 63.3 | 54.7 | 39.2 |
| Normalised return on equity (%)[2] | **25.5%** | 31.4% | 33.7% | 38.4% | 30.9% |

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

# Risk **management**

At OUTsurance, risk management is integral to the successful delivery of the business strategy and a key element of our culture.

The effective implementation of the risk management strategy as part of the business strategy through all initiatives enables us to deliver on OUTsurance's purpose to "disrupt, simplify and serve".

A Board-approved Group Risk Management Strategy and Framework (GRMS) forms the foundation of the Group's risk management system and processes.

The risk management system includes various strategies, policies and procedures for identifying, assessing, monitoring, mitigating, managing, and reporting of all current and emerging material risks to which the companies and Group may be exposed and which might affect our ability to meet our obligations to policyholders.

The Board, senior management and the risk management department work with the business risk owners with a view to ensure that risk management is embedded in all operations whilst managing the group of companies in terms of the business strategy and goals. This approach is key to an effective risk management system and practices and also to ensure that risks are managed in line with the Board-approved risk appetite.

Regular risk management reports inform the Board and its committees as well as senior management and risk owners about the risk profile of the respective insurers as well as the Group. The evaluation of the effectiveness of the risk management function takes place on an annual basis and the risk management system is reviewed on an annual basis by the internal audit function.

## Risk appetite

A business profits from taking desired risks, but will only generate a sustainable profit from its activities if the risks are adequately managed and controlled to avoid or minimise the impact of adverse outcomes.

Risk appetite is the nature and level of risk that the Board is willing to accept in the pursuit of business objectives and strategic plan.

A Board approved risk appetite statement is in place and reporting to the Board on the risk profile with reference to the agreed risk appetite enables the Board to assess whether risk taking is within acceptable boundaries.

## Risk culture

Risk culture within OUTsurance is defined as "the system of values and norms of behaviour that influence decisions and actions of staff and their ability to identify, understand and act on the risks that the company face, to make educated risk-related decisions on a consistent basis within the risk appetite and ultimately achieve the strategic goals and objectives of the company. It is values based and ethics driven".

The tone is set from the top and leadership communication is crucial to ensure that our purpose, values, acceptable behaviour and risk appetite is communicated and understood. Enablers, such as policies, processes, procedures, guidelines and training serve to reinforce and support the message communicated around the desired risk culture. The actual risk culture manifests and is demonstrated through our conduct, behaviours, relationships and various business and performance results.

Annual Risk Culture surveys and key risk indicator assessments are conducted to assess the state of the culture measured against the Risk Culture Framework.

# The control environment

OUTsurance's approach to risk management is to establish an effective control environment to manage material risks to its business and customers.

The Group has the following control functions in place:

- Internal Audit
- Compliance
- Risk Management
- Actuarial

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

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

OUTsurance relies on an effective control environment to manage the significant risks to its operations.

# Combined assurance

OUTsurance follows a combined assurance model, which is a three-layered coordinated assurance approach to ensure the integration, coordination and alignment of risk management and assurance processes to optimise and maximise the level of risk, governance and control oversight in the Group.

The Combined Assurance Forum serves to ensure that the objectives of the model are achieved and reports in this regard to the Board's Audit, Risk and Compliance Committee.

The three lines of defence provide a sound governance model which promotes transparency, accountability, consistency and segregation of roles, as illustrated in the table alongside.

## Combined Assurance Model – three lines of defence

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

# The risks we face

Our risks are classified broadly into strategic, financial and operational risks in terms of the risk classification system. Detailed, matured risk registers are maintained through collaboration between risk owners and the risk management function in order to identify, assess, manage, monitor and mitigate risks.

The governance structures receive quarterly reports on the risk profiles and top risks as well as key risk indicators monitored for each entity in the Group in line with the board-approved risk appetite and risk management strategy.

**The main risks are summarised below in no particular order:**

| | Context and impact | Mitigation |
|---|---|---|
| **Reputational risk** | Our brand and reputation are important to us. Stakeholders should associate our name with a credible, long-term sustainable and trustworthy insurance group where they always get something out. In a group of companies there is the risk of brand contagion where an event relating to one entity may affect other entities in the Group. | Our corporate values, in particular, awesome service to our customers and honesty are key to our efforts to protect our reputation. Behaviour and processes that can harm our reputation and credibility are closely monitored and managed across the business. Close co-operation, sharing of best practices and learnings across the Group as well as experienced and stable Board and Executive Committees serve to mitigate the risk. |
| **Digital solutions and communications risk** | Various risks are associated with a digital transformation and communication strategy, including those linked to stable and safe platforms and service as well as maintaining alignment with customer expectations and needs. | The risk is mitigated through a Digital Roadmap, Digital Forum, dedicated specialist resources, strong technology foundations, IT and data skills, IT development processes and architecture are controlled in-house and not outsourced. |
| **Inadequate transformation outcomes** | Our endeavours to continue being a proudly South African transformed business may be considered inadequate or unsatisfactory for various reasons. | This is a strategic agenda point for senior management and the Board, driven through the relevant governance structures and a dedicated Transformation department. A Transformation plan drives the desired processes and outcomes. Continuous monitoring of reviewed goals and dedicated focus. |
| **Cyber and information security risk** | There are various risks linked to cyber risks, data protection, information technology, our networks and our business operating systems. Information security and cyber-attacks are main risks as well as the possible disruption of operating systems. | We have numerous policies, processes and systems in place to ensure the continuity and stability of our information technology systems, recovery in a possible disaster situation, the security of data and that of our operating systems are aligned with business objectives and strategy. |
| **Economic risk** | Poor economic conditions may result in less favourable business conditions leading to spending cuts and cancellation of policies or smaller investments. | We offer value for money products to retain our customers. Our scientific underwriting model which is based on the risk profile of each customer, ensures that we offer appropriate premiums. A significant proportion of our expenses are variable, it could be adjusted on a short-term basis to avoid a material cost impact. |

**Risk management** *continued*

## The risks we face *continued*

| Risk | Context and impact | Mitigation |
| --- | --- | --- |
| **Regulatory compliance risk** | Regulatory compliance describes the goal to ensure that we are aware of and take reasonable steps to comply with the relevant laws and regulations. Regulatory changes also impact business processes, procedures and increase costs. | Training and awareness programmes are provided. Dedicated in-house governance, risk management and compliance as well as legal functions that are adequately resourced with the appropriate skills. Our governance processes are pro-active in identifying and acting on legislative changes. Compliance consultations and assessments of our business practices and processes support other efforts. Robust monitoring and reporting discipline in the first and second line of defence in a combined assurance model. |
| **Market conduct risk** | Market conduct risks are managed to ensure good and fair customer outcomes. Placing the client's best interest at the heart of everything we do has always been part of our corporate culture. | We carefully identify and monitor any possible conduct risk or behaviour which is not aligned with the principles of Treating Customers Fairly (TCF). Reporting on such risks is in place. Processes and procedures to support TCF outcomes are embedded in our operations. Leadership from the top enables a risk aware culture and good customer outcomes. |
| **Operational risk** | Operational risk refers to the exposure to potential losses caused by internal shortcomings and / or failures of processes, people and systems. Internal shortcomings include errors and fraud. | These risks are managed through various processes and procedures to identify, mitigate and report on operational risks. The internal control environment is subject to reviews by the control functions. The three lines of defence of our combined assurance activities are key to mitigating these risks. |
| | Operational and business continuity risks include those resulting from prolonged electricity interruptions or Eskom failures which remain a concern. | Operational resilience speaks to the ability to adapt and recover in case of interrupting risk events. A business continuity plan is in place which includes back-up generators and increased usage of solar panels. |
| **Financial system failure and deteriorating credit quality risks** | The risk of financial system failures, sovereign downgrades and the current credit environment may have a negative impact on business. | Our businesses are well capitalised and we have diversified investments. We have documented investment, capital management, liquidity policies and governance structures to ensure sound management and internal controls. |
| **Disruptive technology and competitor risk** | Disruptive technology, which include trends and changes in the industry or in business in general can adversely affect us if we do not evolve and innovate. Changes in the competitive environment can put pressure on our company to make changes to product offerings, processes, systems or policies. | We maintain our innovative focus, we strive to be pro-active, we monitor technological, global and industry trends and developments to ensure that our products and service offerings remain relevant. |

## The risks we face *continued*

| | Context and impact | Mitigation |
|---|---|---|
| **Underwriting risk** | Due to the unpredictable nature of our business and the many factors that can affect business volumes, profitability and claim incidents, underwriting risk is a material consideration for insurers to ensure long-term sustainability and protecting the interest of policyholders. Climate change and global warming factors may over time impact our business. | Our underwriting processes are based on a trusted and robust underwriting philosophy of prudent consideration of risk factors. We have a documented underwriting risk policy and underwriting risk indicators are monitored closely and regularly. Prudent Reinsurance programmes are in place. |
| **Political risk** | The risk of an unstable political environment impacting adversely on the business environment and economy. | Focus on our business and efforts to make positive contributions to society. |
| **Climate-related risks** | The risks associated with the possible impact of climate change and global warming on business include transition and physical risks:<br>**a) Transition risks:** Transitioning to a lower carbon footprint requires changes in policy, reporting, technology and solutions to mitigate climate-related risks. Carbon footprint reporting, reduction and energy efficiency could be costly. Not meeting consumers' expectations in terms of our carbon footprint carries reputational risk.<br>**b) Physical risks:** Acute physical risks are event-driven such as floods, cyclones or other extreme weather events. Chronic physical risks are long-term changes in climate patterns causing rising sea levels or heat waves. | Utilise multi-purpose data and reporting sources and processes. Continue to identify opportunities for footprint and cost reduction and effective stakeholder communication to share successes. Sustainability, Social and Ethics reporting. The Risk and ARC Committees responsibilities' include Social and Ethics which include environmental risks.<br>Board approved Reinsurance and Underwriting policies, processes and agreements. Stress & scenario testing and reporting. Regular reporting takes place on key risk indicators.<br>Monitoring of carbon footprint and ongoing efforts to reduce carbon emission. Regular reporting takes place on key risk indicators. |

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

The ORSA contains a detailed risk assessment report. The Social and Ethics report covers various topics including our employees, ethics, treating customers fairly as well as feedback regarding our activities to manage climate-related risks in terms of our carbon footprint.

# Our **sustainability strategy**

In a world filled with uncertainty around the future, we choose to focus on those aspects of our business that we control. We plant the seeds today which will help us to reap sustainable growth and gains and open future opportunities for our businesses to the benefit of all our stakeholders, communities and the environment that surrounds us for the future generations to come. Our sustainability strategy exists in the context of our corporate values and is aligned to providing awesome service, being dynamic, honest, passionate and recognising every human.

"We plant the seeds today which will help us to reap sustainable growth and gains and open future opportunities."

As a disrupter in the financial services industry that we operate in, we are known to create our own good fortunes which is vital to our shareholders who expect us to identify material growth factors and produce a healthy return on their investment. Our stakeholders expect nothing but the best from us and we hold ourselves to the exact same standards, which is why we spend a lot of time and energy on identifying exciting and innovative business opportunities and ventures.

When it comes to our employees, we strive to create a vibrant and unique environment for our staff with exciting career opportunities. We have defied the odds by increasing our headcount with 1069 dynamic employees during the financial year despite these tough economic times. Whilst others downsize we keep expanding and attracting top quality individuals.

We believe that transformation is not a project, but a process of change at both an organisational and individual level. Transformation is the process of re-creating the internal structure of one's consciousness by altering it in an expansive, integrative and evolutionary direction. It further assists in changing our conscious in terms of the root perspective from which we experience and respond to ourselves, others and our various life circumstances. It also aims to create an environment that is conducive for all individuals to flourish and prosper.

Our customers can be confident that they are part of an organisation that has entrenched a transparent corporate culture within our awesome values and every product is designed specifically with the consumer in mind which makes it very easy to provide them with exceptional services.

Within the global community in which we operate, we have ensured that ecologically we leave a minimal footprint on our natural resources and are always on the lookout for new energy saving techniques as well as solutions that will digitise our organisation and the community around it. We are proud to be an organisation that is always willing to lend a helping hand to the communities around us. When they are in distress, our brand can be counted on to be there to assist.

With our growing global presence we are committed to continue cultivating a culture of good business governance to keep us here for the next 21 years and beyond.

# Economic **impact statement**

TOTAL VALUE
**R14 847**
million
2018: R13 734m
2017: R14 435m

| | GOVERNMENT | EMPLOYEES | PROVIDERS OF CAPITAL | POLICYHOLDERS |
|---|---|---|---|---|
| Share | 7% | 17% | 18% | 58% |
| 2019 | R1 044 million | R2 500 million | R2 717 million | R8 586 million |
| 2018 | R1 147m | R2 187m | R2 960m | R7 440m |
| 2017 | R915m | R2 060m | R3 437m | R8 023m |

# Our **stakeholders**

## Stakeholder engagement

Proactive engagement with all our stakeholders enables us to recognise their material needs and to establish a mutually beneficial relationship. This allows us to deliver on our strategic objectives and address any stakeholder concerns. Our main stakeholder groups are summarised below:

| | OUR PEOPLE<br>Permanent and temporary employees | OUR CUSTOMERS<br>Existing and prospective, including individuals and businesses | OUR SUPPLIERS<br>Service providers and suppliers | OUR COMMUNITY<br>Communities in which the Group's offices operate, including charity organisations | GOVERNMENT, REGULATORS AND INDUSTRY BODIES<br>Regulators, industry bodies, government departments, associations and Ombud schemes |
|---|---|---|---|---|---|
| MATERIAL NEEDS | > Great company to work for<br>> Promoting a safe and healthy working environment<br>> Open and honest communication<br>> Innovative culture<br>> Fair remuneration and development opportunities | > Value for money products and services<br>> Fair treatment and awesome service<br>> Innovative and relevant insurance products | > Prompt and accurate payments<br>> Access to opportunities<br>> Feedback on business performance | > Responsible corporate citizenship<br>> Charitable initiatives<br>> Access to insurance services | > Comply with laws, regulations and codes of conduct<br>> Transparent communication to the benefit of the industry and consumers<br>> Keeping abreast of regulatory developments |
| HOW WE ENGAGE | > Wellness initiatives<br>> Regular engagement with senior management<br>> Surveys (leadership and values)<br>> Departmental meetings and workshops<br>> Electronic and mobile communication<br>> Open door policies<br>> YOURvoice engagement platform<br>> Various committees for our people<br>> Recognition and development programmes | > Call centres and face-to-face staff<br>> Advertising<br>> Social media<br>> Policy and contract documentation<br>> OUTsurance App and Youi App<br>> SMS messages and email communication<br>> MyOUTsurance client portal<br>> Customer satisfaction surveys<br>> YouiRewards email communications | > Self-payment systems<br>> Online quotation system<br>> Personal interaction via call centre<br>> Roadshows<br>> Electronic communication<br>> Regular audits and guidance<br>> KWANDE Supplier Development Programme<br>> Dedicated Supplier Relationship Managers | > Staff Helping SA OUT<br>> OUTsurance Pointsmen<br>> Youi@Hand<br>> Catch-Up Tutors<br>> Internships<br>> Youi blog | > Engagement through various monthly and quarterly committees, board and forum meetings<br>> Supervisory meetings with various Regulators<br>> Electronic and telecommunications<br>> Dedicated officers for direct liaison |
| ACHIEVED OBJECTIVE | > Improved staff retention<br>> Positive values scores<br>> Increased employee satisfaction<br>> Innovative and digitally driven culture | > Customer growth<br>> Improved online claim submission and policy amendments experience<br>> 24-hour contact centres and assistance<br>> Increased customer satisfaction<br>> Multiple awards for value and services | > Faster quotation process<br>> Accurate and timeous payment<br>> Real time problem resolution<br>> Increased customer satisfaction<br>> Growth for our suppliers | > Giving back to the community<br>> High visibility<br>> Procurement opportunities<br>> Educating the public about insurance<br>> Road safety | > Immediate implementation of regulatory changes<br>> High level of cooperation and pro-active engagement<br>> Healthy and transparent external relationships<br>> Contribute to the design of new regulations |

**Our stakeholders** *continued*

# Our value-add

## Our people

- Investing in our people through **training and development**.
- Celebrating a **diverse** workforce.
- Giving our people access to great **reward and recognition** programmes.
- Focussing on a healthy and happy workforce.

## Our customers

- **Pioneering concept** of money back for remaining claim free.
- Enhancing our app functionality to increase customer experience.
- Dedicated staff responsible for responding to queries, ensuring that matters are resolved **timeously and efficiently**.
- Relying on honest customer feedback through **online survey feedback** to track comments and take appropriate action.
- **Reward customer loyalty** through the OUTbonus and YouiRewards programmes.

## Our service providers

- OUTsurance is committed to Broad- Based Black Economic Empowerment and currently rated as a **level four** contributor and value-adding supplier.
- Easy-to-use technology enhances service levels.
- Promote and support **small businesses**.
- Providing ongoing feedback to our service providers to improve on services rendered to our clients.
- The Group and its suppliers ensure great service delivery to customers.

## Our shareholders

- **25.5%** normalised ROE.
- **7.4%** growth in gross written premium to R16 135 million.

## Our community

- Various **community projects** are supported throughout the Group.
- Staff were involved in **46** different projects with **R1.4 million** spent on giving back.
- The dedicated pointsmen members increased to **186**.

## Our environment

- We **recycle our waste** in an environmentally friendly manner through certified recyclers.
- Our Group's **total recycled waste** was **86 554 kg** of which **55 310 kg** was at OUTsurance.
- We capture rain and other recycled water in big water tanks underneath our premises and re-use it where possible.
- **2 340 additional solar panels** will be installed at OUTsurance with an estimated carbon footprint reduction of 1 605 $TCO_2$ per year.
- We monitor and report on our **carbon footprint** in our **Social and Ethics** and **Sustainability** reports.

## Our people

Our people are our strength and underpin our ability to deliver on our values. Accordingly, we invest time, effort and energy in facilitating their personal and career development. In order to live up to, in particular, our values of Human, Passionate and Recognition, we have established the following people goals:

- Celebrating our diverse workforce
- Giving our people access to great reward and recognition programmes
- Investing in our people through training and development programmes
- Making the work environment fun
- Ensuring our people have work-life balance
- Giving our people the opportunity to give back to the community
- Keeping our people healthy and happy
- Ensuring our people have career advancement opportunities

**TOTAL GROUP WORKFORCE[1]**

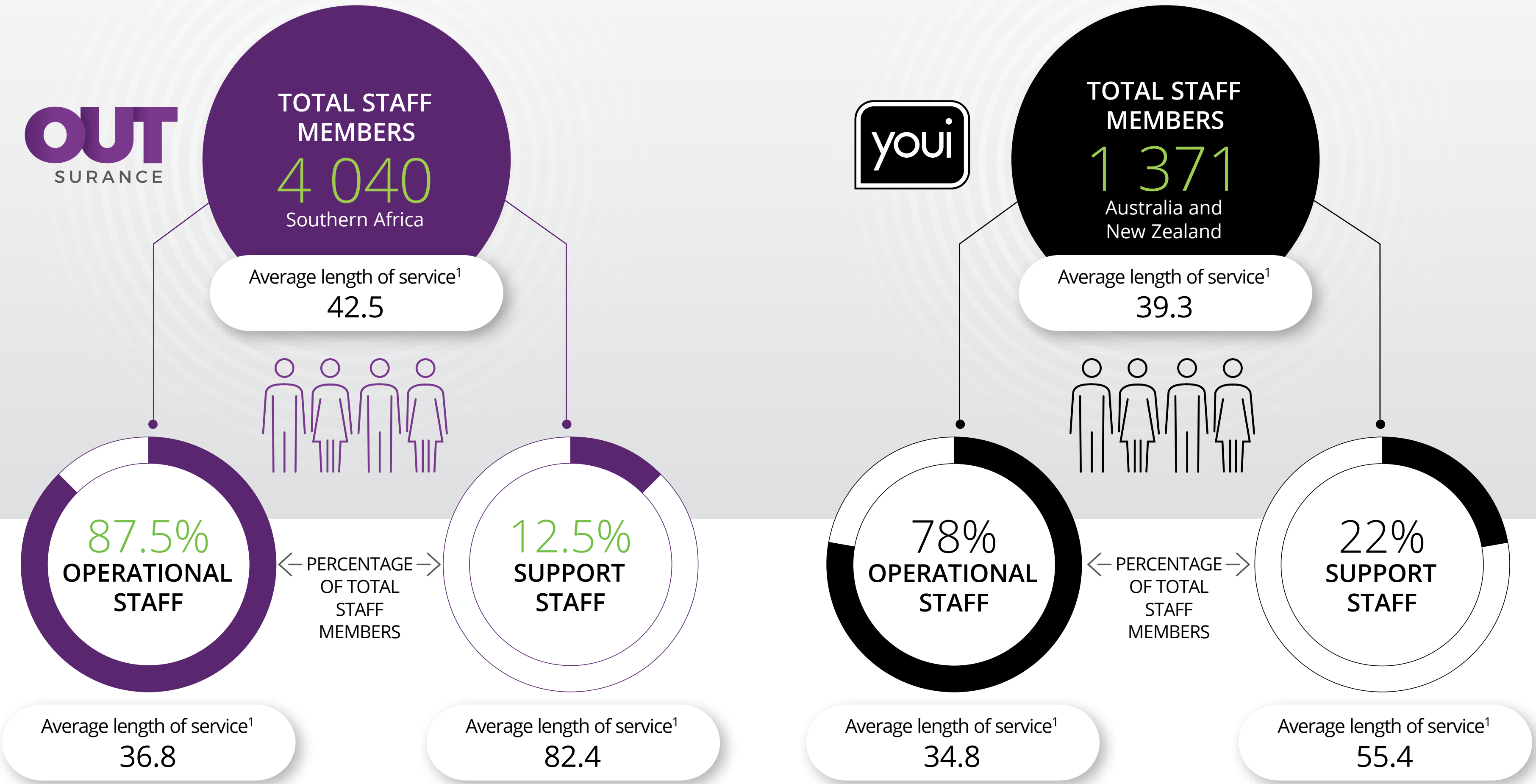
**5 411**

2018: 4 342
2017: 4 291

% change 2018 / 2019: 24.6%

| Measure | 2019 | 2018 | 2017 | % change 2018 / 2019 |
|---|---|---|---|---|
| Group female ratio | 49.2% | 46.6% | 44.1% | 5.6% |
| South African ACI[2] ratio | 71% | 66.3% | 59.6% | 7.1% |
| South Africa ACI[2] management | 49.6% | 46.8% | 49.3% | 6% |
| South Africa ACI[2] EXCO members | 50% | 46.7% | 33.3% | 7.1% |
| South Africa disabled staff members | 41 | 27 | 21 | 51.9% |

*1 Staff members in South Africa, Australia and New Zealand.*
*2 Africans, Coloured and Indian.*




1 *Average length of service was determined in months.*

In line with our stated goal of being a great company to work for, our Group campuses are employee-centred facilities with a strong focus on building a competitive

**employee value proposition**

to ensure that we attract and retain the best people available.

**74.7%**
of our total Group staff complement resides in South Africa

**99.8%**
of our total workforce is permanently employed

## Our people have access to:

**GROUP**
- Employee benefits
- Outsourced Employee Assistance Programme
- On-site canteen
- Various health and welfare events
- Internally facilitated Leadership Bridging Programmes
- Volunteering for charitable community initiatives

**SA**
- Accredited learning academy
- Clinic staffed by a nurse, physiotherapist and doctor
- On-site sports and recreation facilities
- Day care facility
- On-site beautician and barber

**AUS**
- Accredited traineeship course for new sales advisors

*Day in the life of OUTsurance staff.*

*Working at Youi.*

## Developing our people

The establishment of a learning culture is fuelled by our values of being Human and Dynamic. Enhancement of skills of our staff not only seeks to comply with regulatory requirements, but also enables us to serve our customers more effectively and provide various career advancement opportunities to our staff. Investment in our staff is facilitated via:

GROUP
- Internally facilitated leadership bridging programs

SA
- Accredited learning academy
- Executive coaching for senior leaders
- External training and bursary programs
- Technology enabling learning management systems which enables staff to learn anywhere, both in and outside the office

AUS
- Accredited traineeship course for new sales advisors

**SKILLS DEVELOPMENT**
61.6%[1]
2019

**OUTsurance** South Africa and Namibia

**R4 247**
EXTERNAL TRAINING SPEND (R'000)
2018: R2 663
2017: R5 061

**R2 737**
STUDY ASSISTANCE SPEND (R'000)
2018: R509
2017: R862

**GROUP EXTERNAL TRAINING SPEND (R'000)**
**R13 373**
2018: R6 753
2017: R6 991
% change 2018 / 2019: 98%

**GROUP STUDY ASSISTANCE SPEND (R'000)**
**R2 744**
2018: R509
2017: R1 054
% change 2018 / 2019: 439.0%

**youi** Australia and New Zealand

**R9 126**
EXTERNAL TRAINING SPEND (R'000)
2018: R4 090
2017: R1 930

**R7**
STUDY ASSISTANCE SPEND (R'000)
2018: R0
2017: R192

**GROUP EXTERNAL AND STUDY ASSISTANCE TRAINING SPEND (R'000)**
**R16 117**
2018: R7 262
2017: R8 046
% change 2018 / 2019: 121.9%

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

# Promoting Health and Wellbeing

OUTLIVE

At OUTsurance we take a holistic view of health and wellbeing and believe that a healthy body is just as important as a healthy mind. To promote this we offer various health and wellness activities, services and events that in turn result in energetic, healthy and happy employees.

The OUTsurance OUTlive – Mind, Body and Soul campaign is one of our "Great Company to Work for" initiatives and during February 2019 it had an exciting re-launch and is now known as the OUTlive-Activate campaign which is linked to incentives to encourage employees to reach their health and wellness goals. This initiative strives to improve our employees' mental, physical and financial wellness. With the re-launch, OUTsurance now recognises 54 wellness activities compared to the 34 in the previous programme and guarantees rewards to employees if they reach their target. The OUTlive-Activate campaign comprises two incentives, namely monthly target points and Activate status. It further introduced monthly guaranteed winners compared to the previous 6 monthly winners.

## HERE ARE SOME OF THE HIGHLIGHTS:

**OUTlive activities completed**
100 954

**OUTies participated in OUTlive**
62%*

**Participants in OUTlive activities**
2 504

**Average activities completed per OUTie**
35

* *Participation includes all employees in service as at 30 June 2019 that made use of the wellness campaign for the financial period.*

We have a dedicated **Health and Safety (OHS) officer** and an **OHS Committee** overseeing the health and safety of our people. Our OHS representatives are trained in disciplines like emergency evacuation, first aid and firefighting. Regular fire drills and training sessions are overseen and certified by independent specialists.

## Promoting Health and Wellbeing *continued*

### YourLife

The Youi YourLife programme was established in 2014, with its aim to promote a healthy work-life balance. Youi relaunched their health and wellness platform in 2017 through an online system enabling Youi-ers to track and celebrate their personal achievements.

**Some of the milestones Youi employees can achieve include:**

- Leadership and training participation
- Peer recognition
- Receiving great customer feedback
- Self-development and proactive learning
- Health and wellbeing participation

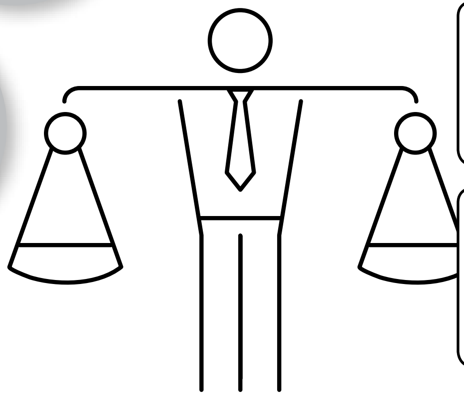
**HERE ARE SOME OF THE HIGHLIGHTS OF THE REPORTING YEAR:**

YourLife activites completed
22 207

Participated in YourLife activities
1 401

Youi-ers participated in YourLife
89%**

Active YourLife Youi-ers participated in an average no. of activities
15.9



** *Participation includes all employees in service as at 30 June 2019 that made use of the wellness campaign for the financial period.*

## Our customers

### Rewarding loyalty – Our OUTbonus

Customer loyalty is an important component of our business and highlights our values of Dynamic and Recognition. The OUTbonus pay-out to every loyal and claim free client serves as a token of our appreciation.

We are very proud of the **R3.5 billion** paid by OUTsurance to South African customers since 2003.

**2019**
R3.5 billion

**2018:** R3 billion

**2015:** R2 billion

**2012:** R1 billion

**2006:** R100 million

**2003:** 1st OUTbonus

OUTBONUS VALUE PAID OUT PER ANNUM (R'000)
414 505

% change
2018 / 2019: 7.5%

### YouiRewards

During the past two years, YouiRewards introduced a fresh approach in accessing discounts to brands that customers prefer. The limitations of points were removed and customers now have easy access to discount offers.

**Total rewards**
R41 290 732

**2019**
R13 450 087

**2018**
R18 713 512

**2017**
R9 127 133

### Policies

OUTSURANCE
**in-force policies**
881 991

youi
**in-force policies**
1 055 732

Even if you're not insured with us, you can still make use of free 24-hour Help@OUT emergency home and roadside assistance.

## OUT App

OUTSURANCE

Become part of the family and join the other **95 461 customers** that downloaded the app during the past year.

The following functionality is available via the OUTsurance app.

- Request policy documents
- Request Pointsmen
- Cover OUT-and-About items
- Submit vehicle windscreen claims
- Enrol in the SmartDrive programme
- Request emergency roadside, home and panic assistance
- Request quotes and log queries
- Submit geyser claims
- Changing your banking details
- Track claims progress
- Customer referrals

## YOUI App

youi

**65 576 customers** have linked their policies to their profiles the past year. Download it now to enjoy all the benefits.

Youi's app makes life easier for their customers by providing them the opportunity to:

- Link up policies to access YouiRewards partner offers
- View policy details
- Contact YouiAssist

## Exceeding customers' expectation

We aim to disrupt, simplify and serve. We strive to achieve this by finding opportunities to create value in new and innovative ways to deliver awesome service and exceed customers' expectations. We encourage our customers to provide feedback about their engagement with us through an online survey feedback system. With a view on further building our customer centric approach, we have a dedicated department responding to queries and tracking progress thereof, ensuring that they are resolved timeously and efficiently.

**OUTSURANCE CUSTOMER SATISFACTION INDEX (CSI)**

89.2%

2018: 87.6%
2017: 86.3%

% change
2018 / 2019: 1.8%

**YOUI CUSTOMER SATISFACTION INDEX (CSI)**

85.8%

2018: 88.3%
2017: 88.9%

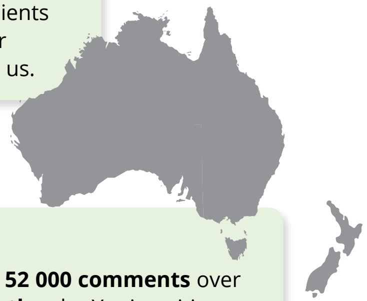
% change
2018 / 2019: (2.8%)

Talk@OUT We are committed to giving exceptional service to all our clients

The **Customer Satisfaction Index (CSI)** is calculated by subtracting the number of "detractors" (sum of the bad and very bad responses) from the number of "promoters" (sum of the good and awesome responses) and dividing it by the total number of responses received. The CSI figure excludes social media feedbacks.

Our CSI is built on an **automated e-mail survey process** following each sale, policy amendment or claim submitted by customers. Customers are requested to rate the service of the advisor they engaged with by selecting either: awesome, good, acceptable, bad or very bad.

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



With more than **52 000 comments** over the past **12 months**, the Youi positive sentiment rate for Australia and New Zealand is currently over 92%.

# People are talking and we're listening

We've had over 100 000 comments on our Talk@OUT and Youi walls over the last 12 months. See for yourself what our customers are saying by viewing the comments below or visit the wall to read more comments.

## OUT WALL

### Amazing service

"Thank you for the amazing service. The customer service agent was one of the friendliest people I've ever had the pleasure of talking to. At the end of the call I actually felt like I was adopted into a family. Definitely deserves recognition."

"I have never been as impressed with client service as I was today. I was assisted by a very competent person and was done so in my own language. Happy to join the OUTsurance family."

### Fast, efficient service

"I was blown away by the fast, efficient service I received from OUTsurance when my car was towed. It took less than 45 min from my original phone call. From past experience I was expecting to wait. I was kept in the loop the whole time. The two truck drivers and OUTsurance consultant were extremely friendly and explained everything clearly."

*Click here to read more awesome comments.*

## YOUI WALL

### Great customer service!

"From the beginning when we took out our policy I had great customer service and genuine service. We had to have our car assessed and written off and establish a new policy. This was done in one day. I spoke to three Youi reps and all were fantastic. Highly commended and personal service. "

### Fantastic experience

"My first experience with Youi was so great I switched my other car and house and content too. Both consultants I spoke to were fantastic."

### Very patient

"Ali was very helpful with the quote and patient with all my questions. She was a real person that connected beautifully over the phone. Thanks!"

*Click here to read more awesome comments.*

## Ombudsman for Short-Term Insurance (OSTI)

The OSTI is an independent, non-profit Ombud scheme in South Africa. They provide the insured public with a free alternative dispute resolution mechanism for Short-Term insurance complaints. Customers can approach OSTI for assistance should they be of the opinion that they were treated unfairly by the insurer.

The OSTI has 52 subscribing members and the annual industry statistics are published in OSTI's 2018 annual report that can be found on their website **www.osti.co.za**

Claims received by insurer (FSCA statistics)
268 401
Industry: 3 513 905

Number of complaints received by OSTI per thousand claims
1.29 / 1 000
Industry: 2.52/1 000

Overturn rate[1]
5.6%
Industry: 18.6%

Number of claims decision overturned per 10 000 claims[2]
1 / 10 000
Industry: 5/10 000

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

## Financial Ombudsman Service (FOS)

The FOS was an independent Australian body that provided a dispute resolution process for consumers who were unable to resolve complaints with insurers.

FOS issued Comparative Tables presenting statistics which expressed the chance of disputes occurring between consumers and insurers split according to product groups. The measure is calculated on each insurer's number of disputes divided by the number of policies per product group x 100 000. Further details can be found on the FOS website **www.fos.org.au**

As of 1 November 2018 the FOS was replaced by the Australian Financial Complaints Authority (AFCA), an impartial, independent non-profit dispute resolution scheme that oversees disputes for general insurance, banking and superannuation.

Home buildings
12.9
Industry
23.4

Home contents
4.2
Industry
5.8

Motor vehicle
4.6
Industry
13.6

**Our stakeholders** *continued*

# Our service providers

## Partnering with our service providers

OUTsurance and Youi have a total of 3 087 service providers, all of whom play a significant role in delivering Awesome Service to our clients.

TOTAL NUMBER SERVICE PROVIDERS
3 087

| | | | |
|---|---|---|---|
| OUTsurance South Africa | 2 473 | 90.3% SERVICE PROVIDER CSI RATIO 2018: 90.5% 2017: 87.2% | % change 2018 / 2019 (0.2%) |
| youi Australia and New Zealand | 614 | 87.8% SERVICE PROVIDER CSI RATIO 2018: 87.6% 2017: 85.6% | % change 2018 / 2019 0.2% |

SERVICE RENDERED
CUSTOMER SURVEY SENT TO CLIENT
CLIENT RATES SERVICE
FEEDBACK RECEIVED AND ASSESSED

The **OUTsurance mobile app** can also be downloaded by any of our service providers to use during inspections. This increases efficiencies during interactions with our clients.

The technology is swift, convenient and environmentally friendly and aids in minimising the risk of inspection books being stolen or lost and vehicles being cloned.

It also speeds up the process as the completed inspection is delivered electronically in an instant and automatically attached to the policy.

To ensure that high levels of service are maintained, after service providers complete the task at hand, clients receive an automated customer service survey through which they can rate the service they have received. The feedback is provided to our service providers to analyse, in order to help build on strengths and identify potential areas of improvement.

**Our stakeholders / Our service providers** *continued*

## Demonstrating our commitment to Broad-Based Black Economic Empowerment

OUTSURANCE IS RATED AS A

Level 4

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CONTRIBUTOR

This is achieved through various programmes that aim to transform our stakeholders' lives.

> A diverse supplier base for insurance related procurement spend.

100%
PREFERENTIAL PROCUREMENT[2]
2018: 100%
2017: 95%

% change
2018 / 2019: 0%

35.6%
BLACK OWNED[1] SUPPLIERS

+

14.8%
BLACK WOMEN[1] OWNED SUPPLIERS

> A supplier development programme that aims to develop the functioning of our QSE (Qualifying Small Enterprise) and EME (Exempt Micro Enterprises) black suppliers.

*1 The definitions of Black owned suppliers and Black women owned suppliers is per the Financial Services Sector Charter.*
*2 The score is expressed as a percentage of total possible points available.*
*The figure is externally calculated and confirmed by EMPOWERDEX (B-BBEE verification agency).*
*Our B-BBEE certificate can be found on our website.*

*The B-BBEE certificate is available at www.outsurance.co.za*

## KWANDE

Our flagship Supplier Development programme, KWANDE, aims to develop the skills and business efficiency of our suppliers. Our 28 selected suppliers are assisted with improving their access to finance, in grant and loan funding – administered through the ASISA fund; access to markets in business development coaching and mentoring; and access to skills through intensive skill transference boot camps with our partner, Edge Growth.

The selection of these suppliers into the KWANDE programme was aimed at developing small and medium businesses. We are proud to partner with these businesses, who between them are responsible for over **323 permanent jobs and 93 temporary jobs,** thereby contributing positively to the economy of our country.

We appreciate the important role our suppliers play in our success, and as such we have made a five-year financial commitment of R80 million into the KWANDE programme.

## Our community


TOTAL POINTSMEN PROGRAMME SPEND (R'000)

R38 623

2018: R36 447
2017: R35 633

% change
2018 / 2019: 6%

TOTAL NUMBER OF OUTSURANCE POINTSMEN

186

2018: 184
2017: 181

% change
2018 / 2019: 1.1%

### Enhancing safety through Pointsmen

For the last 13 years, OUTsurance and Traffic Free Flow have been in partnership to create much-needed jobs, while assisting motorists in Johannesburg and Tshwane to navigate peak-time traffic. Static Pointsmen are assigned to specific locations with daily traffic congestion, whereas mobile Pointsmen, equipped with their OUTsurance branded motorcycles, are deployed to traffic hotspots when needed.

*All motorists, not only OUTsurance customers, can request that a Pointsmen be deployed to a specific location by making use of the OUTsurance App.*

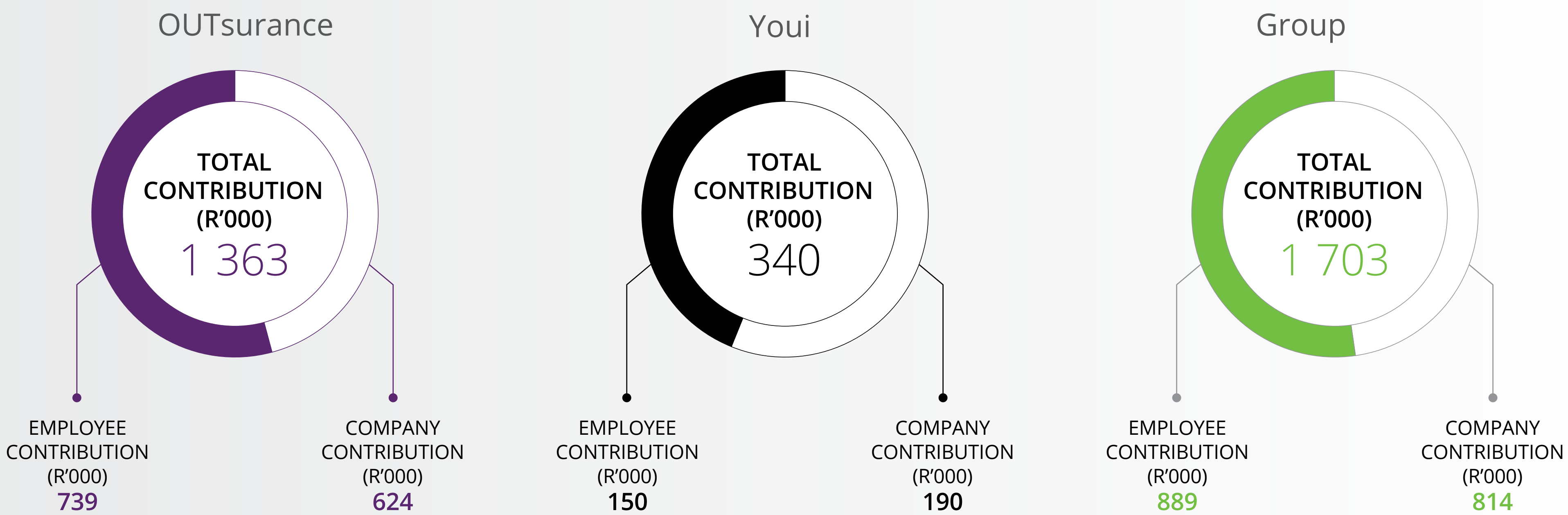
Download on the App Store

ANDROID APP ON Google play

## Giving back

Charitable community involvement is a fundamental part of our Group's culture. Funding for corporate social investment (CSI) initiatives is raised via monthly payroll contributions from staff, company contributions and additional fundraising initiatives.

### CSI funding raised 2019



## Giving back *continued*

Various community projects are supported throughout the Group, with the focus on projects that make a significant difference to communities and which have a lasting impact.

The hands-on efforts of our staff in these projects help to deepen our human connection with the community and create a sense of ownership and belonging – advantages we view as being as important as monetary contributions. Staff across the Group gave back to the community by their involvement in 46 different projects across all regions of the business.

### CSI funding spend 2019

| | OUTsurance | Youi | Group |
|---|---|---|---|
| CSI spend on basic needs and social development (R'000) | 628 | 243 | 871 |
| CSI spend on education projects (R'000) | 232 | 17 | 249 |
| CSI spend on health and or HIV/AIDS (R'000) | 141 | 3 | 144 |
| CSI spend on infrastructure development (R'000) | 44 | 51 | 95 |
| CSI spend on skills development (R'000) | 83 | 0 | 83 |
| Total CSI spend (R'000) | 1 128 | 314 | 1 442 |

## Giving back *continued*

Some of the notable Staff Helping SA OUT and Youi@Hand initiatives included:

### Catch-Up

Catch-Up is a volunteer driven project where OUTsurance staff give some of their own time to help tutor learners at underprivileged schools. This project supports learners from grade 4 to grade 7 who struggle to pass their grades by assisting them to "catch up".

By the end of 2018 the learners' overall average school mark improved from 50% (as at end of 2017) to 55% (as at the end of 2018 term 3). The average English mark improved from 46% to 57% and the average Mathematics mark from 46% to 51%.

### Ithemba Labantwana – Rays of Hope

Rays of Hope manages a number of social outreach projects in Alexandra. Ithemba uses a family-based-care model to specifically support orphaned and vulnerable children in Alexandra. OUTies volunteered to paint the playground wall and fixed the jungle gym. School supplies for the crèche was also donated. The staff created smiles by having a fun day with the children, which included good food and a jumping castle.

## Giving back *continued*

### Habitat for Humanity

Volunteers from Youi@Hand refurbished a women's refuge in Brisbane with the help of Habitat for Humanity as part of International Women's Day. The money raised from employees' donations sponsored the team to repaint the internal walls and renovate the shelter. The house will provide a safe and comfortable shelter for victims of family and domestic violence.


### Blood donations

Blood donations form a vital service to those in need. The Group therefore supports blood donation drives in all regions. Donors are encouraged to keep donating and assist to recruit new donors.

**GROUP UNITS BLOOD DONATED[1]**

**1 465**

2018: 1 443
2017: 1 387

% change
2018 / 2019: 1.5%

*1 New Zealand numbers not included.*

# Our environment

## Our carbon footprint

There are different types of greenhouse gas (GHG) emissions and they vary in terms of their impact on earth, also referred to as the global warming potential (GWP). It is important to convert the different types of GHGs into a measurement that is comparable, which is why we measure in terms of tonnes of carbon dioxide equivalent ($TCO_2e$). We use various conversion factors for each type of emission to get to the $TCO_2e$ we show in the carbon footprint table. The $TCO_2e$ in the table is simply: GWP x tonnes of specific GHG.

**Scope 1**
(direct)
GHG emissions emitted directly by a particular entity

**Scope 2**
(indirect)
GHG emissions associated with the consumption of purchased electricity or heat, in other words, all forms of bought-in energy

**Scope 3**
(indirect)
All indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions such as transport, waste disposal etc.

**A number of projects enable us to keep our energy consumption and carbon footprint as low as possible. Various new and ongoing projects focussing on energy saving technology and improved facilities management result in more energy efficient buildings including the following:**

OUTsurance has embarked on an **upgrade of the existing solar system** by adding a total of 2 340 additional photo-voltaic (PV) panels. A PV solar electric system offsets a significant portion of electrical usage through clean solar energy. This will increase the total number of panels to 3 150 and is expected to result in an estimate carbon footprint reduction of 1 605 $TCO_2e$ per year.

One of the biggest electricity usage drivers at OUTsurance is the HVAC (Heating, Ventilation and Cooling) system. A complete upgrade of the Building Management System (BMS), will enable OUTsurance to optimize and fine tune the current settings and controls of the HVAC to improve efficiencies and reduce cost.

Carbon reduction projects include geyser timers, energy saving LED lights and air-conditioning that deactivates during periods of inactivity.

Night-watchman Enterprise Solutions are used to power off our idle call centre computers outside business hours.

We encourage clients to rather receive their policy contracts and other documents in electronic format and our reliable web-based system for our service providers allow fast and secure online transactions in a paperless environment.

In addition to normal recycling we also arrange for the safe disposal of hazardous waste such as air freshener cans and globes.

We capture rain and other recycled water in big water tanks underneath our premises and re-use it where possible.

## Our carbon footprint *continued*

**Electricity (Scope 2)** represents the biggest part (65.7%) of the Group's carbon footprint.

**Scope 1, 2 and 3** emissions are indicated in the carbon emissions calculated for the Group and are summarised in the table.

| | | EMISSIONS ($TCO_2e$) 2019 | 2018 | 2017 | 2019 % of total | 2019 / 2018 variance |
|---|---|---|---|---|---|---|
| Scope 1 | Fleet petrol | **525** | 729 | 823 | **3.6%** | (28.0%) |
| | Fleet diesel | **512** | 403 | 383 | **3.5%** | 27.1% |
| | Generator diesel | **46** | 19 | 20 | **0.3%** | 144.3% |
| | Liquid petroleum gas | **0** | 6 | 12 | **0.0%** | (100%) |
| | R22 refrigerants | **38** | 45 | 22 | **0.3%** | (16%) |
| | R410A refrigerants | **146** | 42 | 125 | **1.0%** | 250% |
| | **Total business fleet fuels and refrigerants** | **1 266** | 1 243 | 1 385 | **8.7%** | 1.9% |
| Scope 2 | Electricity – generated | **9 548** | 8 871 | 8 282 | **65.7%** | 7.6% |
| | **Total electricity** | **9 548** | 8 871 | 8 282 | **65.7%** | 7.6% |
| Scope 3 | Electricity – transmission and distribution | **985** | 868 | 862 | **6.8%** | 13.5% |
| | Actual paper used | **1.6** | 0.8 | 1.4 | **0.0%** | 107.5% |
| | Business air (domestic) | **357** | 244 | 270 | **2.5%** | 46% |
| | Business air (international) | **207** | 195 | 232 | **1.4%** | 6.1% |
| | Employee claimed – petrol | **1 566** | 1 064 | 1 092 | **10.8%** | 47.2% |
| | Employee claimed – diesel | **608** | 484 | 434 | **4.2%** | 25.5% |
| | **Total paper used, scope 3 electricity, business air and road travel** | **3 723** | 2 856 | 2 891 | **25.6%** | 30.4% |
| Total emmissions | Total carbon emissions per Annum ($TCO_2e$) | **14 537** | 12 970 | 12 558 | | 12.1% |
| | Number of employees | **5 411** | 4 342 | 4 291 | | 24.6% |
| | $TCO_2e$ per employee | **2.7** | 3.0 | 2.9 | | (10.1%) |
| | Total number of person hours worked (HW)* | **9 869 664** | 7 919 808 | 7 826 784 | | 24.6% |
| | Tons $CO_2e$ / HW** | **0.0015** | 0.0016 | 0.0016 | | (10.1%) |

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

**Total electrical consumption (KWh)**
10 615 286
2018: 9 623 831
2017: 10 193 690

**Total indirect energy consumption (Gigajoules, GJ) from electricity consumed**
38 215
2018: 34 646
2017: 36 697

**Total indirect energy consumed per person hour worked (MJ / HW)**
0.000004
2018: 0.000004
2017: 0.000005

**Total electricity consumed per person hour worked KWh / HW)**
1.08
2018: 1.22
2017: 1.30

The following comments are pertinent to our carbon footprint table:

> The total carbon emissions ($TCO_2e$) for the Group was 12.1% higher in the last financial year. This should be considered in the context of the 24.6% increase in total number of employees, which translates in a 10.1% reduction $TCO_2e$ employee from 3 to 2.7 in the last year.

> Whilst the overall electricity utilisation and footprint increased, our significant growth in employee numbers is an important factor and the total electricity consumed per person hour worked (KWh / HW) reduced by 11.5% in the last year.

> Generator diesel utilisation increased due to prolonged power outages during the period of review and increased reliance on back-up generators. The R410 refrigerant utilisation was higher in the last year due to maintenance and refilling required of compressors in UPS rooms.

> A minor correction was made on the 2018 business air flight figures for the Australian businesses but this had no impact on the overall carbon footprint.

# Recycling and waste management

OUTsurance prides itself on our environmentally friendly approach to all recyclable waste. We make use of certified service providers who are exceptionally passionate about the environment to recycle our waste. There are various initiatives to promote recycling, the safe reuse of rain water and other waste materials.

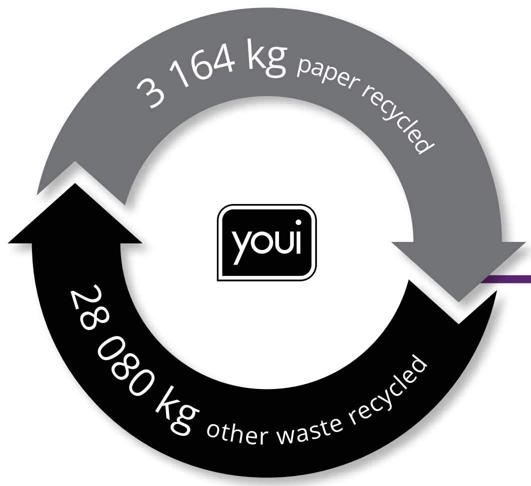
In addition to the other initiatives, the OUTsurance campus canteen makes use of chemicals that are environmentally friendly as well as being South African Bureau of Standards (SABS) approved for use in the food industry.

All storm water overflow as well as used car wash water is collected into a bio retention treatment area before it is discharged into a nearby lake. This process eliminates all contaminants and enables sedimentation to be removed from the water.

In South Africa alone we have saved 160 trees which in turn has a very positive influence on several other environmental savings.


**Group total paper recycled:**
14 211 kg

**Group total other waste recycled:**
72 343 kg




RECYCLED WASTE

| 51% | 61% | 66% | 32% |
|---|---|---|---|
| Combined[1] | Paper recycled[2] | Paper recycled[2] | Other waste[1] |

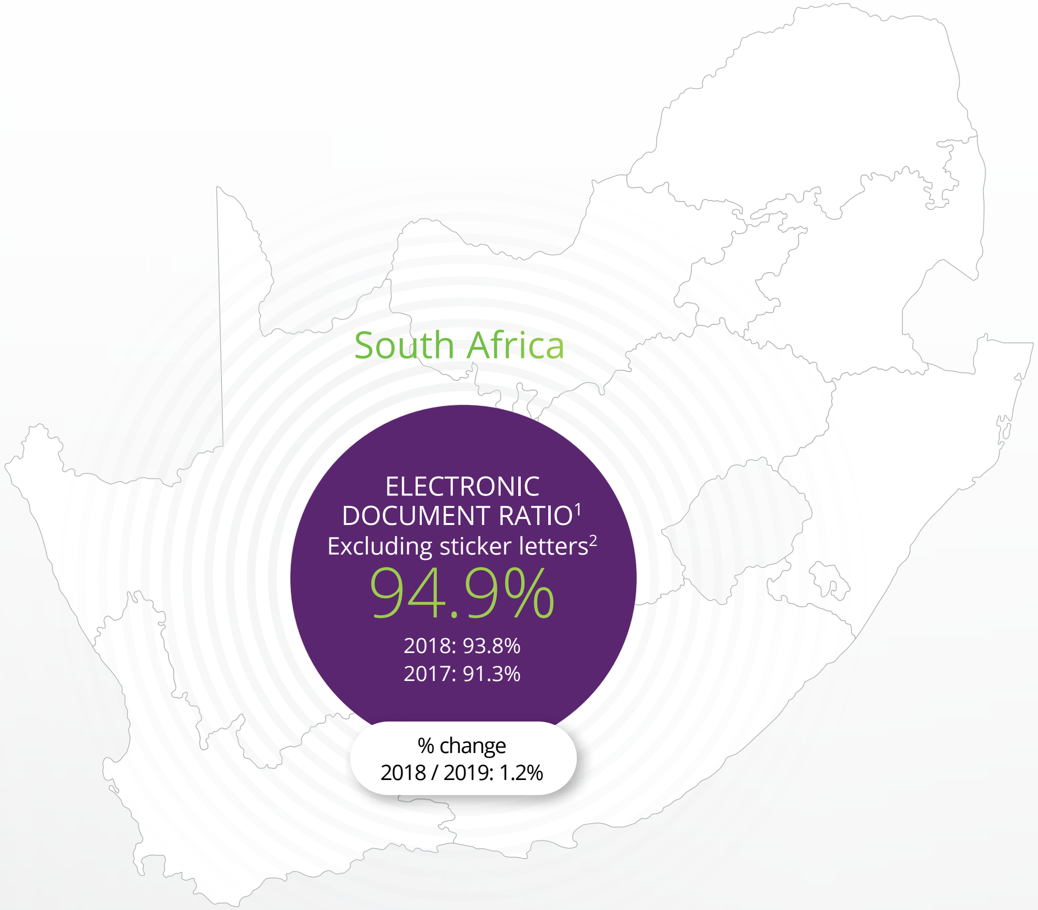
The combined recycling for OUTsurance refers to the grouping of e-waste, common mixed waste, glass, mixed plastic and tin.

1 *The waste recycled percentage is expressed as a ratio of total group waste recycled.*
2 *The paper recycled percentage is expressed as a ratio of paper bought.*

## Electronic document ratio (EDR)

Recycling paper is not enough. Using less paper is an important consideration in our attempts to protect the environment as we can effectively reduce our impact on forests, cut energy use and emissions, limit water, air and other pollution and produce less waste.

We therefore also encourage our customers to use email and rather receive all their policy documentation via email correspondence. All policy documentation is also available on our website **www.outsurance.co.za** and our app for download.




*1 Electronic document ratio (EDR) indicates the percentage of clients which chose to have their policy documents electronically distributed as a percentage of all the documents to clients.*
*2 Sticker letters sent via post have been discontinued since the beginning of 2017.*

> Youi only offers electronic distribution of documents to their customers.

# Corporate **governance**

## The Governance Framework

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

## The Board of Directors

The Boards primary responsibility is to oversee, direct and control the affairs and performance of the Group's operations in a transparent and responsible manner and to drive the sustainable growth of shareholder interests.

The Board recognises its responsibility to ensure that there is effective corporate governance and risk management in the Group and to uphold high standards in terms of regulatory compliance, risk management, social, environmental and ethical matters. The Board oversees the activities of the Group ensuring that it is in line with best practice and that the conduct of employees has the fair treatment of customers at heart.

Board members have full and unrestricted access to management, information and property and are guided by a formal charter. Amongst others, the charter provides the Board with responsibilities to approve corporate strategy set to achieve objectives, to ensure that there are appropriate policies and procedures, effective risk management and governance, reliable and transparent financial and regulatory reporting. The Board reviews and approves business strategy and plans, monitors financial performance and evaluates the successful implementation of strategic decisions.

The Board is supported by insurer boards and board committees in performing its oversight responsibilities and ensuring that company's activities and culture are aligned with our corporate values and policies.

## Delegation of Authority

The Board delegates its authority as stipulated in the Delegation of Authority Policy which is reviewed and approved on an annual basis. This allows efficient management of the daily affairs of the companies in the Group within the framework of the delegation of authority. Other governance policies as well as company procedures are maintained in a central register and are reviewed by the respective governance structures.

## Insurer and licenced entities Boards and Board committees

The Group's performance in respect of financial and non-financial objectives are overseen by the respective boards of directors and board committees in the Group as depicted below:

### OUTSURANCE HOLDINGS LIMITED BOARD OF DIRECTORS

- OUTsurance Insurance Board of Directors
- OUTvest Board of Directors
- OUTsurance Life Board of Directors
- OUTsurance Namibia Board of Directors
- Youi Holdings Board

### BOARD COMMITTEES SERVING THE GROUP AND / OR INDIVIDUAL COMPANIES

- Executive Committee
- Remuneration Committee
- Audit, Risk and Compliance Committee incorporating the Social and Ethics Committee
- Nominations Committee
- Board Investment Committee

The various Board and other management committees which exist to ensure effective governance and oversight for insurers and other licenced entities in the Group in the Southern African, Australasian and Namibian operations respectively, all ultimately report back into the Board. The board committees facilitate the discharge of specific board responsibilities and provide dedicated and skilled focus on particular areas.

The board committees have the appropriate resources, skills, expertise, independence and authority. The Remuneration and Nominations Board Committees consists of four non-executive members and the chairperson in an independent director. The Group's Audit, Risk and Compliance Committee wherein the Social and Ethics Committee is incorporated comprises of four independent members and the chairperson is an independent director. The relevant formal charters and policies are in place.

## Directorate

The table below provides more information regarding the directors of the Board.

**Mr Laurie Dippenaar (70)**
**Independent director, Chairman**
M.Com; CA (SA)
Appointed: 27 January 1998

**Mr Rudolf Pretorius (57)**
**Independent director**
B.Com (Hon); CA (SA)
Appointed: 27 January 1998

**Mr Raymond Ndlovu (52)**
**Non-executive director**
B.Business Studies (Hon)
Appointed: 28 August 2018

**Mr Kubandiran Pillay (58)**
**Independent director**
BA; LLB; MCJ (USA)
Appointed: 19 February 2014

**Mr Herman Lambertus Bosman (50)**
**Non-executive director**
B.Com (Law); LLB; LLM; CFA
Appointed: 5 November 2015

**Mr Marthinus Visser (45)**
**Executive director**
B.Com (Hon) (Actuarial Science); FASSA; F.I.A
Appointed: 1 January 2018

**Mr Alan William Hedding (68)**
**Independent director**
B.Com; B.Compt (Hon); CA (SA)
Appointed: 10 October 2013

**Ms Tlaleng Moabi (42)**
**Independent director**
M.Sc Engineering (Transport)
B.Sc Engineering (Electrical)
B Engineering (Management of Technology)
Appointed: 29 June 2018

**Mr Peter Cooper (63)**
**Independent director**
B.Com (Hon); CA (SA)
Higher Diploma in Income Tax
Appointed: 11 May 2000

**Ms Judy Madavo (60)**
**Independent director**
BA (Hon) (Sociology and Social Administration)
M.Sc Medical Sociology – University of London / Bedford College
Appointed: 8 November 2004

**Mr Willem Roos (47)**
**Non-executive director**
B.Com (Hon) (Actuarial Science); FASSA
Appointed: 30 April 2001
Resigned as Executive Director: 1 January 2018

**Ms Buhle Hanise (36)**
**Independent director**
B.Com (Hon) (Accounting); CA (SA)
Appointed: 29 June 2018

**Mr George Louis Marx (65)**
**Independent director**
B.Sc (Econ); FASSA
Chartered Enterprise Risk Actuary (CERA)
Appointed: 20 August 2008

**Ms Mamokete Ramathe (39)**
**Independent director**
B.Com (Hon) (Business Management)
Master of Development Finance
Master of Arts in Leading Innovation and Change
B.Com (Accounting) (Finance)
Appointed: 29 June 2018

*CFA – Chartered Financial Analyst*
*FASSA – Fellow of the Acturial Society of South Africa*
*F.I.A – Fellow of the Institute of Actuaries (London)*

## Proceedings

The Board met five times during the period under review. The directors' attendance of meetings is summarised in the next table. The meeting attendance ratio for the year was 93%.

| Board meetings and attendance | Aug-18 | Sep-18 | Nov-18 | Feb-19 | May-19 |
|---|---|---|---|---|---|
| Mr Laurie Dippenaar (Chairman) | ✓ | ✓ | ✓ | A | ✓ |
| Mr Neville Nightingale* | ✓ | n/a | n/a | n/a | n/a |
| Mr Kubandiran Pillay | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr Alan Hedding | ✓ | ✓ | A | ✓ | ✓ |
| Ms Judy Madavo | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr George Marx | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr Rudolf Pretorius | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr Peter Cooper | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr Willem Roos | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr Herman Bosman | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr Marthinus Visser | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ms Mamokete Ramathe | A | ✓ | ✓ | ✓ | ✓ |
| Ms Buhle Hanise | ✓ | ✓ | ✓ | A | ✓ |
| Ms Tlaleng Moabi | ✓ | A | ✓ | ✓ | ✓ |
| Mr Raymond Ndlovu** | n/a | ✓ | ✓ | ✓ | ✓ |

Notes:

*A – Apologies noted*
* *Mr Neville Nightingale resigned as a director on 28 August 2018.*
** *Mr Raymond Ndlovu was appointed as a non-executive director on 28 August 2018.*

## Board and committee evaluation

The Board, the board committees and control functions undergo annual effectiveness evaluations through a formal evaluation process which is concluded by providing comprehensive reports to the relevant governance structures, including the Board. The evaluations conducted for the year revealed no material concerns and feedback provided indicated that the board committees and the control functions operated effectively and as stipulated by the respective charters.

The directors confirmed that board reports are detailed, informative and comprehensive and that all relevant aspects of the business were dealt with in the reports and that the meetings were reported to be well organised and effectively run.

## Board composition, skills and expertise

The Board consists of an appropriate mix of executive and non-executive directors. The Board comprises 14 current members of whom 13 are non-executive directors. The majority of non-executive directors are also independent. The Board composition includes four female independent directors. Six of the independent directors are from the historically disadvantaged South Africans (HDSA) group.

Formal procedures are followed for the appointment of new board members. The Group's Fit and Proper Policy is applicable to all key persons as defined in the policy including directors.

An informal orientation programme is available to incoming directors. All directors have unlimited access to the services of the company secretary, who is responsible to the Board to ensure that proper corporate governance principles are adhered to.

## Executive Committee

The OUTsurance and Youi Group Executive Committees (EXCOs) are responsible for implementing the strategies approved by the Board and for managing the day-to-day affairs of the Group. The EXCOs are mandated to this end by the Board in terms of the delegation of authority. The EXCOs are chaired by the Chief Executive Officer and members of the EXCOs are tabled below:

### OUTSURANCE EXECUTIVE COMMITTEE

| | | |
|---|---|---|
| **Mr Jan Hofmeyr**<br>Group Chief Financial Officer | **Mr Danie Matthee**<br>Chief Executive Officer | **Mr Wilbur Smith**<br>Chief Operating Officer Sales and Client Care |
| **Ms Lynette Bisschoff**<br>Chief Risk Officer | **Mr Suren Naidoo**<br>Chief People Officer | **Mr Paul Myeza**<br>Chief Operating Officer OUTsurance Life |
| **Ms Natasha Kawulesar**<br>Head of Client Relations | **Mr Micky Maharaj**<br>Chief Operating Officer OUTsurance Shared Services | **Mr Matt Cole**<br>Chief Information Officer |
| **Mr Arnold De Swardt**<br>Chief Actuary | **Mr Burton Naicker**<br>Chief Operating Officer Claims and Legal | **Ms Keneiloe Selamolela**<br>Head of Transformation |
| **Mr Riyaad Loonat**<br>Chief Operating Officer Face to Face Distribution | **Mr Carl Louw**<br>Chief Marketing Officer<br>Appointed – 13 May 2019 | |

### YOUI GROUP EXECUTIVE COMMITTEE

| | | |
|---|---|---|
| **Hugo Schreuder**<br>Chief Executive Officer | **Tanya Cain**<br>Chief Financial Officer | **Peter Broome**<br>Chief Operating Officer Sales, CSD and Retentions |
| **Jason Story**<br>Chief Operating Officer Claims | **Nathaniel Simpson**<br>Chief Customer Experience and Innovation Officer | **Lucas Temple**<br>Chief Brand Officer |
| **Bert Bakker**<br>Chief Operating Officer Actuarial and Analytics | **Scott North**<br>Chief Risk Officer | **Fabrizia Roberto**<br>Chief Growth Officer |
| **Andrew White**<br>Chief Actuary (Acting) | **Ivan Pierce**<br>Chief People Officer | **Loren Fisher**<br>Chief Digital and Information Officer |

The OUTsurance and Youi EXCOs oversee the following management committees:

### MANAGEMENT COMMITTEES

- Operational Committee
- Claims Committee
- Internal Risk Committee
- Combined Assurance Committee
- Internal Investment Committee
- Transformation Committee
- Reinsurance Committee

# Report by the Audit, Risk and Compliance Committee

## Composition

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

## Role

The Committee is appointed by the Board and has a formally approved charter prescribing the following duties:

> Nominate the appointment of the independent external auditor in accordance with the Companies Act requirements;
> Monitor, evaluate and review internal audit, risk management, compliance, financial accounting and reporting practices;
> Monitor, evaluate and review the functioning of the internal control environment;
> Monitor, evaluate and review corporate governance practices; and
> Monitor, evaluate and review social and ethics practices.

## Annual report

The Committee is aware of the significance of accounting policies in presenting financial results. The Committee has reviewed the accounting policies and was satisfied that they are in compliance with the International Financial Reporting Standards (IFRS).

## Internal Audit

Internal audit is a key independent assurance provider to the Committee. The Committee accordingly approves the internal audit charter and the annual internal audit plan. The Chief Audit Executive is responsible for reporting on the findings of the internal audit work against the agreed internal audit plan to the Committee on a regular basis and has direct access to the Committee primarily through its chairman.

The Committee assessed the performance of the Chief Audit Executive and was satisfied that the internal audit function is independent and appropriately resourced, and that the Chief Audit Executive had fulfilled the obligations of the position.

During the year, internal audit performed a review of the adequacy and effectiveness of the Group's internal control environment. Based on the results of these reviews, internal audit confirmed to the Committee that nothing had emerged to indicate material control weakness in the risk management and internal control process including internal financial controls whether in design, implementation or operation. This written assessment by internal audit formed the basis for the committee's recommendation to the Board in this regard.

## Combined Assurance

The Combined Assurance Forum has the objective of overseeing the internal controls assessments performed by internal audit, risk management and external audit. The Forum is composed of the Chief Audit Executive as chairman, Chief Risk and Compliance Officer, external audit, IT Risk Manager and the Chief Financial Officer. The primary function of the Combined Assurance Forum is to ensure the effectiveness of all material internal financial controls is assessed at least annually by either internal or external assurance providers or both.

## Finance function expertise

The Committee considered the expertise and experience of the Chief Financial Officer and was satisfied that the appropriate requirements had been met. The Committee was also satisfied with the expertise and adequacy of the resources of the finance function and experience of the senior members of management responsible for it.

## External Audit

At the annual general meeting held in November 2018, shareholders approved the Committee's nomination of PricewaterhouseCoopers Inc. as auditor of the Group and Company until the next annual general meeting. The Committee, in consultation with executive management, agreed to the engagement letter, terms of engagement, audit plan and budgeted audit fees for the 2019 financial year.

There is a formal procedure that governs the process whereby auditors are considered for non-audit services.

The Committee was satisfied that the external auditors were independent of the Group and Company as set out in Section 90(2) of the Companies Act, which included consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors for the Group and compliance with criteria relating to the independence or conflict of interest as prescribed by the Independent Board of Auditors. Requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate its claim to independence.

## Regulatory environment

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

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

## Audit Committee

The Committee is accountable to fulfil the committee's functions, duties and oversight for OUTsurance and OUTsurance Life Insurance Companies Limited. The composition, knowledge, experience and size of the Committee complied with the requirements of Section 33 of the Insurance Act 18 of 2017.

The Committee at all times includes members with technical, accounting and actuarial skills as well as experience in both long and short-term insurance.

The Committee has access to management and necessary information in order to perform its functions and it ensures that adequate time and oversight is provided to all licenced entities.

## Going concern

The Committee has assessed the going concern status of the Group and Company and has accordingly confirmed to the Board that the Group will be a going concern for the foreseeable future.

### Proceedings

Membership and attendance of the Committee meetings held during the period under review were as follows:

| | Aug-18 | Nov-18 | Feb-19 | May-19 |
|---|---|---|---|---|
| Mr Neville Nightingale (Chairman)* | ✓ | n/a | n/a | n/a |
| Mr George Marx (Chairman)** | ✓ | ✓ | ✓ | ✓ |
| Mr Alan Hedding | ✓ | ✓ | ✓ | ✓ |
| Ms Buhle Hanise*** | n/a | n/a | ✓ | ✓ |
| Mr Peter Cooper*** | n/a | n/a | ✓ | ✓ |

Notes:

* *Mr Neville Nightingale resigned as a director and chairman of the Committee on 28 August 2018.*

** *Mr George Marx acted as the interim chairman of the Committee on 5 November 2018 and was formally appointed as the chairman on 7 November 2018 at the annual general meeting.*

*** *Ms Buhle Hanise and Mr Peter Cooper attended the August 2018 and November 2018 meetings as invitees and were appointed as formal members on 7 November 2018 at the annual general meeting.*

**George Marx**
Chairman
Signed: Centurion
Date: 23 August 2019

# Report by the Remuneration Committee

The Remuneration Committee (Remco) serves to review and assess the effectiveness of the Group's Remuneration Policy. It ensures that the policy is aligned with the risk management strategy of the Group and that it adequately reflects and protects the interests of all stakeholders.

Key responsibilities of Remco include the review and approval of annual remuneration packages of employees and non-executive directors. During the evaluation of recommended remuneration packages and / or annual increases, Remco considers, within the context of the business plan, factors such as economic indicators, current remuneration trends, the Group's performance, comparisons to market salaries, salary survey data, outcomes of performance reviews and may seek independent advice or other relevant material, where required.

## Committee members and meetings

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

In the past year the Remco comprised of the members listed below:

| Remuneration Committee members | | Meeting attendance June 2019 |
|---|---|---|
| Mr Kubandiran Pillay (Chairman) | Independent director | ✓ |
| Mr Laurie Dippenaar | Independent director | ✓ |
| Mr Peter Cooper | Independent director | ✓ |
| Mr Herman Bosman | Non-executive director | ✓ |
| Mr Marthinus Visser | Executive director | ✓ |

The Chief Financial Officer attends meetings by invitation.

Remco meets at least once a year and special meetings may be convened if required. In the past year, one meeting was held in June 2019 and the attendance of members is noted in the above table.

## Remuneration Policy

A Remuneration Policy is in place and approved by the Board for the entities in the Southern African Group of companies. Remco, on behalf of the Board adopts and oversees the effective implementation of the Remuneration Policy. The purpose of the policy is to prevent excessive or inappropriate risk taking, in line with the Board's identified risk management strategy and appetite. It is consistent with our business strategy and performance, thus protecting the long-term interests of the Group and our stakeholders.

The Remuneration Policy for the Australian and New Zealand subsidiaries of Youi Holdings (Pty) Ltd is documented in a separate policy as approved by the Youi Holdings Board. This policy is aligned with the OUTsurance Holdings Group Policy.

The Remuneration Policy outlines key components and objectives of how OUTsurance considers, reviews and approves all employees and directors remuneration, inclusive of executive management and heads of control functions as well as other employees whose actions may have a material impact on the risk exposure of the company.

**The above-mentioned components and objectives include the:**

- Group's remuneration objectives;
- Mix or types of remuneration arrangements, including fixed and variable components;
- Measurement of an individual employee's performance, and;
- Structure for approval of remuneration arrangements, including but not limited to performance-based remuneration components.

**OUTsurance's primary remuneration objectives are to ensure that:**

> The total remuneration payable by the company is commensurate with its business plan, risk appetite and objectives;

> The total remuneration does not limit the company from achieving key growth and profitability targets, or its ability to strengthen its capital base;

> Individual employee remuneration remains adequate for attracting and retaining quality staff;

> All individual employee remuneration is aligned to, but not limited only to, company role requirements; their performance against set objectives; general conduct and level of experience; and

> Remuneration practices give effect to the principle of equal pay for work of equal value, ensuring fairness and equity.

**The basis of remuneration:**

> Is viewed in conjunction with wider people-management practices to support a consistent approach to achieving desired culture and behaviour in the organisation;

> Is performance related and linked to delivery against agreed targets and objectives. In defining an individual's performance, both financial and non-financial performance are considered, where applicable;

> Is benchmarked to reliable and relevant market data specific to the financial services and insurance sector;

> Remuneration design and management is considered a key business competence and receives the required focus and resources;

> Individual and group performance objectives are aligned to business plans and performance reviews on all levels and are done at least once a year; and

> Underperformance is dealt with in line with agreements, policies and objectives.

**Remuneration reviews in 2019:**

The Remco considered the following aspects of the Group's remuneration practices in 2019:

> Adopted a balanced scorecard approach for executive and senior management bonuses

> Performed a benchmark review on senior executive remuneration; and

> Adopted a vesting condition for the Group's share incentive scheme.

*Information regarding directors' and prescribed officers' emoluments is available on page 141.*

The implementation report of the Remco was presented to the Board in August 2019 and after consideration was given thereto the Board adopted the implementation report.

**Kubandiran Pillay**
Chairman
Signed: Sandton
Date: 23 August 2019

# Embedded **value**

## Embedded value of covered business

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

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

The embedded value of covered business consists of:

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

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

The ANW of covered business is defined as the excess value of all assets attributed to the covered business but not required to back the liabilities of covered business. For OUTsurance Life all business is covered business, and therefore the ANW is set equal to the own funds per the regulatory statement of financial position, adjusted for the best estimate liability, risk margin and resultant deferred tax that is captured elsewhere.

The value of in-force covered business is the discounted value, at the risk discount rate, of the projected stream of after tax shareholder profits arising from existing in-force covered business. These shareholder profits are from the difference between the present value of future income and the present value of future outgo, discounted at a risk discount rate after allowing for taxation.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory SCR calculated in accordance with the latest Financial Soundness for Insurers Specifications as published by the Prudential Authority, plus any additional capital considered appropriate by the Board given the risks of the business. The required capital has been set at 1.5 x SCR (2018: 2 x SCR), which is the midpoint of the target SCR Ratio range.

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

The risk discount rate is based on the zero coupon 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. No adjustment has been made for the discounting of tax provisions in the EV.

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

## Embedded value and value of new business

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

## Embedded value and value of new business *continued*

### Embedded value

The tables below provides a breakdown of the embedded value for OUTsurance Life for the twelve months under review and comparative figures.

| Embedded value of covered business | June 2019 R'000 | June 2018 R'000 | % change |
|---|---|---|---|
| Covered business ANW | **979 369** | 824 365 | 18.8% |
| Free surplus | **402 201** | 73 424 | >100% |
| Required capital | **577 168** | 750 941 | (23.1%) |
| Present value of in-force business | **525 327** | 433 249 | 21.3% |
| Cost of required capital | **(364 470)** | (435 701) | 16.3% |
| | **1 140 226** | 821 913 | 38.7% |
| Present value of gross premiums (in-force book) | **3 225 049** | 2 814 559 | |
| Annualised Return on embedded value | **39.3%** | (5.9%) | |

The reported embedded value increased by R321.9 million since June 2018 with an annualised return on embedded value of 39.3%. A significant proportion of this growth can be attributed to the reduction of the target capital requirement ratio from 2.0 x to 1.5 x which has led to a decrease in the cost of required capital. Ignoring this change the annualised return on embedded value would have been 24.5%.

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

| | June 2019 R'000 | June 2018 R'000 |
|---|---|---|
| Ordinary shareholders funds per IFRS | **734 628** | 658 874 |
| Adjustment for regulatory basis changes | **244 741** | 165 491 |
| Covered business ANW | **979 369** | 824 365 |

### Embedded value earnings

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

| | Adjusted net worth R'000 | PVIF R'000 | Cost of required capital R'000 | Embedded value R'000 |
|---|---|---|---|---|
| **at June 2019 (12 months)** | | | | |
| Embedded value at end of the period | **979 369** | **525 327** | **(364 470)** | **1 140 226** |
| Change in accounting policy | **3 611** | **–** | **–** | **3 611** |
| Embedded value at beginning of the period | **(824 365)** | **(433 249)** | **435 701** | **(821 913)** |
| Embedded value earnings for the period | **158 615** | **92 078** | **71 231** | **321 924** |
| **at June 2018 (12 months)** | | | | |
| Embedded value at end of the period | 824 365 | 433 249 | (435 701) | 821 913 |
| Embedded value at beginning of the period | (762 034) | (453 613) | 342 615 | (873 032) |
| Embedded value earnings for the period | 62 331 | (20 364) | (93 086) | (51 119) |

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

## Embedded value and value of new business *continued*

### Analysis of embedded value earnings

| Components of embedded value earnings | ANW R'000 | PVIF R'000 | Cost of required capital R'000 | Embedded value R'000 |
|---|---|---|---|---|
| **at 30 June 2019 (12 months)** | | | | |
| **Expected contribution from still-in-force business** | 220 186 | (187 730) | (34 324) | (1 868) |
| Expected profit transfer | 220 186 | (220 186) | – | – |
| Expected return on covered business | – | 32 456 | (34 324) | (1 868) |
| **Expected contribution from new business** | (105 572) | 177 177 | (48 894) | 22 711 |
| New business strain | (142 824) | 142 824 | – | – |
| New business value at point of sale | – | 71 605 | (48 894) | 22 711 |
| Expected profit transfer | 37 252 | (37 252) | – | – |
| **Expected return on ANW** | 44 499 | – | – | 44 499 |
| **Operating experience variances** | (66 609) | 28 512 | 14 432 | (23 665) |
| Experience variances on still-in-force business | (70 371) | (694) | (23 919) | (94 984) |
| Experience variances on new business | 3 762 | 29 206 | 38 351 | 71 319 |
| **Change in valuation methods and assumptions** | 66 111 | 74 119 | 140 017 | 280 247 |
| Methodology | – | 47 606 | 150 279 | 197 885 |
| Non-economic assumptions | – | (9 545) | (41 221) | (50 766) |
| Economic assumptions | 66 111 | 36 058 | 30 959 | 133 128 |
| **Embedded value earnings** | 158 615 | 92 078 | 71 231 | 321 924 |

### Value of new business

| Value of new business | June 2019 R'000 | June 2018 R'000 |
|---|---|---|
| Gross value of new business | **71 605** | 57 890 |
| Cost of required capital | **(48 894)** | (31 907) |
| Value of new business | **22 711** | 25 983 |
| Present value of gross premiums (new business) | **462 674** | 408 819 |
| New business margin | **4.9%** | 6.4% |

The new business margin decreased from 6.4% at June 2018 to 4.9%. This is mainly due to the lower new business margin on the funeral cover business.

# Embedded value and value of new business *continued*

## Sensitivity analysis

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

| Value of in-force sensitivity analysis | Gross value of in-force R'000 | Cost of required capital R'000 | Net value of in-force R'000 | % change |
|---|---|---|---|---|
| **at June 2019** | | | | |
| Base value at 30 June 2019 | **525 327** | **(364 470)** | **160 857** | |
| 1% increase in risk discount rate | **541 742** | **(374 993)** | **166 749** | **3.7%** |
| 1% decrease in the interest rate environment | **520 250** | **(395 391)** | **124 859** | **(22.4%)** |
| 10% decrease in maintenance expenses | **545 998** | **(366 623)** | **179 375** | **11.5%** |
| 10% decrease in new business acquisition expenses | **525 327** | **(364 470)** | **160 857** | **–** |
| 10% decrease in lapse rates | **522 817** | **(400 422)** | **122 395** | **(23.9%)** |
| 5% decrease in morbidity and mortality rates | **575 646** | **(364 498)** | **211 148** | **31.3%** |

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

| Value of new business sensitivity analysis | Gross value of new business R'000 | Cost of required capital R'000 | Net value of new business R'000 | % change |
|---|---|---|---|---|
| **at June 2019** | | | | |
| Base value at 30 June 2019 | **71 605** | **(48 894)** | **22 711** | |
| 1% increase in risk discount rate | **62 017** | **(51 892)** | **10 125** | **(55.4%)** |
| 1% decrease in the interest rate environment | **84 125** | **(50 846)** | **33 279** | **46.5%** |
| 10% decrease in maintenance expenses | **74 366** | **(49 014)** | **25 352** | **11.6%** |
| 10% decrease in new business acquisition expenses | **85 888** | **(48 894)** | **36 994** | **62.9%** |
| 10% decrease in lapse rates | **92 296** | **(52 314)** | **39 982** | **76.0%** |
| 5% decrease in morbidity and mortality rates | **76 429** | **(48 871)** | **27 558** | **21.3%** |

## Economic assumptions

The following economic assumptions were used in calculating the embedded value.

| | 2019 June | 2018 June |
|---|---|---|
| Discounted mean term (in years) | **11.24** | 11.65 |
| Fixed-interest securities (bond curve – non ALM) | **10.4%** | 9.9% |
| Fixed-interest securities (swap curve – ALM) | **8.3%** | 8.7% |
| Inflation rate | **7.7%** | 7.3% |
| Risk discount rate | **14.4%** | 13.9% |

The rates displayed represent a cash flow weighted average yield to reflect the sensitivity of our polcicyholder liability to the shape of the relevant yield curves. The actual calculations make use of the full curves and are therefore also exposed to level and shape changes in the curves. The inflation and risk discount rates were set with reference to the relevant bond curves.

# Group annual financial statements

The reports and statements set out below comprise the consolidated financial statements presented to the shareholders:

# Statement of responsibility **by the Board of directors**

In accordance with Companies Act requirements, the directors of OUTsurance Holdings Limited are responsible for the preparation of the financial statements which conform with International Financial Reporting Standards (IFRS) and, in accordance with IFRS, fairly present the financial position of the Group and Company as at the end of the financial year and the comprehensive income and cash flows for that period.

The directors are ultimately responsible for the Group's system of internal control. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for Group assets. Accounting policies supported by judgements, estimates and assumptions which comply with IFRS are applied on a consistent and going concern basis.

Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. Systems and controls are monitored throughout the Group.

Based on the information and explanations given by management, internal audit and the Audit, Risk and Compliance Committee, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the Group and Company's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the Group and Company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

It is the responsibility of the Group and Company's independent external auditors to report on the fair presentation of the financial statements. Their unqualified report appears on pages 73 to 74.

The preparation of the financial statements for the year ended 30 June 2019 was supervised by JH Hofmeyr, Chief financial officer of the OUTsurance Holdings Group. The financial statements have been audited in compliance with section 30(2)(a) of Companies Act 71, of 2008.

The financial statements for the year ended 30 June 2019 which appear on pages 75 to 185, were approved by the Board of directors on 23 August 2019 and are signed on its behalf by:

| | |
|---|---|
| **LL Dippenaar** | **MC Visser** |
| Chairman | Chief executive officer |
| Signed: Sandton | Signed: Centurion |
| Date: 23 August 2019 | Date: 23 August 2019 |

# Certificate by **the Group secretary**

for the year ended 30 June 2019

As Group secretary, I hereby confirm, in terms of section 88(2)(e) of the Companies Act of 2008, that for the year ended 30 June 2019, the Group and Company have lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

**M Ehlert**
Group Secretary
Signed: Centurion
Date: 23 August 2019

# Directors' **report**

## Nature of the business

OUTsurance Holdings Limited (the Company) is a public company and the holding company of the OUTsurance group of companies (the Group). The Group conducts insurance and investment management activities. The Group operates in South Africa, Australia, New Zealand and Namibia.

An organogram of the Group is provided on page 2 of this report.

## Annual report

The Board acknowledges responsibility for the integrity of this annual report. The Board believes that this report fairly represents the performance of the Group and Company.

## Group results

A general review of the financial results of the Group and Company and the operations of its major subsidiaries is provided in the executive review on page 6. The results are presented in the statement of profit or loss and other comprehensive income on page 75. A segmental analysis is provided on page 103.

## Dividends

### Ordinary dividends

The following ordinary cash dividends were declared in respect of the 2019 financial year:

| Cents per share | 2019 | 2018 |
|---|---|---|
| Interim (declared 19 February 2019) | **24.70** | 20.50 |
| Final (declared 23 August 2019) | **30.80** | 33.00 |
| Special (declared 23 August 2019) | **12.00** | 7.00 |
| | **67.50** | 60.50 |

The final dividend is payable on 11 October 2019 to shareholders registered on 9 October 2019.

## Ordinary share capital

Details of the holding company's authorised and issued share capital is provided in note 26 to the financial statements.

There were no changes to the authorised or issued share capital during the course of the financial year.

## Shareholder analysis

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

| | 2019 | 2018 |
|---|---|---|
| Firness International (Pty) Limited | **80.3%** | 80.3% |
| RMI Asset Company (Pty) Limited | **8.8%** | 8.3% |

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

Directors' report *continued*

## Events subsequent to reporting date

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

## Directorate and prescribed officers

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

| Directors | Designation | Date appointed | Date resigned |
|---|---|---|---|
| Mr LL Dippenaar | (Chairman) | 27 / 01 / 1998 | |
| Mr MC Visser | (CEO) | 01 / 01 / 2018 | |
| Mr WT Roos | | 30 / 04 / 2001 | |
| Mr P Cooper | | 11 / 05 / 2000 | |
| Mr PR Pretorius | | 27 / 01 / 1998 | |
| Mr NL Nightingale | | 08 / 03 / 1999 | 28 / 08 / 2018 |
| Ms JJT Madavo | | 08 / 11 / 2004 | |
| Mr GL Marx | | 20 / 08 / 2008 | |
| Mr AW Hedding | | 28 / 05 / 2013 | |
| Mr K Pillay | | 19 / 02 / 2014 | |
| Mr HL Bosman | | 05 / 11 / 2015 | |
| Ms ME Ramathe | | 29 / 06 / 2018 | |
| Ms ET Moabi | | 29 / 06 / 2018 | |
| Ms B Hanise | | 29 / 06 / 2018 | |
| Mr RSM Ndlovu | | 28 / 08 / 2018 | |

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

| | |
|---|---|
| Mr MC Visser | (Group CEO) |
| Mr JH Hofmeyr | (Group CFO) |
| Mr D Matthee | (CEO OUTsurance Insurance Company Limited and OUTsurance Life Insurance Company Limited) |

Please refer to page 57 for the register of board meeting attendance.

## Directors and prescribed officer emoluments

Details of director and prescribed officer remuneration, is provided in note 37 to the financial statements.

## Audit, Risk and Compliance Committee report

The report of the Audit, Risk and Compliance Committee appears on pages 59 to 60.

## Management by third parties

The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders in Rand Merchant Investment Holdings Limited which has management control over OUTsurance Holdings Limited.

Directors' report *continued*

## Directors' interest in contracts

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the Group.

## Property and equipment

There is no change in the nature of the property and equipment of the Group or in the policy regarding their use during the year.

## Insurance

The Group adequately protects itself against the occurrence of specified events. The level of insurance cover is commensurate with the size and stature of the Group.

## Subsidiaries and associates

Interests in subsidiaries and associates are disclosed in note 19 and 20 of the financial statements.

## Group secretary and registered address

The Group secretary is Mr M Ehlert. The address of the Group secretary is that of the Company's registered office, being:

**Business address:**
1241 Embankment Road
Zwartkop Ext 7
Centurion

**Postal address:**
PO Box 8443
Centurion
0046

# Independent auditor's **report**

## To the Shareholders of Outsurance Holdings Limited

### Report on the audit of the consolidated and separate financial statements

#### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Outsurance Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

**What we have audited**

Outsurance Holdings Limited's consolidated and separate financial statements set out on pages 75 to 187 comprise:

> the consolidated and separate statements of financial position as at 30 June 2019;

> the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;

> the consolidated and separate statements of changes in equity for the year then ended;

> the consolidated and separate statements of cash flows for the year then ended; and

> the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

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

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "OUTsurance Annual Report 2019", which includes the Report of the Audit, Risk and Compliance Committee, the Certificate by the Group secretary and the Directors' Report as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

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

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

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

#### Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

> Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

> Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

> Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.

> Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Outsurance Holdings Limited for 21 years.

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
Director: F.J. Krüger
Registered Auditor
Johannesburg
9 September 2019

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

for the year ended 30 June

| | Notes | 2019 R'000 | 2018 R'000 |
|---|---|---|---|
| Gross insurance premium | 5 | **16 135 244** | 15 027 422 |
| Outward reinsurance premiums | | **(861 538)** | (847 021) |
| **Net premiums** | | **15 273 706** | 14 180 401 |
| Change in provision for unearned premiums | 27 | **(210 934)** | (6 821) |
| **Earned premiums, net of reinsurance** | | **15 062 772** | 14 173 580 |
| Commission income | | **74 396** | 99 063 |
| Other income | 6 | **9 627** | 2 403 |
| Investment income | 7 | **116 364** | 516 196 |
| Interest income on financial assets using the effective interest rate method | 7 | **453 354** | – |
| Net gain / (loss) from fair value adjustments on financial assets | 8 | **80 575** | (34 899) |
| **Income** | | **15 797 088** | 14 756 343 |
| Policyholder benefits on insurance contracts net of reinsurance | | **(7 620 781)** | (6 930 214) |
| Gross policyholder benefits under insurance contracts | 9 | **(8 463 655)** | (7 314 157) |
| Reinsurers' share of insurance contract claims | 9 | **842 874** | 383 943 |
| Transfer to policyholder liabilities under insurance contracts | 27 | **(122 571)** | (125 727) |
| Acquisition expenses | 10 | **(45 135)** | (31 228) |
| Marketing and administration expenses | 11 | **(4 301 043)** | (3 709 747) |
| Fair value adjustment to financial liabilities | | **(169 016)** | (193 070) |
| **Result of operating activities** | | **3 538 542** | 3 766 357 |
| Finance charges | 12 | **(56)** | (123) |
| Equity accounted earnings | | **157 907** | 305 474 |
| Impairment of investment in associate | 20 | **(450 000)** | – |
| **Profit before taxation** | | **3 246 393** | 4 071 708 |
| Taxation | 13 | **(1 064 504)** | (1 107 886) |
| **Net profit for the year** | | **2 181 889** | 2 963 822 |
| **Net profit attributable to:** | | | |
| Ordinary shareholders | | **2 100 387** | 2 908 175 |
| Non-controlling interest | | **81 502** | 55 647 |
| **Net profit for the year** | | **2 181 889** | 2 963 822 |

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

| | Notes | 2019 R'000 | 2018 R'000 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| **Items that may subsequently be reclassified to profit or loss** | | | |
| Fair value gains and losses on available-for-sale financial instruments | 8 | **–** | 93 540 |
| Exchange differences on foreign operations | | **(77 925)** | 43 529 |
| Fair value losses on financial assets at fair value through other comprehensive income | 8 | **(4 038)** | – |
| Deferred income tax relating to items that may subsequently be reclassified to profit or loss | | **1 131** | (20 953) |
| **Items that will not subsequently be reclassified** | | | |
| Other comprehensive income of associate | | **3 430** | 22 238 |
| **Total comprehensive income for the year** | | **2 104 487** | 3 102 176 |
| **Total comprehensive income attributable to:** | | | |
| Ordinary shareholders | | **2 037 564** | 3 043 930 |
| Non-controlling interest | | **66 923** | 58 246 |
| **Total comprehensive income for the year** | | **2 104 487** | 3 102 176 |
| **Earnings attributable to shareholders** | | | |
| Earnings per share (cents) | | | |
| Basic earnings per share | | **55.99** | 77.32 |
| Diluted earnings per share | | **54.62** | 73.97 |
| Weighted average number of ordinary shares ('000) | | **3 751 288** | 3 761 457 |
| Weighted average number of diluted ordinary shares ('000) | | **3 824 968** | 3 825 617 |

# Consolidated statement of **financial position**

at 30 June

| | Notes | 2019 R'000 | 2018 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Deferred income tax | 24 | **179 327** | 190 615 |
| Investment in associates | 20 | **3 622 848** | 4 125 091 |
| Intangible assets | 18 | **13 704** | – |
| Property and equipment | 17 | **1 038 227** | 1 104 446 |
| Employee benefits | 29 | **87 089** | 123 722 |
| Reinsurers' share of insurance contract provisions | 27 | **690 946** | 286 490 |
| Deferred acquisition costs | 27 | **360 029** | 307 424 |
| Financial assets | | | |
| Fair value through profit or loss | 21 | **2 035 365** | 9 102 963 |
| Available-for-sale | 21 | **–** | 1 169 222 |
| Fair value through other comprehensive income | 21 | **3 027 100** | – |
| Amortised cost | 21 | **5 195 221** | – |
| Derivative financial instruments | 22 | **35 658** | – |
| Insurance and other receivables | 23 | **2 764 112** | 2 623 459 |
| Tax receivable | | **117 636** | 1 876 |
| Cash and cash equivalents | 25 | **781 811** | 467 355 |
| **TOTAL ASSETS** | | **19 949 073** | 19 502 663 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders** | | | |
| Share capital | 26 | **37 442** | 37 523 |
| Share premium | 26 | **2 388 721** | 2 473 700 |
| Other reserves | | | |
| Share-based payment reserve | | **8 787** | 14 043 |
| Foreign currency translation reserve | | **294 316** | 357 662 |
| Other reserves | | **12 106** | 146 160 |
| Equity accounted reserve | | **41 282** | 32 820 |
| Transactions with non-controlling interest | | **(97 150)** | – |
| Retained earnings | | **7 809 350** | 7 882 900 |
| **Total shareholders' equity** | | **10 494 854** | 10 944 808 |
| Non-controlling interest | 19 | **483 339** | 199 297 |
| **TOTAL EQUITY** | | **10 978 193** | 11 144 105 |
| **LIABILITIES** | | | |
| Deferred income tax | 24 | **56 134** | 54 067 |
| Insurance contract liabilities | 27 | **7 457 013** | 6 724 671 |
| Share-based payment liability | 30 | **83 555** | 101 495 |
| Employee benefits | 29 | **272 812** | 316 021 |
| Financial liability at fair value through profit or loss | 31 | **65 222** | 92 655 |
| Derivative financial instruments | 22 | **25 381** | – |
| Tax liabilities | | **21 718** | 199 760 |
| Insurance and other payables | 28 | **989 045** | 869 889 |
| **TOTAL LIABILITIES** | | **8 970 880** | 8 358 558 |
| **TOTAL EQUITY AND LIABILITIES** | | **19 949 073** | 19 502 663 |

# Consolidated **statement of changes in equity**

for the year ended 30 June

| | Share capital R'000 | Share premium R'000 | Other reserves[1] R'000 | Foreign currency translation reserve R'000 | Share-based payments reserve R'000 | Transactions with non-controlling interest | Equity accounted reserve R'000 | Retained earnings R'000 | Total ordinary shareholders' interest R'000 | Non-controlling interest R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 30 June 2017 | 37 649 | 2 599 038 | 73 573 | 316 732 | 13 711 | – | – | 6 639 636 | 9 680 339 | 143 635 | 9 823 974 |
| Total profit for the year | – | – | – | – | – | – | – | 2 963 822 | 2 963 822 | – | 2 963 822 |
| Total other comprehensive income for the year | – | – | 72 587 | 43 529 | – | – | 22 238 | – | 138 354 | – | 138 354 |
| Sale of treasury shares to non-controlling interests | (126) | (125 338) | – | – | – | – | – | – | (125 464) | – | (125 464) |
| Profit/(loss) attributable to non-controlling interests | – | – | – | (2 599) | – | – | – | (55 647) | (58 246) | 58 246 | – |
| Reserve adjustment of associate entities | – | – | – | – | – | – | 10 582 | (370) | 10 212 | – | 10 212 |
| Share options spread payment | – | – | – | – | – | – | – | (38 861) | (38 861) | – | (38 861) |
| Share-based payment expense | – | – | – | – | 332 | – | – | – | 332 | – | 332 |
| Transactions with non-controlling interests of subsidiary | – | – | – | – | – | – | – | 2 690 | 2 690 | (2 690) | – |
| Shares issued to non-controlling interest | – | – | – | – | – | – | – | – | – | 106 | 106 |
| Ordinary dividend paid | – | – | – | – | – | – | – | (1 628 370) | (1 628 370) | – | (1 628 370) |
| **Balance at 30 June 2018** | **37 523** | **2 473 700** | **146 160** | **357 662** | **14 043** | **–** | **32 820** | **7 882 900** | **10 944 808** | **199 297** | **11 144 105** |
| Change in accounting policy | **–** | **–** | **(131 147)** | **–** | **–** | **–** | **–** | **106 297** | **(24 850)** | **–** | **(24 850)** |
| **Adjusted balance at 1 July 2018** | **37 823** | **2 493 700** | **15 013** | **357 662** | **14 043** | **–** | **32 920** | **7 989 147** | **919 958** | **199 297** | **11 119 255** |
| Total profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2 181 889** | **2 181 889** | **–** | **2 181 889** |
| Total other comprehensive income for the year | **–** | **–** | **(2 907)** | **(77 925)** | **–** | **–** | **3 430** | **–** | **(77 402)** | **–** | **(77 402)** |
| Profit / (loss) attributable to non-controlling interests | **–** | **–** | **–** | **14 579[3]** | **–** | **–** | **–** | **(81 502)[2]** | **(66 923)** | **66 923** | **–** |
| Sale of treasury shares to non-controlling interests | **(81)** | **(84 979)** | **–** | **–** | **–** | **–** | **–** | **–** | **(85 060)** | **–** | **(85 060)** |
| Reserve adjustment of associate entities | **–** | **–** | **–** | **–** | **–** | **–** | **5 032** | **–** | **5 032** | **–** | **5 032** |
| Share options spread transactions | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **183 166** | **183 166** | **–** | **183 166** |
| Share-based payment expense | **–** | **–** | **–** | **–** | **(5 256)** | **–** | **–** | **–** | **(5 256)** | **–** | **(5 256)** |
| Transactions with non-controlling interests of subsidiary | **–** | **–** | **–** | **–** | **–** | **(97 150)** | **–** | **(29 586)** | **(126 736)** | **115 740** | **(10 996)** |
| Shares issued to non-controlling interest | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **212 595** | **212 595** |
| Ordinary dividend paid | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2 433 814)** | **(2 433 814)** | **(111 216)** | **(2 545 030)** |
| **Balance 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** |

*1 Included in other reserves is available-for-sale reserve in the 2018 financial year and other comprehensive income reserve in the 2019 financial year.*
*2. Relates to profit or loss.*
*3. Relates to OCI.*

# Consolidated **statement of cash flows**

## for the year ended 30 June

| | Notes | 2019 R'000 | Restated 2018 R'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 32 | **3 640 000** | 3 783 934 |
| Interest received | | **500 308** | 458 577 |
| Dividends received | | **69 411** | 57 619 |
| Interest paid | | **(56)** | (123) |
| Cashflows on assets backing policyholder liabilities | | **(232 756)** | (152 653) |
| Proceeds on disposal of financial assets[1] | | **8 078 411** | 8 162 970 |
| Purchase of financial assets[1] | | **(7 866 612)** | (9 346 072) |
| Taxation paid | 33 | **(1 337 576)** | (1 069 423) |
| Ordinary dividends paid | | **(2 433 814)** | (1 628 370) |
| Preference dividends paid | 34 | **(196 449)** | (210 787) |
| Dividends paid to non-controlling interest | | **(111 216)** | – |
| **Cash inflow from operating activities** | | **109 651** | 55 672 |
| **INVESTING ACTIVITIES** | | | |
| Acquisition of investment in associates | | **(908)** | (78 256) |
| Dividends received from associates | | **219 520** | 133 280 |
| Property and equipment acquired to maintain and expand operations | | **(99 950)** | (254 363) |
| Proceeds on disposal of property and equipment | | **1 543** | 4 819 |
| Purchase of intangible assets | | **(13 704)** | – |
| Proceeds on disposal of financial assets[2] | | **102 285** | 28 939 |
| Purchase of financial assets[2] | | **(175 092)** | (6 118) |
| **Cash inflow / (outflow) from investing activities** | | **33 694** | (171 699) |
| **FINANCING ACTIVITIES** | | | |
| Purchase of shares from non-controlling interest | | **(10 996)** | – |
| Shares issued to non-controlling interest | | **212 595** | 106 |
| Purchase of treasury shares by share scheme participants | | **281 901** | 92 771 |
| Purchase of treasury shares by share trust from share scheme participants | | **(366 961)** | (218 234) |
| **Cash inflow / (outflow) from financing activities** | | **116 539** | (125 357) |
| **Increase / (decrease) in cash and cash equivalents** | | **259 884** | (241 384) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | | |
| Opening balance of cash and cash equivalents | | **467 355** | 721 460 |
| Effect of exchange rate on cash and cash equivalents | | **54 572** | (12 721) |
| Increase / (Decrease) in cash and cash equivalents | | **259 884** | (241 384) |
| **Closing balance of cash and cash equivalents** | 25 | **781 811** | 467 355 |

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

# Notes to the **consolidated financial statements**

## 1. General information

OUTsurance Holdings Limited (the Company), incorporated in South Africa, its subsidiaries and associates (collectively referred to as the Group) is a financial services Group offering insurance and investment products. The Group has operations in South Africa, Australia, New Zealand and Namibia.

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

## 2. Basis of preparation

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

The financial statements are prepared in accordance with the going concern principle using the historical cost basis except for certain financial assets and liabilities where it adopts the fair value basis of accounting. Such financial assets and liabilities include financial assets classified as available-for-sale, fair value through other comprehensive income, financial instruments at fair value through profit or loss, including designated, and financial instruments at amortised cost. The South African life insurance liabilities are valued based on the Financial Soundness Valuation (FSV) method as detailed in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (ASSA).

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements that affect the reported amounts in the statement of financial position and the statement of profit or loss and other comprehensive income. Where appropriate, details of estimates are presented in the accompanying notes to the consolidated financial statements. All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

All significant accounting policies are contained in note 41. Only accounting policies relating to transactions occurring in the current and prior year have been included.

## 3. Management of risk and capital

### 3.1 Risk management framework

The Group has developed an Enterprise Risk Management framework to provide reasonable assurance that the Group's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on Corporate Governance and Risk Management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored and mitigated.

Risk and governance oversight is provided by the OUTsurance Holdings Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Investment Committee, OUTsurance Reinsurance Committee and the OUTsurance Holdings Risk Committee, the latter three being internal management committees. Risk and governance oversight for the Youi Group is provided by the Youi Holdings Board and Audit and Risk and Compliance Committees.

### 3.2 Insurance risk management

#### 3.2.1 Short-term insurance

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

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

| Types of insurance contracts written | Personal | Commercial |
|---|---|---|
| Personal accident | <1.0% | <1.0% |
| Liability | – | 13.0% |
| Miscellaneous | <1.0% | <1.0% |
| Motor | 65.0% | 56.1% |
| Property | 34.4% | 28.5% |
| Transportation | <1.0% | 2.2% |

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Insurance risk management *continued*

### 3.2.1 Short-term insurance *continued*

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

The personal lines segment of the business provides insurance to the general public allowing them to cover their personal possessions and property. The commercial segment of the business targets medium and small businesses in South Africa. Insurance products are sold with either a monthly or an annual premium payable by the covered party or entity. The following gives a brief explanation of each risk:

*Personal accident*

Provides compensation arising out of death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within twelve months of this accident.

*Liability*

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

*Miscellaneous*

Provides cover relating to all other risks that are not covered more specifically under another insurance contract.

*Motor*

Provides indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft and liability to other parties.

*Property*

Provides indemnity relating to damage to movable and immovable property caused by perils including fire, explosion, earthquakes, acts of nature, burst geysers and pipes and malicious damage.

*Transportation*

Provides cover to risks relating to stock in transit.

**(ii) Insurance risks**

The primary activity of the Group relates to the assumption of possible loss arising from risks to which the Group is exposed through the sale of short-term insurance products. Insurance risks to which the Group is exposed relate to property, personal accident, liability, motor, transportation and other miscellaneous perils that may result from a contract of insurance. The Group is exposed to uncertainty regarding the timing, magnitude and frequency of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, the Group can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio. Insurance perils are unpredictable in nature, timing and extent, which expose the Group to a risk that actual future insured losses exceed their expected values.

Along with its underwriting approach, the Group also manages its insurance risk through its reinsurance programme which is structured to protect the Group against material losses to either a single insured risk, or a group of insured risks in the case of a catastrophe where there would tend to be a concentration of insured risks. The reinsurance programme also provides protection against the occurrence of multiple natural catastrophe events.

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

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Insurance risk management *continued*

### 3.2.1 Short-term insurance *continued*

#### (ii) Insurance risks *continued*

*Underwriting strategy*

The Group aims to diversify the pool of insured perils through writing a balanced portfolio of insurance risks over a large geographical area. Products are priced using statistical regression techniques which identify risk factors through correlations identified in past loss experiences. Risk factors would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of asset covered, security measures taken to protect the asset, major use of the covered item, and so forth. Risks are priced and accepted on an individual basis and as such there is minimal cross subsidy between risks. Insurance premiums charged for a certain pool of risks are adjusted frequently according to the normalised loss ratios experienced on that pool of risks.

Insurance risk is monitored within the Group on a daily basis to ensure that risks accepted by the Group for its own account are within the limits set by the Board of directors. Exception reporting is used to identify areas of concentration of risk so that management are able to consider the levels adopted in the reinsurance programme covering that pool of risk.

Risks are rated individually by programmes loaded onto the computer system based on information captured by staff for each risk. Conditions and exclusions are also automatically set at an individual risk level. Individual risks are only automatically accepted up to predetermined thresholds which vary by risk type. Risks with larger exposure than the thresholds are automatically referred and underwritten individually by the actuarial department. These limits are set at a substantially lower level than the reinsurance retention limits. No risks which exceed the upper limits of the reinsurance programme can be accepted without the necessary facultative cover being arranged. Non-claims bonuses which reward customers for not claiming also form part of the Group's Southern African underwriting strategy.

Multi-claimants are also monitored and managed by tightening conditions of cover or ultimately cancelling cover.

*Reinsurance strategy*

The Group reinsures a portion of the risk it assumes through its reinsurance programme in order to control the exposure of the Group to losses arising from insurance contracts and in order to protect the profitability of the Group and its capital. A suite of treaties are purchased in order to limit losses suffered from individual and aggregate insurance risks. Facultative reinsurance is purchased for certain individual risks that have been identified as being outside the limits set for these risks. The retention limits are modelled to optimise the balance between acceptable volatility and reinsurance cost. Acceptable volatility is as defined by the limits set by the Board of directors. During the current financial year, of the R8 463 million gross claims incurred, R843 million was reinsured. The Group only enters into reinsurance agreements with reinsurers which have adequate credit ratings as defined in note 3.3.3.

*Concentrations of risk and mitigating policies*

Risk concentrations are monitored by means of exception reporting. When large risks are underwritten individually, the impacts which they could have on risk concentrations are considered before they are accepted. Marketing efforts are also coordinated to attract business from a wide geographical spread. Risks which could lead to an accumulation of claims as the result of a single event are declined due to inadequate diversification and overall pool of risk covered. Attention is paid to attract large numbers of relatively small independent risks which would lead to very stable and predictable claims experience.

The South African operation is exposed to a concentration of insurance risk in the Gauteng province of South Africa where 49.5% (2018: 50.3%) of the total sum insured is domiciled. The Australian operation is exposed to a concentration of insurance risk in South East Queensland of Australia where 21.0% (2018: 22.0%) of the total sum insured is domiciled. The New Zealand operation is exposed to concentration of insurance risk in Auckland where 52.6% (2018: 53.3%) of the total sum insured is domiciled. The concentration risk which arises in each insurance entity is mitigated through the catastrophe excess of loss programme entered into by that entity.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Insurance risk management *continued*

### 3.2.1 Short-term insurance *continued*

**(ii) Insurance risks** *continued*

*Exposure to catastrophes and policies mitigating this risk*

Catastrophe modelling is performed to determine the impact of different types of catastrophe events (including natural disasters) in different geographical areas, at different levels of severity and at different times of the day. Catastrophe limits are set so as to render satisfactory results to these simulations. The catastrophe cover is also placed with reinsurers with a reputable credit rating and cognisance is taken of the geographical spread of the other risks underwritten by the reinsurers in order to reduce correlation of our exposure with the balance of their exposure. These reinsurance models are run at least annually to take account of changes in the portfolio and to take the latest potential loss information into account.

Due to the multiple natural catastrophe events in the current year, there was an increase in reinsurance recoveries.

*Profit sharing arrangements*

A profit sharing arrangement has been entered into between the OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit sharing arrangement, ninety percent of the operating profit generated on the Homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a biannual preference dividend. Where operating losses arise, OUTsurance remains liable for such losses in full, but these losses may be offset against future profit distributions.

### 3.2.2 Long-term insurance

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

The Group conducts long-term insurance business on various classes of long-term insurance risk. Products are only sold to the South African retail market. The types of insurance products sold are as follows:

> Underwritten Life;
> Life Protector; and
> Funeral Plan.

The following gives a brief explanation of each product:

*Underwritten Life*

The Underwritten Life Insurance product is a fully underwritten product and covers the following insurance risks:

> Death cover;
> Disability cover;
> Critical illness cover; and
> Family funeral cover.

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life Insurance Company Limited (OUTsurance Life) pays the contractual sum assured.

An optional OUTbonus is also available to policyholders. This allows the policyholder to receive all premiums paid over a period of 15 years, if all terms and conditions are met.

*Life Protector*

The Life Protector product is a limited underwritten product and covers the following insurance risks:

> Death cover;
> Disability cover;
> Critical illness cover;
> Retrenchment cover;
> Temporary disability cover;
> Family funeral cover; and
> Premium waiver.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Insurance risk management *continued*

### 3.2.2 Long-term insurance *continued*

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

In the event of a valid death, permanent disability (occupational disability) or critical illness claim, OUTsurance Life pays the contractual sum assured. In the event of a valid temporary disability or retrenchment claim, OUTsurance Life undertakes to pay the policyholder a monthly instalment of a specified percentage of the sum assured as well as the premium for the specified period.

*Funeral Plan*

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

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

**(ii) Insurance risks**

The primary activity of OUTsurance Life relates to the assumption of loss arising from risks to which it is exposed through the sale of long-term insurance products. It is exposed to uncertainty regarding primarily the timing, frequency and to a lesser extent, the magnitude of such potential losses.

The theory of probability forms the core base of the risk management model. Through the continuous sale of insurance products and subsequent growth in the pool of insured risks, OUTsurance Life can diversify its portfolio of risks and therefore minimise the impact of variability of insurance losses affecting that portfolio.

Along with its underwriting approach OUTsurance Life also manages its insurance risk through its quota share and excess of loss reinsurance programme which is structured to protect it against material losses on single insured risks.

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

Refer to section 27.5 for a sensitivity analysis of policyholder liabilities.

*Mortality and morbidity risk*

Mortality risk is the risk of loss arising due to actual death rates on life insurance business being higher than expected. Morbidity risk is the risk of loss arising due to policyholder health related claims being higher than expected.

The following processes and procedures are in place to manage mortality and morbidity risk:

> Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claims experience such as medical history and condition, age, gender, smoker status and HIV status.
> The expertise of reinsurers is used for pricing where adequate claims history is not available.
> Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual policy and provide cover in catastrophic events.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Insurance risk management *continued*

### 3.2.2 Long-term insurance *continued*

#### (ii) Insurance risks *continued*

*Underwriting experience risk*

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of the claims being higher than expected within a period. Selection risk is the risk that worse than expected risks are attracted and charged inadequate premiums. There is also a risk that the number of claims can increase due to the emergence of a new disease or pandemic. Underwriting experience risk is managed through:

> Product design and pricing

Rating factors are applied to different premium rates to differentiate between different levels of risk. Amongst other, premiums are differentiated by age, gender, smoking status and medical history. Premium rates are approved and reviewed by the Head of Actuarial Function.

> Underwriting

Underwriting ensures that only insurable risks are accepted and that premiums accurately reflect the unique circumstances of each risk. The Group has developed an advanced medical underwriting system which captures detailed information regarding the customers' medical history and condition which is used for premium adjustments and to indicate where further underwriting is required by experienced medical underwriters. To verify the accuracy of customer data, all new customers are subject to various medical tests. Quality audits are performed on the underwriting process to ensure underwriting rules are strictly followed.

> Reinsurance

OUTsurance Life's quota share and excess of loss reinsurance programme mitigates claims volatility and risk accumulation. Reinsurers also assist with pricing and product design decisions.

> Experience monitoring

Experience investigations are conducted and corrective action is taken where adverse experience is noted.

*Lapse risk*

Policyholders have the right to cancel their policies at any given time during the policy duration. There is a risk of financial loss and reduced future profitability due to the lapse experience being higher than expected. Lapse risk is managed by ensuring:

> Appropriate product design and pricing;

> Providing high quality service; and

> Continuous experience monitoring.

*Modelling and data risk*

Modelling risk is the risk that discounted cash flow models used to calculate actuarial liabilities and valuations do not accurately project the policy cash flows into the future. Data risk is the risk that the data which is used by the above models is inaccurate relative to actual experience.

Modelling risk is mitigated by way of employing specialist actuarial software which is widely used by industry participants. The services of the Head of Actuarial Function are also employed to ensure models are accurately set up.

Data risk is managed by using internal systems and data warehouse technology. Data reports are readily available and frequently used and reviewed by management to track performance and verify experience variables.

*Expense risk*

Expense risk is the risk that actual expenses are higher than the budgeted expenses on which premium rates are calculated. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from budget is investigated, reported and remedial action taken where necessary.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Insurance risk management *continued*

### 3.2.2 Long-term insurance *continued*

#### (ii) Insurance risks *continued*

*Non-claims bonus risk*

Non-claims bonus risk is the risk that the future contractual bonus payments are higher than assumed in the calculation of the policyholder liability (lapse risk) or that the investment return received is lower than expected (economic risk). A decrease in the lapse rate will result in an increase in the non-claims bonus risk. This risk is managed by applying an appropriate lapse assumption to allow for uncertainty.

A decrease in interest rates would result in a lowering of the investment return achieved on the assets backing the bonus liabilities, increasing the economic risk. This risk is mitigated by a zero-coupon deposits matching strategy, where the investment return on the zero coupon deposit matches the required investment return in both timing and amount.

## 3.3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including equity price risk, interest rate risk and currency risk), credit risk and liquidity risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

### 3.3.1 Financial instruments measured at fair value

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

> Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments as measured on reporting date.

> Level 2 – fair value is determined through inputs, other than quoted prices included in Level 1 that are observable for the assets and liabilities, either directly (prices) or indirectly (derived from prices).

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

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

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| **30 June 2019** | | | | |
| **Financial assets** | | | | |
| Equity securities | | | | |
| Exchange traded funds | 904 599 | – | – | 904 599 |
| Listed preference shares | 388 749 | – | – | 388 749 |
| Collective investment schemes | – | 115 273 | – | 115 273 |
| Debt securities | | | | |
| Unsecured loans | – | – | 36 889 | 36 889 |
| Zero-coupon deposits | – | 589 855 | – | 589 855 |
| Government, municipal and public utility securities | – | 400 366 | – | 400 366 |
| Money market securities <1 year | – | 1 356 088 | – | 1 356 088 |
| Money market securities >1 year | – | 1 286 803 | – | 1 286 803 |
| Derivative financial instruments | | | | |
| Collateralised swaps | – | 35 658 | – | 35 658 |
| | 1 293 348 | 3 784 043 | 36 889 | 5 114 280 |
| **Financial liabilities** | | | | |
| Debt securities | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 65 222 | 65 222 |
| Derivative financial instruments | | | | |
| Interest rate swaps | – | 25 381 | – | 25 381 |
| | – | 25 381 | 65 222 | 90 603 |

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.1 Financial instruments measured at fair value *continued*

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| **30 June 2018** | | | | |
| **Financial assets** | | | | |
| Equity securities | | | | |
| Exchange traded funds | 713 166 | – | – | 713 166 |
| Listed preference shares | 353 771 | – | – | 353 771 |
| Collective investment schemes | – | 109 841 | – | 109 841 |
| Debt securities | | | | |
| Unsecured loan | – | – | 33 503 | 33 503 |
| Unlisted preference shares | – | 102 285 | – | 102 285 |
| Zero-coupon deposits | – | 345 943 | – | 345 943 |
| Term deposits | – | 5 261 302 | – | 5 261 302 |
| Government, municipal and public utility securities | – | 559 724 | – | 559 724 |
| Money market securities <1 year | – | 1 483 180 | – | 1 483 180 |
| Money market securities >1 year | | 1 309 470 | | 1 309 470 |
| | 1 066 937 | 9 171 745 | 33 503 | 10 272 185 |
| **Financial liabilities** | | | | |
| Debt securities | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 92 655 | 92 655 |
| | – | – | 92 655 | 92 655 |

There were no transfers between levels during the year.

The fair values of the above instruments were determined as follows:

**Level 1**
The fair value of financial instruments traded in an active market is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The listed preference share investments comprise instruments which are listed on a securities exchange. The fair values of these investments are calculated based on the quoted closing prices of the individual investments on reporting date. These instruments are included in Level 1 and comprise mainly equity and debt instruments classified as trading securities. The investment in the exchange traded funds track the performance of the top fifty companies listed on the JSE.

**Level 2**
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are market observable, the instrument is included in Level 2.

Level 2 instruments comprise derivative, debt and short-term money market instruments where the value is determined by using a market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments.

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.1 Financial instruments measured at fair value *continued*

**Level 2** *continued*

The 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.

The Group makes use of an interest rate swap as well as a collateralised swap arrangement to manage the interest rate risk contained in the non-bonus policyholder liability. The interest rate swap is a fixed for floating instrument. The fixed leg is priced at a fixed percentage plus a contractually agreed basis point adjustment and the floating leg is priced at 3 month JIBAR. The fair value of collateralised swap arrangement, whereby the R2048 government bond serves as collateral and is the underlying, is determined in the same manner as other money market instruments held by the Group.

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

The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

**Level 3**

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

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.1 Financial instruments measured at fair value *continued*

**Level 3** *continued*

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, ie. profits arising out of profit sharing arrangements.

> Inputs are determined by the profits arising and calculations are made in accordance with the profit share percentages, stipulated within the profit sharing arrangement. No assumptions or adjustments or any other inputs are made to the profits before or after distribution. Distribution of the profits arising are made in the form of preference dividends.

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

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Opening balance | **92 655** | 110 372 |
| Preference dividend paid | **(196 449)** | (210 787) |
| Preference dividend charged to profit or loss | **169 016** | 193 070 |
| | **65 222** | 92 655 |

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.

Included as a Level 3 financial asset is the loan made out 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 30 June 2019, 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. The discount rate used to determine the fair value is based on the remaining contract period at the date of fair value measurement. This resulted in the value of R49 million being discounted at 7.75%, arriving at a fair value of R36.9 million (2018: R33.5 million). This discount will unwind over the maturity period.

The fair value of the loan is sensitive to movements in the interest rate of the risk-free government bond utilised in the calculation. A 1% movement in the interest rate would result in the following fair value being recognised at 30 June 2019:

| | Current R'000 | 1% increase in interest rate R'000 | 1% decrease in interest rate R'000 |
|---|---|---|---|
| **2019** | | | |
| Fair value | 36 889 | 35 146 | 38 708 |
| **2018** | | | |
| Fair value | 33 503 | 31 932 | 35 159 |

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.2 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in the market price. Investments valued at fair value are therefore subject to changes in value due to market fluctuations, which may impact on the net income during those financial years in which such fluctuations occur. Market risk therefore comprises equity price risk, interest rate risk and currency risk.

**Equity price risk**

Equity price risk is the risk that the price of an equity instrument will fluctuate due to market forces rather than as a direct result of some other market risk such as currency or interest rate risk.

The Group is exposed to equity price risk because of the listed equity investments held by the Group and classified on the statement of financial position as either available-for-sale, in the prior year in terms of IAS 39, or fair value through profit or loss, from the current year onwards in terms of the new IFRS 9 standard. The Group's objective is to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. The Group's holdings are diversified across companies and concentration in any one company is limited by parameters established by management which is influenced by solvency capital requirements. The Group's internal investment committee actively monitors equity assets owned by the Group as well as the concentration of these holdings.

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Ordinary shares** | | |
| Exchange traded funds | **904 599** | 713 165 |
| **Perpetual preference shares** | | |
| Listed preference shares | **388 749** | 353 771 |
| **Collective investment schemes** | | |
| Collective investment schemes | **115 273** | 109 841 |
| | **1 408 621** | 1 176 777 |

The Group's largest concentration of equity investments in one particular company comprises 7.2% (2018: 9.0%) in a financial services company, of the total assets subject to equity risk.

At 30 June 2019, the Group's total equities securities were recorded at their fair value of R1 409 million (2018: R1 177 million). A hypothetical decrease or increase of 10% in each individual unit price would decrease or increase profit or loss with a R140.9 million (2018: R117.7 million) before tax.

**Interest rate risk**

Interest rate risk is the risk that the value or the future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates.

The Group's financial assets are exposed to interest rate risk as a significant portion of the Group's assets are invested in interest rate sensitive debt and money market securities. The risk attached to these securities is managed according to pre-specified risk levels based on a mandate with the fund manager. Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million rand invested. These levels are approved annually by the Board of directors and the Group investment committee.

The Group's exposure to interest rate risk is R9 093 million (2018: R9 217 million), which consists of fixed rate instruments of R5 630 million (2018: R5 778 million) and variable rate instruments of R3 463 million (2018: R3 439 million).

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.2 Market risk *continued*

An increase or decrease of 1% in the market interest rate would result in the following changes in profit or loss and other comprehensive income before tax of the Group:

| | 2019 1% increase R'000 | 2019 1% decrease R'000 | 2018 1% increase R'000 | 2018 1% decrease R'000 |
|---|---|---|---|---|
| **Fixed rate instruments** | | | | |
| Cash and cash equivalents | **676** | **(676)** | 630 | (630) |
| Term deposits | **51 952** | **(51 952)** | 52 613 | (52 613) |
| Unsecured loan | **369** | **(369)** | 335 | (335) |
| Government, municipal and public utility securities | **1 303** | **(1 303)** | 1 739 | (1 739) |
| Money market securities <1 year | **1 324** | **(1 324)** | 2 599 | (2 599) |
| Money market securities >1 year | **322** | **(322)** | (139) | 139 |
| **Variable rate instruments** | | | | |
| Cash and cash equivalents | **7 142** | **(7 142)** | 4 043 | (4 043) |
| Unlisted preference shares | **–** | **–** | 1 023 | (1 023) |
| Government, municipal and public utility securities | **2 701** | **(2 701)** | 3 859 | (3 859) |
| Money market securities <1 year | **12 237** | **(12 237)** | 12 233 | (12 233) |
| Money market securities >1 year | **12 546** | **(12 546)** | 13 234 | (13 234) |
| Derivative financial instruments | **357** | **(357)** | – | – |
| | **90 929** | **(90 929)** | 92 169 | (92 169) |

The Group's asset portfolio used to match regulatory long-term policyholder liabilities is exposed to interest rate risk. At 30 June 2019, the carrying value and fair value of this portfolio was R600 million (2018: R346 million). A 100 basis point shift in the market yield curve would result in the following changes in the capital value of this portfolio:

| | 2019 100 bps increase R'000 | 2019 100 bps decrease R'000 | 2018 100 bps increase R'000 | 2018 100 bps decrease R'000 |
|---|---|---|---|---|
| Zero-coupon deposits | **(103 967)** | **116 919** | (88 437) | 100 821 |
| Derivative financial instruments – asset | **29 632** | **(31 840)** | – | – |
| Derivative financial instruments – liability | **10 607** | **(11 243)** | – | – |
| | **(63 728)** | **73 836** | (88 437) | 100 821 |

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.2 Market risk *continued*

**Currency risk – Translation risk**

Translation risk arises as a result of movements between the functional currencies of foreign subsidiaries and the Group's reporting currency.

The Group's exposure to translation risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the Board for seeking international diversification of investments to expand its income stream. The Group has investments in foreign subsidiaries and associates whose net assets are exposed to currency translation risk, primarily the Australian Dollar, the New Zealand Dollar and the Pound Sterling. The Group does not use currency hedging to manage the impact of currency translation on reported earnings.

The Group's investment in Youi Australia and Youi New Zealand are subsidiary companies of which 84.5% of the shares are owned. These entities are ultimately controlled by the Group.

The Group's investment in Main Street 1353 Proprietary Limited (Main Street), which is an investment in an associate (49% of its equity), is also subject to translation risk. The underlying investment in Main Street is a 29.9% investment in Hastings Group Holdings plc (Hastings) as well as debt funding whose functional currency is the Pound Sterling. As a result of this, the Group's equity accounted earnings from Main Street has an indirect translation risk due to the translation of Hastings' earnings and debt servicing expenses to Rand.

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

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

| | **Australian $ exposure** | | **New Zealand $ exposure** | | **Pound sterling £ exposure** | |
|---|---|---|---|---|---|---|
| | **$'000** | **R'000** | **$'000** | **R'000** | **£'000** | **R'000** |
| **At 30 June 2019** | | | | | | |
| Assets | **947 368** | **9 359 996** | **72 996** | **690 542** | **254 813** | **4 556 063** |
| Liabilities | **(651 116)** | **(6 433 026)** | **(27 163)** | **(256 962)** | **73 500** | **1 314 180** |
| Equity | **(296 252)** | **(2 926 970)** | **(45 833)** | **(433 580)** | **–** | **–** |

| | Australian $ exposure | | New Zealand $ exposure | | Pound sterling £ exposure | |
|---|---|---|---|---|---|---|
| | $'000 | R'000 | $'000 | R'000 | £'000 | R'000 |
| **At 30 June 2018** | | | | | | |
| Assets | 864 962 | 8 781 340 | 72 226 | 670 622 | 286 941 | 5 198 208 |
| Liabilities | (576 791) | (5 855 746) | (28 788) | (267 301) | 73 500 | 1 331 522 |
| Equity | (288 171) | (2 925 594) | (43 438) | (403 321) | – | – |
| *Exchange rates:* | | | | | | |
| Closing rate at 30 June 2019 | 9.88 | | 9.46 | | 17.88 | |
| Average rate: 1 July 2018 to 30 June 2019 | 10.11 | | 9.50 | | 18.25 | |
| Closing rate at 30 June 2018 | 10.15 | | 9.29 | | 18.12 | |
| Average rate: 1 July 2017 to 30 June 2018 | 9.90 | | 9.10 | | 17.30 | |

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.2 Market risk *continued*

**Currency risk – Translation risk** *continued*

The effect on the Group total comprehensive income after tax and the net asset value of the Group after an appreciation or depreciation in the foreign currency rate is provided in the following table:

| | **Australian $** | | **New Zealand $** | | **Pound Sterling £** | |
|---|---|---|---|---|---|---|
| | **2019 10% Rand appreciation** | **2019 10% Rand depreciation** | **2019 10% Rand appreciation** | **2019 10% Rand depreciation** | **2019 10% Rand appreciation** | **2019 10% Rand depreciation** |
| Comprehensive income after tax | **(67 451)** | **67 451** | **(2 257)** | **2 257** | **(16 475)** | **16 475** |
| – Net asset value | **292 697** | **(292 697)** | **43 358** | **(43 358)** | **324 188** | **(324 188)** |

| | Australian $ | | New Zealand $ | | Pound Sterling £ | |
|---|---|---|---|---|---|---|
| | 2018 10% Rand appreciation | 2018 10% Rand depreciation | 2018 10% Rand appreciation | 2018 10% Rand depreciation | 2018 10% Rand appreciation | 2018 10% Rand depreciation |
| Comprehensive income after tax | (82 704) | 82 704 | (9 828) | 9 828 | (21 383) | 21 383 |
| Net asset value | 292 559 | (292 559) | 40 332 | (40 332) | 386 669 | (386 669) |

### 3.3.3 Credit risk

Credit risk is the risk that a financial asset may not be realisable due to the inability or unwillingness of the issuer of such instrument to discharge its contractual obligations over the expected life of the financial instrument. The key areas where the Group is exposed to credit risk are:

> Financial instruments and cash and cash equivalents;

> Reinsurers' share of insurance liabilities; and

> Amounts due from debtors.

The Group limits its counterparty exposures from its money market and preference share investment operations by investing in entities with a minimum credit rating and ensuring counterparty diversification. The credit quality of the Group's counterparties as well as the exposure to credit risk is monitored by the Group's internal investment committee against a set Board investment mandate. The mandate is informed by the prudential regulatory capital requirements of each entity.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.3 Credit risk *continued*

The table below indicates the credit quality of the Group's financial assets:

| | AAA R'000 | AA R'000 | A R'000 | BBB R'000 | BB R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **At 30 June 2019** | | | | | | | |
| Cash and cash equivalents | 4 258 | 375 541 | – | – | 402 012 | – | 781 811 |
| Term deposits | – | 5 195 221 | – | – | – | – | 5 195 221 |
| Collective investment scheme | – | – | – | – | – | 115 273 | 115 273 |
| Unsecured loans | – | – | – | – | – | 36 889 | 36 889 |
| Government, municipal and public utility securities | 99 899 | 248 433 | – | 30 214 | 21 820 | – | 400 366 |
| Money market securities <1 year | 271 544 | 921 463 | 95 466 | 67 615 | – | – | 1 356 088 |
| Money market securities >1 year | 341 555 | 849 294 | 40 182 | 54 478 | 1 294 | – | 1 286 803 |
| Zero-coupon deposits | – | – | – | – | 589 855 | – | 589 855 |
| Derivative financial instruments | – | – | – | – | 35 658 | – | 35 658 |
| Listed preference shares | – | – | 221 | 3 494 | 385 034 | – | 388 749 |
| Reinsurers' share of insurance contract provisions | 27 080 | 340 951 | 218 298 | 104 617 | – | – | 690 946 |
| Insurance and other receivables | – | 59 474 | 24 427 | 3 809 | 714 | 2 623 345 | 2 711 769 |
| **Total** | 744 336 | 7 990 377 | 378 594 | 264 227 | 1 436 387 | 2 775 507 | 13 589 428 |

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.3 Credit risk *continued*

| | AAA R'000 | AA R'000 | A R'000 | BBB R'000 | BB R'000 | B R'000 | CCC R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 30 June 2018** | | | | | | | | | |
| Cash and cash equivalents | 15 977 | 186 322 | – | – | 265 056 | – | – | – | 467 355 |
| Term deposits | – | 5 261 302 | – | – | – | – | – | – | 5 261 302 |
| Unsecured loans | – | – | – | – | – | – | – | 33 503 | 33 503 |
| Government, municipal and public utility securities | 95 690 | 136 137 | – | 178 437 | 140 512 | – | – | 8 948 | 559 724 |
| Money market securities <1 year | 330 673 | 279 373 | 44 683 | 31 011 | 763 502 | 6 063 | – | 27 875 | 1 483 180 |
| Money market securities >1 year | 177 485 | 334 986 | 265 577 | 163 196 | 302 412 | 280 | – | 65 534 | 1 309 470 |
| Zero-coupon deposits | – | – | – | – | 345 943 | – | – | – | 345 943 |
| Listed preference shares | – | 697 | – | 338 | 349 416 | 1 930 | 1 390 | – | 353 771 |
| Unlisted preference shares | – | 102 285 | – | – | – | – | – | – | 102 285 |
| Reinsurers' share of insurance contract provisions | 7 453 | 119 535 | 66 226 | 93 276 | – | – | – | – | 286 490 |
| Insurance and other receivables | – | 60 698 | 3 278 | 7 613 | 1 581 | – | – | 2 466 070 | 2 539 240 |
| **Total** | 627 278 | 6 481 335 | 379 764 | 473 871 | 2 168 422 | 8 273 | 1 390 | 2 601 930 | 12 742 263 |

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the table above.

Where available, the Group utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is utilised.

In instances where the credit rating for the counterparty is not available, the Group utilises the credit rating provided by a service provider amended to take into account the credit risk appetite of the Group. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. This methodology has been approved by the Group's internal investment committee. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings for the respective country where the asset is held or exposed.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.3 Credit risk *continued*

The ratings are defined as follows:

**Long-term ratings**

AAA Highest credit quality. The ratings denote the lowest expectation of credit risk, 'AAA' ratings are assigned only in the case of exceptionally strong capacity or payment of financial commitments.

AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' rating indicates a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

BB Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B Highly speculative. 'B' rating indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met, however capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC Poor credit quality. 'CCC' rating indicates that default is highly probable and that the instrument carries a high credit risk.

**Impairment of financial assets**

*Overview*

The 'incurred loss model' under IAS 39 was replaced with the 'expected credit loss' (ECL) model under IFRS 9. Application of the ECL model results in credit losses being recognised earlier than under the incurred loss model. As a consequence of the new standard, the Group has revised its impairment methodology for each of these classes of financial assets.

*Impact of the ECL impairment model*

The Group determined that the application of ECL model at 1 July 2018 resulted in an additional ECL allowance as an opening adjustment to retained earnings as set out in note 40. During the current financial period the Group recognised an expected credit loss of R17.9 million. Included in the retained earnings opening balance adjustment is an ECL allowance of R34.1 million.

*Calculation of ECL*

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

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

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

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

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.3 Credit risk *continued*

**Impairment of financial assets** *continued*

*Calculation of ECL continued*

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

> Financial assets that are determined to have low credit risk at the reporting date; and

> Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition

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

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

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

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

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

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

*Significant increase in credit risk and default*

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers quantitative and qualitative information based on the Group's historical experience, credit assessment and forward-looking information. The Group's assessment of a significant increase in credit risk from initial recognition consists of market information and the credit quality attached to the instrument as well as that of the issuing party.

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

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

*Forward looking information*

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

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.3 Credit risk *continued*

**Analysis of credit risk and allowance for expected credit losses (ECL)**

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

| | Gross carrying amount R'000 | Allowance for ECL R'000 | Net amount R'000 |
|---|---|---|---|
| **At 30 June 2019** | | | |
| Cash and cash equivalents | **781 811** | **–** | **781 811** |
| Term deposits | **5 195 221** | **–** | **5 195 221** |
| Money market securities | **3 043 257** | **(16 157)** | **3 027 100** |
| Insurance and other receivables | **268 259** | **–** | **268 259** |
| Total | **9 288 548** | **(16 157)** | **9 272 391** |

The following table sets out information about the credit quality of financial assets at 30 June 2019 where it carries credit risk. The total carrying amounts represent the maximum exposure to credit risk at the reporting date:

**Money market securities**

| | Investment grade (AAA to BBB) R'000 | Sub-investment grade (BB and lower) R'000 | Unrated R'000 | Total R'000 |
|---|---|---|---|---|
| Money market securities | | | | |
| Expected credit losses | 15 864 | 293 | – | 16 157 |
| **Total** | 15 864 | 293 | – | 16 157 |

**Reinsurance credit exposures**

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that the gross claim is paid. However, the Group remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the Group is exposed to credit risk. The Group reviews its reinsurance agreements on an annual basis and ensures the appropriate credit quality of any reinsurer prior to renewing or entering an agreement. The Group's reinsurers have credit ratings of between BBB and AAA, measured on an international scale. Reinsurance credit exposures are determined using the incurred loss model which was adopted when IFRS 4 came into effect.

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.4 Liquidity risk

Liquidity risk is the risk that the Group, although solvent, is not able to settle its obligations as they fall due because of insufficient liquid assets in the Group. To ensure that the Group's operating entities are able to meet their liabilities when they fall due, the liquidity profile of the various balance sheets are actively managed with a defined investment mandate. The table below provides a liquidity profile of the Group's financial and insurance contract assets. The liquidity profile assumes that instruments can be traded or settled in the ordinary course of business and in markets with sufficient liquidity. The effects of discounting are considered to be immaterial.

| | 30 June 2019 R'000 | % | 30 June 2018 R'000 | % |
|---|---|---|---|---|
| **Liquid financial assets** | | | | |
| *Realisable within 30 days* | | | | |
| Cash and cash equivalents | **781 811** | **5.7%** | 467 355 | 3.5% |
| Collective investment scheme | **115 273** | **0.8%** | 109 841 | 0.8% |
| Government, municipal and public utility securities | **400 366** | **2.9%** | 559 724 | 4.2% |
| Money market securities | **2 642 891** | **19.1%** | 2 792 650 | 21.0% |
| Exchange traded funds – ordinary shares | **904 599** | **6.6%** | 713 166 | 5.4% |
| *Realisable between one and twelve months* | | | | |
| Term deposits | **5 195 221** | **37.6%** | 5 261 302 | 39.6% |
| Insurance and other receivables[1] | **2 711 769** | **19.6%** | 2 539 240 | 19.1% |
| Unlisted preference shares | **–** | **–** | 102 285 | 0.8% |
| **Total liquid financial assets** | **12 751 930** | | 12 545 563 | |
| **Illiquid assets** | | | | |
| *Realisable in more than twelve months* | | | | |
| Zero-coupon deposits | **589 855** | **4.3%** | 345 943 | 2.6% |
| Listed perpetual preference shares | **388 749** | **2.8%** | 353 771 | 2.7% |
| Unsecured loan | **36 889** | **0.3%** | 33 503 | 0.3% |
| Derivative financial instruments | **35 658** | **0.3%** | | |
| **Total illiquid assets** | **1 051 151** | | 733 217 | |
| **Total financial assets held** | **13 803 081** | **100%** | 13 278 780 | 100% |
| **Insurance contract assets** | | | | |
| Realisable within 30 days | **72 192** | | 81 748 | |
| Realisable between one and twelve months | **531 891** | | 141 702 | |
| Realisable after more than twelve months | **86 863** | | 63 040 | |
| **Total insurance contract assets held** | **690 946** | | 286 490 | |
| **Total assets (excluding non-monetary assets)** | **14 494 027** | | 13 565 270 | |

1 *This constitutes insurance and other receivables classified as financial assets.*

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.3 Financial risk management *continued*

### 3.3.4 Liquidity risk *continued*

**Maturity profile of liabilities**

The table below shows the expected liquidity profile of the Group's liabilities and shows the liquid asset coverage ratio which indicates how many times the liabilities are covered by liquid assets. This ratio is actively tracked in accordance with the investment and balance sheet management mandate of each Group entity. The effects of discounting are considered to be immaterial.

| | 0 – 12 months R'000 | 13 – 36 months R'000 | 37 – 60 months R'000 | >60 months R'000 | Total R'000 |
|---|---|---|---|---|---|
| **30 June 2019** | | | | | |
| **Expected discounted cash flows** | | | | | |
| Insurance contract liabilities – life | (230 427) | (435 192) | (341 082) | 1 494 643 | 487 942 |
| Insurance contract liabilities – non-life | 6 476 181 | 476 947 | 9 708 | 6 235 | 6 969 071 |
| Derivative financial instruments | 912 | 2 434 | 4 459 | 17 576 | 25 381 |
| | 6 246 666 | 44 189 | (326 915) | 1 518 454 | 7 482 394 |
| **Contractual undiscounted cash flows[1]** | | | | | |
| Financial liabilities at fair value through profit or loss | 65 222 | – | – | – | 65 222 |
| Insurance and other payables | 288 443 | – | 1 148 | – | 289 591 |
| | 353 665 | – | 1 148 | – | 354 813 |
| **Other liabilities** | | | | | |
| Share-based payment liability | 76 546 | 7 009 | – | – | 83 555 |
| Employee benefits | 243 973 | 28 839 | – | – | 272 812 |
| Tax liabilities | 21 717 | – | – | – | 21 717 |
| Insurance and other payables | 699 454 | – | – | – | 699 454 |
| | 1 041 690 | 35 848 | – | – | 1 077 538 |
| **Total liabilities** | 7 642 021 | 80 037 | (325 767) | 1 518 454 | 8 914 745 |
| Liquid asset coverage ratio | 1.67 | | | | 1.43 |
| Financial assets coverage ratio | | | | | 1.55 |

| | 0 – 12 months R'000 | 13 – 36 months R'000 | 37 – 60 months R'000 | >60 months R'000 | Total R'000 |
|---|---|---|---|---|---|
| **30 June 2018** | | | | | |
| **Expected discounted cash flows** | | | | | |
| Insurance contract liabilities | 5 697 975 | 23 920 | (277 853) | 1 280 629 | 6 724 671 |
| | 5 697 975 | 23 920 | (277 853) | 1 280 629 | 6 724 671 |
| **Contractual undiscounted cash flows[1]** | | | | | |
| Financial liabilities at fair value through profit or loss | 92 655 | – | – | – | 92 655 |
| Insurance and other payables | 224 140 | – | 1 148 | – | 225 288 |
| | 316 795 | – | 1 148 | – | 317 943 |
| **Other liabilities** | | | | | |
| Share-based payment liability | 98 498 | 2 997 | – | – | 101 495 |
| Employee benefits | 287 183 | 28 838 | – | – | 316 021 |
| Tax liabilities | 199 760 | – | – | – | 199 760 |
| Insurance and other payables | 644 601 | – | – | – | 644 601 |
| | 1 230 042 | 31 835 | – | – | 1 261 877 |
| **Total liabilities** | 7 244 812 | 55 755 | (276 705) | 1 280 629 | 8 304 491 |
| Liquid asset coverage ratio | 1.73 | | | | 1.51 |
| Financial assets coverage ratio | | | | | 1.60 |

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

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.4 Capital management

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in conducting insurance business and to facilitate growth and strategic objectives.

The Group's objectives when managing capital are:

> to comply with the higher of, the regulatory solvency capital requirements for each entity and the Group, or the internal assessment of the capital requirement for each entity and the Group;

> to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;

> to provide an adequate return for shareholders by pricing insurance commensurately with the level of risk; and

> to retain sufficient surplus capital to facilitate future growth and strategic expansion.

The Group and its insurance entities assess the solvency capital requirement as follows:

> Non-life underwriting risk: The risk that arises from insurance obligations for short-term insurance business and includes reserve, premium, catastrophe and lapse risk.

> Life underwriting risk: The risk that arises from insurance obligations for long-term insurance business and includes lapse, mortality, morbidity, catastrophe and expense risks.

> Market risk: The risk of loss arising from movements in market prices on the value of the insurer's assets and liabilities or of loss arising from the default of the insurer's counterparties.

> Operational risk: The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and the type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities.

The Group and its insurance entities set a target solvency coverage multiple of the regulated minimum for each jurisdiction and the Group in aggregate to act as a buffer against uncertainty. These target multiples are derived from considering the unique risk characteristics of each entity and the Group in aggregate. These risk characteristics include the impact of stress and scenario tests, the level and variability of profits and the accepted risk appetite. The target multiple is maintained at all times throughout the year.

Qualifying regulatory capital or own funds consists of retained earnings, contributed share capital and distributable reserves.

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

| Solvency coverage ratio[1] | Jurisdiction | SAM SCR Ratio 2019 | SAM SCR Ratio 2018 | SAM Target SCR |
|---|---|---|---|---|
| **Group** | | **2.40** | 2.40 | 1.40 |
| **Short-term insurance** | | | | |
| OUTsurance Insurance Company Limited | South Africa | **2.30** | 2.50 | 1.25 |
| OUTsurance Insurance Company of Namibia Limited | Namibia | **2.10** | 2.50 | 1.20 |
| Youi Proprietary Limited | Australia | **3.70** | 3.90 | 2.00 |
| Youi New Zealand Proprietary Limited | New Zealand | **15.30** | 6.30 | 2.00 |
| **Long-term insurance** | | | | |
| OUTsurance Life Insurance Company Limited | South Africa | **3.20** | 2.80 | 1.30 – 1.70 |

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

Notes to the consolidated financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.4 Capital management *continued*

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

**Group and South African operations**

The SAM regime became effective on 1 July 2018 after the Insurance Bill obtained final approval during January 2018. Up to 30 June 2019, the SCR for OUTsurance and OUTsurance Life was calculated based on Board Notice 169 of 2011 and SAP 104 respectively.

The SAM regime prescribes certain measures which insurers need to measure their eligible own funds and prescribes the manner in which the solvency capital requirement (SCR) needs to be calculated.

The SAM regime aims to prescribe certain measures in which insurers need to measure their eligible own funds (similar to qualifying capital). It also prescribes the manner in which the solvency capital requirement (SCR) needs to be calculated.

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

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

From 1 July 2018, OUTsurance Holdings Limited and its subsidiaries are regulated as an insurance group. The deduction and aggregation method is used to assess capital adequacy on a group-wide basis. This method sums the solo capital requirements and aims to calculate the relevant adjustments to avoid double or multiple gearing of capital. Excess or deficits of capital existing at the level of each entity in the group, i.e. on a solo basis, are aggregated (net of intragroup transactions) in order to measure the own funds surplus (or deficit) at a Group level.

**Australian operations – Short-term insurance operations**

The Australian Prudential Regulation Authority (APRA) imposes capital requirements on Australian subsidiaries which are licensed general insurers calculated in accordance with Prudential Standards GPS 110 Capital Adequacy. The prudential capital requirement (PCR) is equal to the sum of the prescribed capital amount (PCA) and any supervisory adjustment determined by APRA.

The PCA is calculated in accordance with the Standard Method as the sum of:

> Insurance risk charge;
> Insurance Concentration risk charge;
> Asset risk charge;
> Asset Concentration risk charge;
> Operational risk charge; and
> Less aggregation benefit.

**New Zealand operations – Short-term insurance operations**

The Reserve Bank of New Zealand (RBNZ) imposes capital requirements on New Zealand subsidiaries which are licensed general insurers calculated in accordance with the Solvency Standard for Non-life Insurance Business issued under section 55 of the Insurance (Prudential Supervision) Act 2010.

The minimum solvency capital is calculated as the sum of:

> Insurance risk capital charge;
> Catastrophe risk capital charge;
> Reinsurance recovery risk capital charge;
> Asset risk capital charge;
> Foreign currency risk capital charge; and
> Interest rate capital charge.

Notes to the consolidated financial statements *continued*

## 4. Segment information

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

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

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

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

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

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

## Notes to the consolidated financial statements *continued*

# 4. Segment information

## 4.1 Market segmentation

| | Short-term insurance | | Short-term insurance | | Long-term insurance | | |
|---|---|---|---|---|---|---|---|
| | OUTsurance | | | | | | |
| | Personal[1] R'000 | Commercial R'000 | Youi Australia Personal R'000 | Youi New Zealand Personal R'000 | OUTsurance Life R'000 | Central and new business develop-ment R'000 | Group Total R'000 |
| **Segment income statement information** | | | | | | | |
| **Year end 30 June 2019** | | | | | | | |
| Gross written premium | 7 055 229 | 1 325 123 | 7 022 685 | 228 910 | 503 297 | – | 16 135 244 |
| Outward reinsurance premiums | (105 761) | (22 974) | (507 549) | (183 086) | (42 168) | – | (861 538) |
| Change in provision for unearned premium | (8 662) | (1 270) | (205 854) | 4 852 | – | – | (210 934) |
| **Earned premium, net of reinsurance** | 6 940 806 | 1 300 879 | 6 309 282 | 50 676 | 461 129 | – | 15 062 772 |
| Commission income | – | – | 2 576 | 71 820 | – | – | 74 396 |
| Other income | – | – | 4 005 | – | – | 5 622 | 9 627 |
| Policyholder benefits on insurance contracts net of reinsurance | (3 421 338) | (683 184) | (3 406 185) | (28 422) | (81 133) | (519) | (7 620 781) |
| Transfer to policyholder liabilities under insurance contracts | – | – | – | – | (122 571) | – | (122 571) |
| Marketing, acquisition and administration expenses[2] | (1 485 151) | (439 639) | (2 015 747) | (85 334) | (240 178) | (72 061) | (4 338 110) |
| Fair value adjustment to financial liabilities | (169 016) | – | – | – | – | – | (169 016) |
| **Underwriting result** | 1 865 301 | 178 056 | 893 931 | 8 740 | 17 247 | (66 958) | 2 896 317 |
| Investment income on technical reserves | 105 045 | 18 784 | 98 260 | 3 294 | 50 777 | – | 276 160 |
| **Operating profit** | 1 970 346 | 196 840 | 992 191 | 12 034 | 68 024 | (66 958) | 3 172 477 |
| Equity accounted earnings | | | | | | | 157 907 |
| Impairment of investment in associate | | | | | | | (450 000) |
| **Operating profit including associate earnings** | | | | | | | 2 880 384 |
| Net investment income on shareholder investment capital | | | | | | | 366 009 |
| **Profit before tax** | | | | | | | 3 246 393 |

Notes to the consolidated financial statements *continued*

## 4. Segment information *continued*

### 4.1 Market segmentation *continued*

| | Short-term insurance | | Short-term insurance | | Long-term insurance | | |
|---|---|---|---|---|---|---|---|
| | OUTsurance | | | | | | |
| | Personal[1] R'000 | Commercial R'000 | Youi Australia Personal R'000 | Youi New Zealand Personal R'000 | OUTsurance Life R'000 | Central and new business develop-ment R'000 | Group Total R'000 |
| **Segment income statement information** | | | | | | | |
| **Year end 30 June 2018** | | | | | | | |
| Gross written premium | 6 631 432 | 1 164 668 | 6 537 600 | 225 094 | 468 628 | – | 15 027 422 |
| Outward reinsurance premiums | (129 259) | (31 819) | (462 783) | (184 637) | (38 523) | – | (847 021) |
| Change in provision for unearned premium | (6 125) | (2 906) | (13 356) | 12 733 | – | 2 833 | (6 821) |
| **Earned premium, net of reinsurance** | 6 496 048 | 1 129 943 | 6 061 461 | 53 190 | 430 105 | 2 833 | 14 173 580 |
| Commission income | – | 6 706 | 833 | 91 524 | – | – | 99 063 |
| Other income | – | – | 1 888 | – | – | 515 | 2 403 |
| Policyholder benefits on insurance contracts net of reinsurance | (2 991 771) | (587 492) | (3 225 702) | (34 760) | (90 489) | – | (6 930 214) |
| Transfer to policyholder liabilities under insurance contracts | – | – | – | – | (125 727) | – | (125 727) |
| Marketing, acquisition and administration expenses[2] | (1 310 443) | (302 208) | (1 830 381) | (106 611) | (196 550) | 12 691 | (3 733 502) |
| Fair value adjustment to financial liabilities | (193 070) | – | – | – | – | – | (193 070) |
| **Underwriting result** | 2 000 764 | 246 949 | 1 008 099 | 3 343 | 17 339 | 16 039 | 3 292 533 |
| Investment income on technical reserves | 103 020 | 14 287 | 88 343 | 3 398 | 14 817 | – | 223 865 |
| **Operating profit** | 2 103 784 | 261 236 | 1 096 442 | 6 741 | 32 156 | 16 039 | 3 516 398 |
| Equity accounted earnings | | | | | | | 305 474 |
| **Operating profit including associate earnings** | | | | | | | 3 821 872 |
| Net investment income on shareholder investment capital | | | | | | | 249 836 |
| **Profit before tax** | | | | | | | 4 071 708 |

1 *Includes Homeowners cover book sourced from the FirstRand Limited.*
2 *Excludes investment management expenses, included in net investment income.*

Notes to the consolidated financial statements *continued*

# 4. Segment information *continued*

## 4.2 Geographical segmentation

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

| | Southern Africa | | Australasia | | | |
|---|---|---|---|---|---|---|
| | OUTsurance R'000 | OUTsurance Life R'000 | Youi Australia R'000 | Youi New Zealand R'000 | Unallocated and consolidation adjustments R'000 | Group total R'000 |
| **Segment balance sheet information** | | | | | | |
| **Year ended 30 June 2019** | | | | | | |
| **Segment assets** | | | | | | |
| Property and equipment | 93 593 | – | 696 145 | 2 281 | 246 208 | 1 038 227 |
| Financial assets | 5 350 379 | 1 075 491 | 7 099 542 | 456 272 | (3 723 998) | 10 257 686 |
| Cash and cash equivalents | 177 881 | 68 496 | 232 776 | 28 531 | 274 127 | 781 811 |
| Other assets | 466 502 | 179 556 | 838 514 | 196 093 | 6 190 684 | 7 871 349 |
| **Total segment assets** | **6 088 355** | **1 323 543** | **8 866 977** | **683 177** | **2 987 021** | **19 949 073** |
| **Segment equity** | | | | | | |
| Share capital | 25 000 | 435 002 | 1 322 819 | 576 449 | 66 893 | 2 426 163 |
| Retained earnings | 3 692 812 | 298 049 | 1 330 968 | (162 869) | 2 650 390 | 7 809 350 |
| Other reserves | 10 529 | 1 577 | 215 751 | 20 027 | 494 796 | 742 680 |
| **Total segment equity** | **3 728 341** | **734 628** | **2 869 538** | **433 607** | **3 212 079** | **10 978 193** |
| **Segment liabilities** | | | | | | |
| Insurance contract liabilities | 1 887 528 | 487 942 | 4 923 294 | 158 249 | – | 7 457 013 |
| Other liabilities | 472 486 | 100 973 | 1 074 145 | 91 321 | (225 058) | 1 513 867 |
| **Total segment liabilities** | **2 360 014** | **588 915** | **5 997 439** | **249 570** | **(225 058)** | **8 970 880** |
| **Total segment equity and liabilities** | **6 088 355** | **1 323 543** | **8 866 977** | **683 177** | **2 987 021** | **19 949 073** |

Notes to the consolidated financial statements *continued*

# 4. Segment information *continued*

## 4.2 Geographical segmentation *continued*

| | Southern Africa | | Australasia | | | |
|---|---|---|---|---|---|---|
| | OUTsurance R'000 | OUTsurance Life R'000 | Youi Australia R'000 | Youi New Zealand R'000 | Unallocated and consolidation adjustments R'000 | Group total R'000 |
| **Segment Balance sheet information** | | | | | | |
| **Year ended 30 June 2018** | | | | | | |
| **Segment assets** | | | | | | |
| Property and equipment | 123 532 | – | 714 031 | 3 007 | 263 876 | 1 104 446 |
| Financial assets | 5 761 889 | 913 437 | 6 924 933 | 290 459 | (1 079 293) | 12 811 425 |
| Cash and cash equivalents | 164 198 | 57 284 | 153 106 | 28 301 | 64 466 | 467 355 |
| Other assets | 235 109 | 120 124 | 662 610 | 342 827 | 3 758 767 | 5 119 437 |
| **Total segment assets** | 6 284 728 | 1 090 845 | 8 454 680 | 664 594 | 3 007 816 | 19 502 663 |
| **Segment equity** | | | | | | |
| Share capital | 25 000 | 435 002 | 1 340 020 | 576 283 | 134 918 | 2 511 223 |
| Retained earnings | 3 781 819 | 210 676 | 1 402 093 | (185 429) | 2 673 741 | 7 882 900 |
| Other reserves | 132 964 | 13 196 | 294 193 | 12 467 | 297 162 | 749 982 |
| **Total segment equity** | 3 939 783 | 658 874 | 3 036 306 | 403 321 | 3 105 821 | 11 144 105 |
| **Segment liabilities** | | | | | | |
| Insurance contract liabilities | 1 720 460 | 347 157 | 4 494 399 | 162 655 | – | 6 724 671 |
| Other liabilities | 624 485 | 84 814 | 923 975 | 98 618 | (98 005) | 1 633 887 |
| **Total segment liabilities** | 2 344 945 | 431 971 | 5 418 374 | 261 273 | (98 005) | 8 358 558 |
| **Total segment equity and liabilities** | 6 284 728 | 1 090 845 | 8 454 680 | 664 594 | 3 007 816 | 19 502 663 |

# 5. Gross insurance premium written

| | **2019 R'000** | 2018 R'000 |
|---|---|---|
| **Short-term insurance** | | |
| Premium written | **15 541 198** | 14 419 757 |
| Policyholder fees written | **90 749** | 139 037 |
| | **15 631 947** | 14 558 794 |
| **Long-term insurance** | | |
| Premium received | **488 225** | 453 732 |
| Policyholder fees received | **15 072** | 14 896 |
| | **503 297** | 468 628 |
| | **16 135 244** | 15 027 422 |

Notes to the consolidated financial statements *continued*

## 6. Other income

During the current financial year, the Group qualified for a job-creation incentive associated with offshored call centre activities of the Youi Holdings Group's offshored to South Africa. The incentive is accounted for based on the actual incentive qualified for during the year under review.

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Government grant received | **9 445** | 2 355 |
| Other | **182** | 48 |
| | **9 627** | 2 403 |

## 7. Investment income

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Investment income: | **116 364** | 516 196 |
| Interest – financial assets at fair value through profit or loss | **46 953** | – |
| Dividends – listed equities | **69 411** | 57 619 |
| Interest – financial assets measured at amortised cost | **–** | 451 670 |
| Interest – other financial assets | **–** | – |
| Interest – unlisted debt instruments | **–** | 6 907 |
| Interest income on financial assets using effective interest rate method | **453 354** | – |
| Interest – financial assets measured at amortised cost | **166 929** | – |
| Interest – other financial assets | **286 425** | – |
| | **569 718** | 516 196 |

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

| | Available-for-sale R'000 | Fair value designated though profit or loss R'000 | Fair value through other comprehensive income R'000 | Impairments R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Net realised (loss) / gain on financial assets | **–** | **(19 069)** | **299** | **–** | **(18 770)** |
| Net unrealised fair value gains | **–** | **81 349** | **–** | **–** | **81 349** |
| Expected credit loss | **–** | **–** | **17 996** | **–** | **17 996** |
| Fair value adjustments on financial assets before OCI | **–** | **62 280** | **18 295** | **–** | **80 575** |
| Net unrealised fair value losses | **–** | **–** | **(4 038)** | **–** | **(4 038)** |
| | **–** | **62 280** | **14 257** | **–** | **76 537** |
| **2018** | | | | | |
| Net realised gain on financial assets | – | 1 256 | – | – | 1 256 |
| Net unrealised fair value gains / (losses) | 70 180 | (12 795) | – | – | 57 385 |
| Available-for-sale reserve released to profit or loss | 23 360 | – | – | (23 360) | – |
| | 93 540 | (11 539) | – | (23 360) | 58 641 |

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

Notes to the consolidated financial statements *continued*

## 9. Policyholder benefits on insurance contracts net of reinsurance

| | 2019 Gross R'000 | 2019 Reinsurance R'000 | 2019 Net R'000 | 2018 Gross R'000 | 2018 Reinsurance R'000 | 2018 Net R'000 |
|---|---|---|---|---|---|---|
| **Short-term insurance** | | | | | | |
| Claim paid net of recoveries | **(7 417 556)** | **404 160** | **(7 013 396)** | (7 078 865) | 712 141 | (6 366 724) |
| Change in claims provisions | **(470 494)** | **393 681** | **(76 813)** | 277 228 | (368 074) | (90 846) |
| Non-claims bonuses on insurance contracts | **(449 438)** | **–** | **(449 438)** | (382 155) | – | (382 155) |
| | **(8 337 488)** | **797 841** | **(7 539 647)** | (7 183 792) | 344 067 | (6 839 725) |
| **Long-term insurance** | | | | | | |
| Life claims | **(102 694)** | **40 314** | **(62 380)** | (103 882) | 37 168 | (66 714) |
| Disability claims | **(11 222)** | **2 438** | **(8 784)** | (2 638) | 571 | (2 067) |
| Retrenchment claims | **(1 806)** | **273** | **(1 533)** | (1 895) | 189 | (1 706) |
| Critical illness claims | **(10 364)** | **2 008** | **(8 356)** | (9 001) | 1 948 | (7 053) |
| Non-claims bonuses on insurance contracts | **(81)** | **–** | **(81)** | (12 949) | – | (12 949) |
| | **(126 167)** | **45 033** | **(81 134)** | (130 365) | 39 876 | (90 489) |
| **Total claims incurred** | **(8 463 655)** | **842 874** | **(7 620 781)** | (7 314 157) | 383 943 | (6 930 214) |

## 10. Acquisition expenses

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Acquisition expenses incurred | **(45 135)** | (31 228) |
| | **(45 135)** | (31 228) |

Notes to the consolidated financial statements *continued*

## 11. Marketing and administration expenses

The following expenses have been included in the statement of profit or loss and other comprehensive income under marketing and administration expenses:

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Depreciation** | | |
| Buildings | **34 577** | 32 678 |
| Computer equipment and software | **94 161** | 94 638 |
| Furniture, fittings and office equipment | **9 677** | 8 310 |
| Motor vehicles | **706** | 515 |
| **Total depreciation** | **139 121** | 136 141 |
| **Employee benefits** | | |
| Salaries excluding retirement funding | **2 080 949** | 1 788 912 |
| Medical aid contributions | **106 156** | 82 212 |
| Retirement funding | **191 428** | 161 452 |
| Service cost relating to employee benefits | **84 310** | 99 493 |
| Share-based payments | **36 803** | 55 385 |
| **Total employee benefits** | **2 499 646** | 2 187 454 |
| **Other disclosable items** | | |
| Audit fees | **17 323** | 11 872 |
| External audit fees | **11 474** | 8 731 |
| Other fees / services | **5 849** | 3 141 |
| Operating lease expenses | **74 511** | 96 055 |
| Loss on sale of property, plant and equipment | **6 519** | 6 444 |
| Consulting and legal fees for professional services | **82 651** | 59 204 |
| Investment fees paid | **8 057** | 7 469 |
| Foreign exchange loss / (profit) | **208** | 465 |
| Marketing and management expenses | **1 473 007** | 1 204 643 |
| **Total other disclosable expenses** | **1 662 276** | 1 386 152 |
| **Total marketing and administration expenses** | **4 301 043** | 3 709 747 |

## 12. Finance charges

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Interest paid – operational financing | **56** | 123 |
| | **56** | 123 |

Notes to the consolidated financial statements *continued*

## 13. Taxation

| | 2019 R'000 | 20181 R'000 |
|---|---|---|
| **Normal taxation** | | |
| **Current tax** | | |
| Current year | **(1 044 422)** | (1 141 504) |
| Prior year over / (under) provision | **823** | (1 882) |
| | **(1 043 599)** | (1 143 386) |
| **Deferred tax** | | |
| Current year | **(20 376)** | 37 458 |
| Prior year (under) / over provision | **(354)** | 1 277 |
| | **(20 730)** | 38 735 |
| **Total normal taxation** | **(1 064 329)** | (1 104 651) |
| Withholding taxation incurred | **(175)** | (3 235) |
| **Total taxation charge** | **(1 064 504)** | (1 107 886) |
| Tax rate reconciliation | | |
| Normal tax on companies | **908 990** | 1 140 078 |
| Non-temporary differences | **144 609** | (11 831) |
| Fair value adjustment | **122** | (407) |
| Capital gains tax | **(3 250)** | 1 754 |
| Foreign tax rate differential | **19 638** | 20 017 |
| Exempt dividends | **(9 383)** | (9 577) |
| Impairment of associate | **126 000** | – |
| Equity accounted earnings | **(44 214)** | (85 533) |
| Fair value adjustments to financial liabilities | **47 324** | 54 060 |
| Non-allowable expenses | **8 372** | 7 855 |
| Prior year (over) / under provision | **(469)** | 605 |
| Witholding taxation incurred | **175** | 201 |
| Deferred tax asset not utilised / (recognised) | **11 199** | (21 167) |
| **Amount calculated at effective rate** | **1 064 504** | 1 107 886 |

## 14. Earnings per share

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

### 14.1 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares held by the Group as treasury shares.

| | 2019 | 2018 |
|---|---|---|
| Earnings attributable to ordinary shareholders (R'000) | **2 100 387** | 2 908 175 |
| Weighted average number of shares in issue ('000) | **3 751 288** | 3 761 457 |
| Basic earnings per share (cents) | **55.99** | 77.32 |

Notes to the consolidated financial statements *continued*

## 14. Earnings per share *continued*

### 14.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The options that have been issued to key personnel that have not yet vested or have not yet been exercised by the holders of those options have a potential dilutive effect on the earnings per share for the Group. Earnings dilution results from the Group's share incentive schemes as disclosed in note 30.

| | 2019 | 2018 |
|---|---|---|
| Earnings attributable to ordinary shareholders (R'000) | **2 100 387** | 2 908 175 |
| Diluted earnings attributable to the Youi Group (R'000) | **(11 224)** | (78 410) |
| **Total diluted earnings attributable to ordinary shareholders (R'000)** | **2 089 163** | 2 829 765 |
| Weighted average number of shares in issue ('000) | **3 751 288** | 3 761 457 |
| Dilution impact of share incentive schemes ('000) | **73 410** | 64 160 |
| **Diluted weighted average number of shares in issue ('000)** | **3 824 698** | 3 825 617 |
| Diluted earnings per share (cents) | **54.62** | 73.97 |

## 15. Headline earnings per share

Headline earnings per share is calculated by dividing the adjusted earnings attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Headline earnings reconciliation:

| | 2019 | 2018 |
|---|---|---|
| Earnings attributable to ordinary shareholders | **2 100 387** | 2 908 175 |
| Adjusted for: | | |
| Impairment of associate | **450 000** | – |
| Impairment of available-for-sale instruments | **–** | 23 360 |
| Loss on sale of property and equipment | **6 519** | 6 444 |
| Tax effect of adjustments | **(1 832)** | (5 345) |
| **Headline earnings attributable to ordinary shareholders** | **2 555 074** | 2 932 634 |
| Weighted average number of shares in issue ('000) | **3 751 288** | 3 761 457 |
| Headline earnings per share – basic (cents) | **68.11** | 77.97 |
| Headline earnings attributable to ordinary shareholders | **2 555 074** | 2 932 634 |
| Diluted headline earnings attributable to Youi Group | **(11 232)** | (79 028) |
| **Diluted headline earnings attributable to ordinary shareholders** | **2 543 842** | 2 853 606 |
| Diluted weighted average number of shares in issue ('000) | **3 824 698** | 3 825 617 |
| Headline earnings per share – diluted (cents) | **66.51** | 74.59 |

Notes to the consolidated financial statements *continued*

## 16. Dividend per share

| | 2019 | 2018 |
|---|---|---|
| Total dividends paid during the year (R'000)[1] | **2 457 894** | 1 641 128 |
| **Total dividends declared (R'000)** | **2 564 263** | 2 298 340 |
| Total dividends declared – interim (R'000) | **938 330** | 778 776 |
| Total dividends declared – final (R'000) | **1 170 064** | 1 253 640 |
| Total dividends declared – final special (R'000) | **455 869** | 265 924 |
| **Number of ordinary shares in issue ('000)** | **3 798 908** | 3 798 908 |
| Dividends declared per share (cents) | **67.50** | 60.50 |
| Dividend paid per share (cents) | **64.70** | 43.20 |

1 *Gross of treasury shares.*

## 17. Property and equipment

| | Land and buildings R'000 | Computer equipment R'000 | Computer software R'000 | Furniture, fittings and office equipment R'000 | Motor vehicles R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2019** | | | | | | |
| Opening net book amount | **931 635** | **95 780** | **49 280** | **26 972** | **779** | **1 104 446** |
| Additions | **2 381** | **66 736** | **11 292** | **18 752** | **789** | **99 950** |
| Disposals | **–** | **(6 812)** | **–** | **(1 250)** | **–** | **(8 062)** |
| Foreign exchange adjustments | **(17 555)** | **(193)** | **(125)** | **(1 111)** | **(2)** | **(18 986)** |
| Depreciation charge | **(34 577)** | **(58 668)** | **(35 493)** | **(9 677)** | **(706)** | **(139 121)** |
| **Closing net book amount** | **881 884** | **96 843** | **24 954** | **33 686** | **860** | **1 038 227** |
| **As at 30 June 2019** | | | | | | |
| Cost | **1 043 150** | **387 093** | **182 348** | **100 862** | **3 076** | **1 716 529** |
| Accumulated depreciation | **(161 266)** | **(290 250)** | **(157 394)** | **(67 176)** | **(2 216)** | **(678 302)** |
| **Net book amount** | **881 884** | **96 843** | **24 954** | **33 686** | **860** | **1 038 227** |

Notes to the consolidated financial statements *continued*

## 17. Property and equipment *continued*

| | Land and buildings R'000 | Computer equipment R'000 | Computer software R'000 | Furniture, fittings and office equipment R'000 | Motor vehicles R'000 | Property under development R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2018** | | | | | | | |
| Opening net book amount | 281 140 | 112 405 | 61 088 | 20 929 | 2 053 | 514 572 | 992 187 |
| Additions | 7 939 | 43 492 | 23 325 | 16 047 | 183 | 163 377 | 254 363 |
| Disposals | (8 285) | (482) | – | (1 553) | (943) | – | (11 263) |
| Transfer of property under development | 677 949 | – | – | – | – | (677 949) | – |
| Foreign exchange adjustments | 5 570 | (90) | (40) | (141) | 1 | – | 5 300 |
| Depreciation charge | (32 678) | (59 545) | (35 093) | (8 310) | (515) | – | (136 141) |
| **Closing net book amount** | 931 635 | 95 780 | 49 280 | 26 972 | 779 | | 1 104 446 |
| **As at 30 June 2018** | | | | | | | |
| Cost | 1 082 538 | 428 479 | 170 417 | 76 011 | 2 297 | – | 1 759 742 |
| Accumulated depreciation | (150 903) | (332 699) | (121 137) | (49 039) | (1 518) | – | (655 296) |
| **Net book amount** | 931 635 | 95 780 | 49 280 | 26 972 | 779 | – | 1 104 446 |

Land and buildings assets are utilised by the Group in the normal course of operations to provide services. The South African head office is situated in Centurion, Gauteng. The Australian head office for the Youi Group is situated on the Sunshine Coast. Both these properties are owner-occupied.

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

Refer to note 36 for the current and non-current analysis of property and equipment.

## 18. Intangible assets

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

| | **Internally developed computer software R'000** | **Total R'000** |
|---|---|---|
| **Year ended 30 June 2019** | | |
| Opening net book amount | – | – |
| Additions | **13 704** | **13 704** |
| **Closing net book amount** | **13 704** | **13 704** |
| **As at 30 June 2019** | | |
| Cost | **13 704** | **13 704** |
| **Net book amount** | **13 704** | **13 704** |

Notes to the consolidated financial statements *continued*

## 19. Subsidiaries

The Company had the following subsidiaries at 30 June 2019:

| Subsidiary | Nature of business | Country of Incorporation | Issued ordinary capital 2019 R'000 | Issued ordinary capital 2018 R'000 | Effective holdings 2019 | Effective holdings 2018 |
|---|---|---|---|---|---|---|
| OUTsurance Insurance Company Limited | Short-term insurer | South Africa | **25 000** | 25 000 | **100%** | 100% |
| OUTsurance Life Insurance Company Limited | Long-term insurer | South Africa | **435 002** | 435 002 | **100%** | 100% |
| Youi (Pty) Limited (South Africa) | Administration company | South Africa | **15 000** | 15 000 | **100%** | 100% |
| OUTsurance International Holdings (Pty) Limited | Holding company | South Africa | **1 169 086** | 1 169 086 | **100%** | 100% |
| OUTsurance Shared Services (Pty) Limited | Administration company | South Africa | **100** | 100 | **100%** | 100% |
| OUTvest Nominees RF (Pty) Limited | Nominee | South Africa | **1** | 1 | **100%** | 100% |
| OUTvest (Pty) Limited | Online digital advice and Administration services | South Africa | **100 000** | 75 000 | **100%** | 100% |
| Bateleur Technologies (Pty) Limited | Technology company | South Africa | **86 000** | 1 000 | **100%** | 100% |
| Youi NZ Pty Limited | Short-term insurer | New Zealand | **575 086** | 575 086 | **84.5%** | 93.0% |
| Youi Holdings Pty Limited | Holding company | Australia | **1 521 738** | 1 312 067 | **84.5%** | 93.0% |
| Youi Pty Limited (Australia) | Short-term insurer | Australia | **1 188 792** | 1 188 792 | **84.5%** | 93.0% |
| Youi Properties Pty Limited | Property company | Australia | **10** | 10 | **84.5%** | 93.0% |
| OUTsurance Properties (Pty) Limited | Property company | South Africa | **38 105** | 38 105 | **100%** | 100% |

All subsidiaries are included in the consolidation. The proportion of voting rights in subsidiaries does not differ from the proportion of ordinary shares held.

The total non-controlling interest for the financial year is R483.3 million (2017: 199.3 million) which is attributable to the minority shareholders of Youi Holdings Pty Limited.

**Reconciliation of non-controlling interest:**

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Opening balance of non-controlling interest | **199 297** | 143 635 |
| Profit attributable to non-controlling interest | **81 502** | 55 647 |
| Shares issued to non-controlling interest | **212 595** | 106 |
| Foreign currency translation reserve attributable to non-controlling interest | **(14 579)** | 2 599 |
| Dividends paid | **(111 216)** | – |
| Equity transactions with non-controlling interests | **115 740** | (2 690) |
| **Closing balance of non-controlling interest** | **483 339** | 199 297 |

**Involvement with unconsolidated structured entities**

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

Notes to the consolidated financial statements *continued*

## 20. Investment in associates

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Investment in associates** | | |
| Main Street 1353 (Pty) Limited | **3 524 419** | 3 995 980 |
| OUTsurance Insurance Company of Namibia Limited | **48 807** | 59 228 |
| Other | **49 622** | 69 883 |
| | **3 622 848** | 4 125 091 |
| **Reconciliation of investment in associates** | | |
| Opening balance | **4 125 091** | 3 842 191 |
| Ordinary shares purchased in associates | **908** | 78 256 |
| Equity accounted earnings | **157 907** | 305 474 |
| Impairment of investment in associate | **(450 000)** | – |
| Share of equity accounted reserves of associates | **8 462** | 32 450 |
| Dividends received from associates | **(219 520)** | (133 280) |
| **Closing balance** | **3 622 848** | 4 125 091 |

The Group effectively owns a 49.0% share in the ordinary shares of OUTsurance Insurance Company of Namibia Limited (OUTsurance Namibia), a company incorporated and domiciled in Namibia. The Group also owns a 49.0% share in the ordinary shares of Main Street 1353 (Pty) Limited (Main Street), incorporated in South Africa, which owns a 29.9% interest in Hastings Group Holdings plc, operating in the United Kingdom.

The Group owns a 30.0% share in the ordinary shares of AutoGuru Australia Pty Limited (AutoGuru). AutoGuru is an online car service booking platform operating in Australia.

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

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

When the Group acquired the 49% interest in Main Street 1353 (which owns 29.9% of Hastings Group Holdings plc) in 2017, the initial take-on value was mark-to-market to reflect the significant appreciation in the share price of Hastings from 248p to 312p between the date on which the purchase agreement was reached to acquire the interest and the effective date. This movement resulted in a derivative gain of R750 million being capitalised to the carrying value of the investment in Main Street 1353. This accounting treatment resulted in the initial carrying value being recognised significantly above the actual acquisition cost of the investment. When measured against the current market capitalisation of Hastings, the carrying value of the investment should be considered for impairment. IAS 28 considers a significant or prolonged reduction in the market value of an associate as an indication of impairment resulting in an impairment test being performed. This impairment test resulted in a R450 million reduction in the carrying value of the investment in Main Street 1353. The carrying value reflects management's assessment of the value-in-use. This impairment is ignored for the purposes of calculating headline and normalised earnings.

A detailed Discounted Cash Flow valuation model has been developed based on this more granular and up to date information based on the information available to management by virtue of its participation in Hastings. The DCF calculation forecasts the free cash flows of Hastings for a period of ten years and uses a discount rate of 12.0%. This long-term forecast provides the opportunity to ignore cyclicality and take a long-term view of the expected company and industry trends and the development thereof. The model allows for various scenario simulations based on adverse or more favourable outcomes of the most sensitive input assumptions. The value in use and therefore the impairment recognized is calibrated against the midpoint of the valuation range based on these sensitivity assessments. The main assumptions in the model include new business inceptions, retention, claims inflation, claims ratio and the use of reinsurance in the capital structure.

Notes to the consolidated financial statements *continued*

## 20. Investment in associates *continued*

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

| | OUTsurance Namibia | | Main Street | | Other | |
|---|---|---|---|---|---|---|
| | **2019 R'000** | 2018 R'000 | **2019 R'000** | 2018 R'000 | **2019 R'000** | 2018 R'000 |
| **Statement of financial position** | | | | | | |
| Current assets | **163 116** | 186 590 | **3 875** | 9 090 | **30 717** | 76 799 |
| Non-current assets | **4 260** | 4 707 | **9 379 620** | 9 439 469 | **40 831** | 67 863 |
| Current liabilities | **(21 810)** | (20 773) | **(2 702 075)** | (2 719 854) | **(98 523)** | (102 394) |
| Technical provisions | **(46 351)** | (49 437) | **–** | – | **–** | – |
| **Equity** | **99 215** | 121 087 | **6 681 420** | 6 728 705 | **(26 975)** | 42 268 |
| **Statement of profit or loss and other comprehensive income** | | | | | | |
| Revenue | **177 699** | 189 551 | **427 122** | 664 335 | **93 910** | 24 864 |
| After tax profit or loss | **30 144** | 41 080 | **336 235** | 599 424 | **(62 106)** | (28 519) |
| After tax comprehensive income | **30 732** | 40 324 | **336 235** | 599 424 | **(62 106)** | (28 519) |
| **Cash flow statement** | | | | | | |
| Cash inflow / (outflow) from operating activities | **25 147** | 40 334 | **484 815** | 417 940 | **(41 994)** | (27 596) |
| Cash inflow / (outflow) from investing activities | **(33 715)** | 2 405 | **(327)** | (1 171) | **(249)** | (435) |
| Cash (outflow) / inflow from financing activities | **(52 000)** | (20 000) | **(485 400)** | (339 039) | **(639)** | 71 784 |
| **(Decrease) / increase in cash and cash equivalents** | **(60 568)** | 22 739 | **(912)** | 77 730 | **(42 882)** | 43 753 |
| Opening balance of cash and cash equivalents | **91 319** | 68 580 | **85 391** | 7 661 | **46 072** | 2 319 |
| **Closing balance of cash and cash equivalents** | **30 751** | 91 319 | **84 479** | 85 391 | **3 190** | 46 072 |

Reconciliation of carrying value:

| | OUTsurance Namibia | | Main Street | |
|---|---|---|---|---|
| | **2019 R'000** | 2018 R'000 | **2019 R'000** | 2018 R'000 |
| Opening net assets | **121 087** | 100 762 | **6 728 705** | 6 337 888 |
| Profit for the period | **30 144** | 40 325 | **336 234** | 583 194 |
| Other comprehensive (loss) / income | **(16)** | – | **15 762** | 59 623 |
| Dividend | **(52 000)** | (20 000) | **(396 000)** | (252 000) |
| **Closing net assets** | **99 215** | 121 087 | **6 684 701** | 6 728 705 |
| Interest in associates (49%) | **48 615** | 59 332 | **3 275 504** | 3 297 065 |
| Preference shares | **(104)** | (104) | **–** | – |
| Other reserves | **296** | – | **248 915** | 698 915 |
| **Carrying value** | **48 807** | 59 228 | **3 524 419** | 3 995 980 |

Refer to note 36 for the current and non-current analysis of investments in associates.

Notes to the consolidated financial statements *continued*

## 21. Financial assets

The Group financial assets are summarised below:

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Fair value through profit or loss** | | |
| Debt Securities | | |
| Zero-coupon deposits | **589 855** | 345 943 |
| Unsecured loans | **36 889** | 33 503 |
| Term deposits | **–** | 5 261 302 |
| Government, municipal and public utility securities[1] | **–** | 559 724 |
| Money market securities <1year | **–** | 1 483 180 |
| Money market securities >1 year | **–** | 1 309 470 |
| Equity securities | | |
| Listed perpetual preference shares | **388 749** | – |
| Exchange traded funds | **904 599** | – |
| Collective investment schemes | **115 273** | 109 841 |
| **Fair value through other comprehensive income** | | |
| Debt securities | | |
| Government, municipal and public utility securities | **400 366** | – |
| Money market securities <1year | **1 356 088** | – |
| Money market securities >1 year | **1 286 803** | – |
| Expected credit loss | **(16 157)** | – |
| **Amortised cost** | | |
| Debt securities | | |
| Term deposits | **5 195 221** | – |
| **Available-for-sale** | | |
| Equity securities | | |
| Listed perpetual preference shares | **–** | 353 771 |
| Exchange traded funds | **–** | 713 166 |
| Debt securities | | |
| Unlisted redeemable preference shares | **–** | 102 285 |
| **Total financial assets** | **10 257 686** | 10 272 185 |

# 21. Financial assets *continued*

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

| | Fair value through profit or loss R'000 | Available-for-sale R'000 | Fair value through other comprehensive income R'000 | Amortised cost R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Group 2019** | | | | | |
| **Movement analysis** | | | | | |
| Balance at beginning of year | **9 102 963** | **1 169 222** | **–** | **–** | **10 272 185** |
| Reclassification due to change in accounting policy (note 39) | **(7 546 740)** | **(1 169 222)** | **3 352 374** | **5 363 588** | **–** |
| Adjusted balance at beginning of year | **1 556 223** | **–** | **3 352 374** | **5 363 588** | **10 272 185** |
| Additions (purchases and issues) | **349 670** | **–** | **2 671 173** | **5 195 217** | **8 216 060** |
| Disposals (sales and redemptions) | **–** | **–** | **(2 976 252)** | **(5 223 214)** | **(8 199 466)** |
| Unrealised fair value adjustments | **129 472** | **–** | **(4 038)** | **–** | **125 434** |
| Foreign exchange difference | **–** | **–** | **–** | **(140 370)** | **(140 370)** |
| Expected credit loss | **–** | **–** | **(16 157)** | **–** | **(16 157)** |
| **Balance at the end of the year** | **2 035 365** | **–** | **3 027 100** | **5 195 221** | **10 257 686** |
| **Group 2018** | | | | | |
| **Movement analysis** | | | | | |
| Balance at beginning of year | 7 721 871 | 1 101 254 | – | – | 8 823 125 |
| Additions (purchases and issues) | 9 501 476 | 3 367 | – | – | 9 504 843 |
| Disposals (sales and redemptions) | (8 161 714) | (28 939) | – | – | (8 190 653) |
| Unrealised fair value adjustments | (12 795) | 93 540 | – | – | 80 745 |
| Foreign exchange difference | 54 125 | – | – | – | 54 125 |
| **Balance at the end of the year** | 9 102 963 | 1 169 222 | – | – | 10 272 185 |

A register of investments is available for inspection at the registered office of the Group.

Refer to note 3.3.1 for information relating to the fair value of investment securities. Refer to note 36 for the current and non-current analysis of investment securities.

## 21.1 Critical accounting estimates – ECL

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

> Judgement was applied in identifying the qualitative and quantitative triggers and thresholds used to identify significant increases in credit risk since initial recognition of the financial assets. Depending on the availability of reasonable and supportable information without undue cost or effort, significant increases in credit risk is identified through, amongst others, market curve movements, credit quality of the instrument and issuing party, and portfolio assessments.

> The Group applies judgement in identifying default and credit-impaired financial assets. In making this judgement, the Group considers whether the balance is in legal review, debt review or under administration or expert judgement. Financial assets are credit impaired when one or more events with a detrimental impact on the expected cash flows have taken place.

> Management relies on the discount rates provided by the regulating authority to discount all cash flows to their present value. These discount rates are considered to be reflective of the current market conditions as well as those expected in the future.

> Management deems the instrument type aggregation to be the most appropriate manner to calculate the allowance for ECL taking undue costs and effort into account.

Notes to the consolidated financial statements *continued*

## 22. Derivative financial instruments

The Group utilises derivative financial instruments to reduce the impact of the interest rate risk contained in the policyholder liabilities in its long-term insurance business.

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

The following table provides a detailed breakdown of the Group's derivative financial instruments outstanding at year-end. These instruments allow the Group and its customers to transfer, modify or reduce their interest rate risks.

| | Assets R'000 | Liabilities R'000 | Net derivatives R'000 |
|---|---|---|---|
| **At 30 June 2019** | | | |
| Interest rate swap | **321 994** | **(347 375)** | **(25 381)** |
| Effect of assets relating to the floating rate swap | **321 994** | **–** | **321 994** |
| Effect of liability relating to the fixed rate swap | **–** | **(347 375)** | **(347 375)** |
| Collateralised swap | **35 658** | **–** | **35 658** |
| **Total** | **357 652** | **(347 375)** | **10 277** |

| | Assets R'000 | Liabilities R'000 | Net derivatives R'000 |
|---|---|---|---|
| **Movement analysis** | | | |
| Balance at 1 July 2018 | **–** | **–** | **–** |
| Additions (purchases and issuings) | **59 057** | **(657)** | **58 400** |
| Fair value adjustments | **(23 399)** | **(24 724)** | **(48 123)** |
| **Balance at 30 June 2019** | **35 658** | **(25 381)** | **10 277** |

Of the R321.9 million derivative financial asset related to the interest rate swap, R9.3 million is recoverable within 12 months from reporting date. The collateralised swap is recoverable in more than 12 months.

The collateralised swap arrangement which is intended to match payments due to policyholders in the future, after a specified date. The portion of the policyholder liability that this arrangement has been matched to is R504.6 million at 30 June 2019.

## 23. Insurance and other receivables

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Receivables arising from insurance and reinsurance contracts** | | R'000 |
| Due from policyholders | **2 384 618** | 2 305 632 |
| Due from reinsurers | **111 235** | 60 015 |
| **Other receivables** | | |
| Other receivables and prepayments | **268 259** | 257 812 |
| **Total receivables** | **2 764 112** | 2 623 459 |

Insurance receivables are recognised and carried at the contractual amount less any allowance for uncollectible amounts. Non-insurance receivables are carried at amortised cost using the effective interest method.

Included in other receivables and prepayments are amounts due by related parties. Refer to note 37 for further details thereof.

Since insurance and other receivables have short-term maturities, the carrying amount approximates the fair value. Refer to note 36 for the current and non-current analysis of insurance and other receivables.

Notes to the consolidated financial statements *continued*

## 24. Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Deferred tax assets** | | |
| Provision relating to staff costs | **268 665** | 260 492 |
| Fair value adjustments | **662** | 16 602 |
| Service costs on employee benefits | **11 953** | 13 259 |
| Operating lease charges | **121** | 50 |
| Unrealised foreign exchange loss | **–** | 73 |
| Difference between accounting and tax values of assets | **4 053** | 706 |
| Special transfer credit | **20 084** | 20 398 |
| Expected loss adjustment | **4 319** | – |
| Financial assets at fair value through other comprehensive income[1] | **411** | – |
| Assessed loss | **250** | 270 |
| Adjustment relating to offset | **(131 191)** | (121 235) |
| **Total deferred tax assets** | **179 327** | 190 615 |
| **Deferred tax liabilities** | | |
| Fair value adjustment | **(113)** | (101) |
| Available-for-sale financial assets[1] | **–** | (42 191) |
| Financial assets at fair value through other comprehensive income[1] | **(4 818)** | – |
| Fair value unrealised on investment in equity instruments | **(34 135)** | – |
| Deferred acquisition costs | **(141 561)** | (126 563) |
| Prepayments | **(6 698)** | (6 447) |
| Adjustment relating to offset | **131 191** | 121 235 |
| **Total deferred tax liabilities** | **(56 134)** | (54 067) |
| **Reconciliation of movement in deferred tax asset** | | |
| Opening balance of deferred tax assets | **190 615** | 152 740 |
| Prior year adjustment for expected credit loss | **9 302** | – |
| Adjusted opening balance of deferred tax assets | **199 917** | 152 740 |
| Foreign exchange difference | **(5 983)** | 2 789 |
| Transfer to share-based payment reserve | **–** | 16 703 |
| Prior year adjustment | **(354)** | 1 277 |
| Unrealised fair value OCI[1] | **411** | – |
| Available-for-sale financial assets | **–** | (177) |
| Deferred tax charge for the year | **(5 237)** | 12 713 |
| Adjustment relating to offset | **(9 427)** | 4 570 |
| **Closing balance of deferred tax assets** | **179 327** | 190 615 |
| **Reconciliation of movement in deferred tax liabilities** | | |
| Opening balance of deferred tax liabilities | **(54 067)** | (52 659) |
| Foreign exchange difference | **2 925** | (807) |
| Available-for-sale financial assets[1] | **–** | (20 776) |
| Deferred tax charge for the year | **(15 139)** | 24 745 |
| Unrealised fair value OCI[1] | **720** | – |
| Adjustment relating to offset | **9 427** | (4 570) |
| **Closing balance of deferred tax liability** | **(56 134)** | (54 067) |

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

Notes to the consolidated financial statements *continued*

## 24. Deferred taxation *continued*

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

A deferred tax asset relating to the start-up loss incurred by Youi New Zealand has not been recognised due to the short trading history of the business. The deferred tax asset will be recognised once reasonable certainty exists that the losses are recoverable against future profits. The deferred tax asset that has not been recognised is R44 million (2018: R79 million).

A deferred tax asset amounting to R195 million (2018: R195 million) which relates to the individual policyholder tax fund in OUTsurance Life Insurance Company has not been recognised.

Refer to note 36 for the current and non-current analysis of deferred taxation.

## 25. Cash and cash equivalents

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Cash at bank and on hand | **688 018** | 394 427 |
| Money market investments | **93 793** | 72 928 |
| | **781 811** | 467 355 |

Included in money market investments are deposits with a term of maturity of less than three months. The carrying value of cash and cash equivalents approximates the fair value.

## 26. Share capital

Upon consolidation, shares owned by the OUTsurance Holdings Limited Share Trust are accounted for as treasury shares and are eliminated against share capital and share premium. The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting.

| | 2019 R | 2018 R |
|---|---|---|
| **Authorised share capital** | | |
| 3 999 998 000 (2018: 3 999 998 000) ordinary shares at R0.01 each | **39 999 980** | 39 999 980 |
| 1 000 "A" variable rate, cumulative, redeemable preference shares with no par or nominal value | **–** | – |
| 1 000 "A" variable rate, non cumulative non redeemable preference shares of R0.01 each | **10** | 10 |
| **Issued ordinary share capital (fully paid up)** | | |
| Opening balance of ordinary shares in issue: 3 798 908 308 at R0.01 each | **37 989 083** | 37 989 083 |
| Treasury shares held by the OUTsurance Holdings Share Trust: 54 638 750 (2018: 46 591 259) | **(546 388)** | (465 913) |
| **Closing balance of ordinary shares in issue: 3 798 908 308 at R0.01 each** | **37 442 695** | 37 523 170 |

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Share premium** | | |
| **Ordinary shares** | | |
| Issued share premium | **2 617 306** | 2 617 306 |
| Treasury shares held by the OUTsurance Holdings Share Trust | **(228 585)** | (143 606) |
| | **2 388 721** | 2 473 700 |

No shares were issued in the current or prior year.

Notes to the consolidated financial statements *continued*

## 27. Insurance contract liabilities

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

| | 2019 Gross R'000 | 2019 Reinsurance R'000 | 2019 Net R'000 | 2018 Gross R'000 | 2018 Reinsurance R'000 | 2018 Net R'000 |
|---|---|---|---|---|---|---|
| **Short term insurance contracts** | | | | | | |
| Claims provisions | **2 346 603** | **(530 657)** | **1 815 946** | 1 909 447 | (147 935) | 1 761 512 |
| Unearned premium provision | **4 152 121** | **(55 672)** | **4 096 449** | 4 032 095 | (52 152) | 3 979 943 |
| Insurance contract non-claims bonuses provision | **470 347** | **–** | **470 347** | 435 972 | – | 435 972 |
| **Long term insurance contracts** | | | | | | |
| Policyholder liabilities | **487 942** | **(104 617)** | **383 325** | 347 157 | (86 403) | 260 754 |
| | **7 457 013** | **(690 946)** | **6 766 067** | 6 724 671 | (286 490) | 6 438 181 |

### 27.1 Analysis of movement in short-term insurance contract liabilities

| | 2019 Gross R'000 | 2019 Reinsurance R'000 | 2019 Net R'000 | 2018 Gross R'000 | 2018 Reinsurance R'000 | 2018 Net R'000 |
|---|---|---|---|---|---|---|
| **Analysis of movement in claims provision** | | | | | | |
| Opening balance[1] | **1 909 447** | **(147 935)** | **1 761 512** | 2 178 690 | (519 947) | 1 658 743 |
| **Current year** | **1 774 878** | **(511 097)** | **1 263 781** | 1 376 357 | (74 261) | 1 302 096 |
| Claims incurred | **7 582 746** | **(766 240)** | **6 816 506** | 6 611 518 | (330 629) | 6 280 889 |
| Claims paid | **(6 340 083)** | **281 423** | **(6 058 660)** | (5 754 427) | 262 146 | (5 492 281) |
| Claims handling expenses raised | **320 271** | **–** | **320 271** | 355 796 | – | 355 764 |
| Margins raised | **211 944** | **(26 280)** | **185 664** | 163 470 | (5 778) | 157 692 |
| **Prior year** | **(1 304 384)** | **117 416** | **(1 186 968)** | (1 653 585) | 442 335 | (1 211 250) |
| Claims incurred | **(11 497)** | **(14 799)** | **(26 296)** | (62 200) | (41 430) | (103 630) |
| Claims paid | **(1 077 473)** | **122 737** | **(954 736)** | (1 324 438) | 449 995 | (874 443) |
| Claims handling expenses released | **(67 178)** | **–** | **(67 178)** | (98 494) | – | (98 494) |
| Margins released | **(148 236)** | **9 478** | **(138 758)** | (168 453) | 33 770 | (134 683) |
| Foreign exchange movement | **(33 338)** | **10 959** | **(22 379)** | 7 985 | 3 938 | 11 923 |
| **Closing balance** | **2 346 603** | **(530 657)** | **1 815 946** | 1 909 447 | (147 935) | 1 761 512 |

1 *All claims related provisions have been combined into a single claims provision. This provides for better alignment of the calculation of claims handling expenses and the risk margin across the claims provisions. As a result of this the incurred but not reported claims and outstanding claims reserve for the 2018 year have been combined into the claims provisions for disclosure purposes.*

Notes to the consolidated financial statements *continued*

# 27. Insurance contract liabilities *continued*

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross R'000** | **Reinsurance R'000** | **Net R'000** | Gross R'000 | Reinsurance R'000 | Net R'000 |
| **Analysis of movement in unearned premium provision (UPP)** | | | | | | |
| Opening balance | **4 032 095** | **(52 151)** | **3 979 944** | 3 990 132 | (54 072) | 3 936 060 |
| UPP raised | **7 699 883** | **(690 636)** | **7 009 247** | 7 202 851 | (647 420) | 6 555 431 |
| UPP earned | **(7 485 428)** | **687 116** | **(6 798 312)** | (7 197 950) | 649 340 | (6 548 610) |
| Foreign exchange difference | **(94 429)** | **–** | **(94 429)** | 37 062 | - | 37 062 |
| **Closing balance** | **4 152 121** | **(55 672)** | **4 096 449** | 4 032 095 | (52 151) | 3 979 943 |
| **Analysis of movement in insurance contract non-claims bonuses** | | | | | | |
| Opening balance | **435 972** | **–** | **435 972** | 439 464 | – | 439 464 |
| Charge to profit or loss | **449 438** | **–** | **449 438** | 382 155 | – | 382 155 |
| Non-claims bonuses paid during the year | **(415 063)** | **–** | **(415 063)** | (385 647) | – | (385 647) |
| **Closing balance** | **470 347** | **–** | **470 347** | 435 972 | – | 435 972 |

| | **2019** | 2018 |
|---|---|---|
| **Analysis of movement in deferred acquisition costs (DAC)** | | |
| Opening balance | **307 424** | 338 478 |
| DAC raised | **773 555** | 670 395 |
| DAC charged to profit or loss | **(711 986)** | (704 612) |
| Foreign exchange difference | **(8 964)** | 3 163 |
| **Closing balance** | **360 029** | 307 424 |

## 27.2 Critical accounting estimates and judgements relating to short-term insurance

### Claims provisions

Each reported claim is assessed separately on a case by case basis, by either a computer algorithm based on past experience or a claims assessor with the relevant experience, taking into account information available from the insured. The estimates are updated as and when new information becomes available. The claims provision includes an estimate for claims incurred but not reported.

The claims provision is held so as to be at least sufficient at the 75th percentile of the ultimate cost distribution. The difference between this 75th percentile and the best estimate is considered to be an appropriate risk margin. Claims is considered to be the most sensitive to changes in assumptions, therefore a sensitivity analysis is performed.

Notes to the consolidated financial statements *continued*

# 27. Insurance contract liabilities *continued*

## 27.2 Critical accounting estimates and judgements relating to short-term insurance claims reserves *continued*

| | South African Short-term operations | | Australian Short-term operations | |
|---|---|---|---|---|
| | **2019 R'000** | **2018 R'000** | 2019 R'000 | 2018 R'000 |
| 70th Percentile | **845 506** | **736 770** | 860 400 | 954 161 |
| 75th Percentile | **867 656** | **751 016** | 879 261 | 972 360 |
| 80th Percentile | **892 321** | **766 879** | 900 256 | 992 629 |

### Liability for non-claims bonuses on insurance contracts

The provision for non-claims cash bonuses is determined with reference to the contractual obligation per the contract of insurance adjusted for expected future claims and client cancellations based on historical experience. A risk margin is added to the best estimate of the future liability to allow for the uncertainty relating to future claims and cancellation experience. The risk margin is calibrated to ensure that the provision is at least sufficient at the 75th percentile of the ultimate cost distribution.

## 27.3 Analysis of movement in long-term insurance contract liabilities

The policyholder liability represents the present value of the expected cash outflow to existing policyholders at measurement date. The policyholder liability is calculated by present valuing the expected future cash flows derived from the best estimates of the variables which influence these cash flows.

| | Gross policyholder liability R'000 | Reinsurers' share of policyholder liability R'000 | Net policyholder liability R'000 | Negative rand reserve R'000 | Net policyholder liability incl negative rand reserve costs R'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Analysis of change in policyholder liabilities** | | | | | |
| **Opening balance** | | | | | |
| Policyholder liability | **461 401** | **(77 411)** | **383 990** | **(143 128)** | **240 862** |
| Claims provision[1] | **28 884** | **(8 992)** | **19 892** | **–** | **19 892** |
| | **490 285** | **(86 403)** | **403 882** | **(143 128)** | **260 754** |
| **Transfer to policyholder liabilities under insurance contract** | | | | | |
| Unwind of discount rate and release of profits | **158 459** | **(10 943)** | **147 516** | **–** | **147 516** |
| Experience variance | **(13 622)** | **(671)** | **(14 293)** | **–** | **(14 293)** |
| Modelling methodology changes | **(5 771)** | **(2 505)** | **(8 276)** | **–** | **(8 276)** |
| Change in non-economic assumptions | **15 380** | **3 224** | **18 604** | **–** | **18 604** |
| Change in economic assumptions | **(28 462)** | **5 473** | **(22 989)** | **–** | **(22 989)** |
| New business | **2 433** | **(2 367)** | **66** | **–** | **66** |
| Change in outstanding claims provision | **30 112** | **(10 425)** | **19 687** | **–** | **19 687** |
| Change in negative rand reserve | **–** | **–** | **–** | **(17 744)** | **(17 744)** |
| | **158 529** | **(18 214)** | **140 315** | **(17 744)** | **122 571** |
| **Closing balance** | | | | | |
| Policyholder Liability | **589 818** | **(85 200)** | **504 618** | **(160 872)** | **343 746** |
| Claims provision[1] | **58 996** | **(19 417)** | **39 579** | **–** | **39 579** |
| | **648 814** | **(104 617)** | **544 197** | **(160 872)** | **383 325** |

Notes to the consolidated financial statements *continued*

## 27. Insurance contract liabilities *continued*

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

| | Gross policyholder liability R'000 | Reinsurers' share of policyholder liability R'000 | Net policyholder liability R'000 | Negative rand reserve R'000 | Net policyholder liability incl negative rand reserve costs R'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Analysis of change in policyholder liabilities** | | | | | |
| **Opening balance** | | | | | |
| Policyholder Liability | 339 403 | (84 010) | 255 393 | (153 006) | 102 387 |
| Claims provision[1] | 46 625 | (13 985) | 32 640 | – | 32 640 |
| | 386 028 | (97 995) | 288 033 | (153 006) | 135 027 |
| **Transfer to policyholder liabilities under insurance contract** | | | | | |
| Unwind of discount rate and release of profits | 100 997 | (13 468) | 87 529 | – | 87 529 |
| Experience variance | 10 391 | 858 | 11 249 | – | 11 249 |
| Modelling methodology changes | (9 951) | 28 872 | 18 921 | – | 18 921 |
| Change in non-economic assumptions | (12 574) | (1 561) | (14 135) | – | (14 135) |
| Change in economic assumptions | 30 436 | (7 248) | 23 188 | – | 23 188 |
| New business | 2 699 | (854) | 1 845 | – | 1 845 |
| Incurred but not reported claims | (564) | – | (564) | – | (564) |
| Change in outstanding claims provision | (17 177) | 4 993 | (12 184) | – | (12 184) |
| Change in negative rand reserve | – | – | – | 9 878 | 9 878 |
| | 104 257 | 11 592 | 115 849 | 9 878 | 125 727 |
| **Closing balance** | | | | | |
| Policyholder liability | 461 401 | (77 411) | 383 990 | (143 128) | 240 862 |
| Claims provision[1] | 28 884 | (8 992) | 19 892 | – | 19 892 |
| | 490 285 | (86 403) | 403 882 | (143 128) | 260 754 |

1 *All claims related provisions have been combined into a single claims provision. This provides for better alignment of the calculation of claims handling expenses and the risk margin across the claims provisions. As a result of this the incurred but not reported claims and outstanding claims provision for the 2018 year have been combined into the claims provision for disclosure purposes.*

Notes to the consolidated financial statements *continued*

## 27. Insurance contract liabilities *continued*

### 27.4 Critical accounting estimates and judgements relating to long-term insurance *continued*

**Policyholder liabilities**

The following compulsory margins were applied in the valuation of the policyholder liability at 30 June 2019:

| Assumption | Margin |
|---|---|
| Investment return | 0.25% increase / decrease* |
| Mortality | 7.5% increase |
| Morbidity | 10% increase |
| Disability | 10% increase |
| Retrenchment | 15% increase |
| Expenses | 10% increase |
| Expense inflation | 10% increase of estimated escalation rate |
| Lapses | 25% increase / decrease* on best estimate |

** Depending on which change increases the liability.*

In addition to the above compulsory margins, discretionary margins may be added to protect against future possible adverse experience. A discretionary margin is added to allow for the zerorisation of negative rand reserves over and above the allowance of negative rand reserves calibrated to the costs directly attributable to acquiring a policy.

**Demographic assumptions**

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

**Economic assumptions**

*Investment return*

The Group calculates its investment return assumption using a full yield curve as opposed to using a point estimate on the underlying yield curve. The comparative point estimate of the current yield curve at the estimated discounted mean term at the valuation date is 10.4% (2018: 11.5%).

*Inflation*

The Group calculates its inflation assumption using a full inflation curve as opposed to using a point estimate on the underlying inflation curve, derived from nominal and real curves. The comparative point estimate of the current inflation curve at the estimated discounted mean term at the valuation date is 7.7% (2018: 8.0%).

*Taxation*

The tax position is taken into account and the taxation rates, consistent with that position and the likely future changes in that position, are allowed for.

*Claims provisions*

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

*Negative rand reserve*

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

Notes to the consolidated financial statements *continued*

## 27. Insurance contract liabilities *continued*

### 27.5 Sensitivity of policyholder liability

The following sensitivities are provided on insurance risk assumptions:

| Assumption | Margin |
|---|---|
| Lapses | 10% increase / decrease |
| Investment return | 1% increase / decrease |
| Mortality / Morbidity / Disability | 5% – 10% increase / decrease |
| Retrenchment | 5% – 10% increase / decrease |
| Expenses | 10% increase / decrease |

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholder liabilities and the impact is reflected as the change in policyholder liabilities.

Each sensitivity is applied in isolation with all other assumptions left unchanged.

The sensitivities shown in the table below are based on the assumption that negative reserves, amounting to R820.5 million (2018: R693.7 million), are not eliminated in order to derive sensitivity scenarios which are more closely aligned with economic reality.

| No elimination of negative rand reserves | Change in variable | Increase / (decrease) in policyholder liabilities R'000 | Increase / (decrease) in policyholder liabilities % |
|---|---|---|---|
| **At 30 June 2019** | | | |
| Lapses | +10% | (28 999) | (9%) |
| | –10% | 35 928 | 11% |
| Interest rate environment | +1% | (1 193) | 0% |
| | –1% | 33 520 | 11% |
| Mortality / Morbidity / Disability / Retrenchment | +10% | 173 427 | 55% |
| | –10% | (175 855) | (56%) |
| Mortality / Morbidity / Disability / Retrenchment | +5% | 87 007 | 28% |
| | –5% | (87 614) | (28%) |
| Expenses | +10% | 39 255 | 12% |
| | –10% | (39 255) | (12%) |

Notes to the consolidated financial statements *continued*

# 27. Insurance contract liabilities *continued*

## 27.5 Sensitivity of policyholder liability *continued*

| No elimination of negative rand reserves | Change in variable | Increase / (decrease) in policyholder liabilities R'000 | Increase / (decrease) in policyholder liabilities % |
|---|---|---|---|
| **At 30 June 2018** | | | |
| Lapses | +10% | (36 861) | (12%) |
| | –10% | 46 035 | 15% |
| Interest rate environment | +1% | (7 788) | (3%) |
| | –1% | 42 182 | 14% |
| Mortality / Morbidity / Disability / Retrenchment | +10% | 146 395 | 47% |
| | –10% | (149 044) | (48%) |
| Mortality / Morbidity / Disability / Retrenchment | +5% | 73 518 | 24% |
| | –5% | (74 180) | (24%) |
| Expenses | +10% | 35 941 | 12% |
| | –10% | (35 941) | (12%) |

# 28. Insurance and other payables

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Insurance related payables** | | |
| Due to intermediaries | **1 901** | 1 657 |
| Due to reinsurers | **133 932** | 119 395 |
| Other payables | **11 552** | 12 103 |
| **Non-insurance payables** | | |
| Trade creditors | **90 697** | 44 244 |
| Other payables and accruals | **310 903** | 257 472 |
| Indirect tax on debtors | **385 330** | 372 435 |
| Indirect tax liability | **54 730** | 62 583 |
| **Total payables** | **989 045** | 869 889 |

The carrying amount of payables approximates the fair value. Refer to note 36 for the current and non-current analysis of payables.

# 29. Employee benefits

Uncertainty exists relating to the timing and extent of cash flows from the leave pay provision. The outstanding balance represents the current value of leave due to employees currently in the employ of companies within the Group.

The intellectual property bonuses are recognised as current service costs over a range of retention periods from six months to two years. The balance of the intellectual property bonuses are recognised as an employee benefit asset.

Notes to the consolidated financial statements *continued*

## 29. Employee benefits *continued*

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Leave pay liability | **167 071** | 138 014 |
| Non-discretionary bonus liability | **74 545** | 64 824 |
| Intellectual property bonus payable | **31 196** | 113 183 |
| **Total liability** | **272 812** | 316 021 |
| Intellectual property bonus asset | **87 089** | 123 722 |
| **Total asset** | **87 089** | 123 722 |
| **Reconciliation of leave pay liability** | | |
| Opening balance | **138 014** | 131 454 |
| Charge for the year | **51 043** | 22 588 |
| Liability utilised | **(19 386)** | (17 215) |
| Foreign translation difference | **(2 600)** | 1 187 |
| **Closing balance** | **167 071** | 138 014 |
| **Reconciliation of non discretionary bonus liability** | | |
| Opening balance | **64 824** | 30 815 |
| Charge for the year | **107 362** | 88 962 |
| Liability utilised | **(95 737)** | (55 966) |
| Foreign translation difference | **(1 904)** | 1 013 |
| **Closing balance** | **74 545** | 64 824 |
| **Reconciliation of intellectual property bonus asset** | | |
| Opening balance | **123 722** | 88 713 |
| Additions | **17 378** | 26 138 |
| Accruals[1] | **31 196** | 113 183 |
| Settlements | **(897)** | (1 955) |
| Service cost for the year | **(84 310)** | (99 493) |
| Foreign translation difference | **–** | (2 864) |
| **Closing balance** | **87 089** | 123 722 |

1 *Accruals raised consists of amounts to be paid within the next 12 months.*

Refer to note 36 for the current and non-current analysis of employee benefits.

Notes to the consolidated financial statements *continued*

## 30. Share-based payments

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Cash-settled share-based payment liability | **83 555** | 101 495 |
| **Total liability** | **83 555** | 101 495 |
| **Reconciliation of cash-settled share-based payment liability** | | |
| Opening balance | **101 495** | 115 208 |
| Charge to profit or loss for the year | **35 595** | 51 572 |
| Liability settled | **(53 535)** | (65 285) |
| **Closing balance** | **83 555** | 101 495 |

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

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Youi Holdings equity-settled scheme | **1 208** | 3 813 |
| OUTsurance Holdings cash-settled scheme | **35 595** | 51 572 |
| **Charge to profit or loss** | **36 803** | 55 385 |

The various Group share schemes are as follows:

> OUTsurance Holdings cash-settled share scheme

> Youi Holdings equity-settled share scheme

The purpose of these schemes is to attract, incentivise and retain managers within the Group by providing them with an option to acquire shares.

**Description and valuation methodology of the schemes**

*OUTsurance Holdings Limited cash-settled share scheme*

In terms of the current trust deed, 12% of the issued share capital of the company is potentially available to employees under the scheme. The OUTsurance Holdings Share Trust and employees currently hold 4.5% (2018: 5.3%) of the shares in OUTsurance Holdings Limited.

Under the cash-settled scheme, participants receive notional shares which have a value equal to the market value of an OUTsurance Holdings Limited ordinary share. Participants will receive the after-tax gain in the market value over the vesting period as a cash payment. Participants of this scheme have the option to purchase one ordinary share for each vested notional share from the OUTsurance Holdings Share Trust at the ruling market price on the date of purchase.

*Valuation methodology*

The cash-settled scheme issues are valued using a Black Scholes option pricing model with all notional shares (share appreciation rights) vesting in one tranche at the end of year three. The scheme is cash-settled and will thus be repriced at each reporting date.

Market data consists of the following:

> Since OUTsurance Holdings Limited is not listed, 'expected volatility' is derived with reference to similar listed peers and the volatility of Rand Merchant Investment Holdings Limited, the listed parent company of the Group. The volatility reflects an historic period matching the duration of the option.

> The 'risk-free interest rate' input is derived from government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

> The dividend growth assumption is based on the historic annual dividend paid on OUTsurance Holdings Limited ordinary shares.

Employee statistic assumptions:

> The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

Notes to the consolidated financial statements *continued*

## 30. Share-based payments *continued*

**Description and valuation methodology of the schemes** *continued*

*Youi Holdings Pty Limited equity-settled share scheme*

The Youi Holdings employee share option plan was established in 2008. In terms of the plan rules, 20% of the issued share capital of the company is available under the plan for the granting of options to employees. Employees of the Youi Holdings Group currently own 15.5% (2018: 6.9%) of the issued ordinary shares of the Group.

*Valuation methodology*

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

A share-based payment expense is only recognised if the options issued have a positive intrinsic value, therefore, if the market value of the underlying shares is expected to rise above the strike price over the vesting period of the options.

The 'option duration' is the number of years before the options expire.

Market data consists of the following:

> Since Youi Holdings Pty Limited is not listed, 'expected volatility' is derived with reference to similar listed peers and volatility of Rand Merchant Investment Holdings Limited, the listed parent company of the Group. The volatility reflects an historic period matching the duration of the option.

> The 'risk-free interest rate' input is derived from government bonds with a remaining term equal to the term of the option being valued.

Dividend data consists of the following:

> 'Dividend growth' is based on the best estimate of expected future dividends.

Employee statistic assumptions:

> The average 'annual employee turnover' estimates the number of participants in the option schemes that will leave before the options have vested.

**Share options**

| | 2019 OUTsurance Holdings cash-settled scheme | 2019 Youi Holdings equity-settled scheme |
|---|---|---|
| Number of options in force at the beginning of the year | 64 160 000 | 222 427 319 |
| Adjustment to number of options in force at the beginning of the year | 240 000 | – |
| | 64 400 000 | 222 427 319 |
| Range of strike prices of opening balances | R7.15 to R9.30 | $0.10 to $0.53 |
| Number of options granted during the year | 34 555 000 | 29 600 000 |
| Range of stike prices of options granted during the year | R10.08 to R10.28 | $0.42 |
| Number of options delivered during the year | (18 360 000) | (197 582 418) |
| Range of strike prices on date of delivery | R7.15 – R9.30 | $0.10 to $0.48 |
| Number of options cancelled / forfeited during the year | (7 185 000) | (12 644 901) |
| Range of strike prices of forfeited options | R8.48 to R10.08 | $0.10 to $0.53 |
| Number of options in force at the end of the year | 73 410 000 | 41 800 000 |
| Range of strike prices of closing balance | R8.48 to R10.28 | $0.10 to $0.53 |
| Price per ordinary share* | R10.28 | $0.10 to $0.51 |
| Number of scheme participants | 162 | 64 |
| Weighted average remaining vesting period (years) | 1.29 | 2.33 |

Notes to the consolidated financial statements *continued*

## 30. Share-based payments *continued*

**Share options** *continued*

| | 2018 OUTsurance Holdings cash-settled scheme | 2018 Youi Holdings equity-settled scheme |
|---|---|---|
| Number of options in force at the beginning of the year | 56 292 697 | 229 010 917 |
| Range of strike prices of opening balances | R5.57 to R8.48 | $0.10 to $0.53 |
| Number of options granted during the year | 30 230 000 | 16 300 000 |
| Stike price of options granted during the year | R9.30 | $0.41 |
| Number of options delivered during the year | (17 502 697) | (21 966 932) |
| Range of strike prices on date of delivery | R5.57 | $0.10 to $0.41 |
| Number of options cancelled / forfeited during the year | (4 860 000) | (916 666) |
| Range of strike prices of forfeited options | R7.15 to R9.30 | $0.10 to $0.41 |
| Number of options in force at the end of the year | 64 160 000 | 222 427 319 |
| Range of strike prices of closing balance | R7.15 to R9.30 | $0.10 to $0.53 |
| Price per ordinary share* | R9.90 | $0.10 to $0.53 |
| Number of scheme participants | 135 | 53 |
| Weighted average remaining vesting period (years) | 1.16 | 0.26 |

** The price of ordinary shares resets six monthly on the 1st July and 1st January each year.*

**OUTsurance Holdings Share Trust**

OUTsurance Holdings Limited shares are issued to the Trust on the share option grant date. The Trust's investment in OUTsurance Holdings Limited for the year ending 30 June was as follows:

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Number of treasury shares and market value** | | |
| Number of shares in portfolio at the beginning of the year ('000) | **46 591** | 34 024 |
| Number of shares purchased during the year ('000) | **36 014** | 22 650 |
| Number of shares released during the year ('000) | **(27 966)** | (10 083) |
| **Number of shares held in portfolio at the end of the year ('000)** | **(53 639)** | (46 591) |
| Market value per share held in portfolio at year-end (Rand)* | **10.28** | 9.90 |
| Market value of portfolio at year-end | **561 686** | 461 251 |
| **Cost price of treasury shares** | | |
| Cost price of shares held in portfolio at the beginning of the year | **144 072** | 18 609 |
| Cost price of shares purchased during the year | **366 961** | 218 234 |
| Cost price of shares released during the year | **(281 901)** | (92 771) |
| **Cost price of shares held in portfolio at the end of the year** | **229 132** | 144 072 |
| **Loans to the share trust** | | |
| Value of loans made to the trust at the beginning of the year | **144 072** | 18 609 |
| Value of loans made to the trust at the end of the year | **229 132** | 144 072 |

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

Notes to the consolidated financial statements *continued*

## 30. Share-based payments *continued*

**Share scheme expenditure**

The following assumptions were applied in determining the cash-settled share-based payment liability:

| | OUTsurance Holdings cash-settled scheme | |
|---|---|---|
| | **2019** | 2018 |
| Share price | **R10.28** | R9.90 |
| Exercise price range | **R8.48 – R10.28** | R7.15 – R9.30 |
| Remaining duration | **0 to 3 years** | 0 to 3 years |
| Expected volatility | **22.00%** | 22.00% |
| Risk free interest rate | **7.24%** | 7.83% |
| Dividend yield | **4.00%** | 4.00% |
| Annual employee turnover | **7.00%** | 6.00% |

The inputs to the share option pricing model to determine the fair value of equity settled grants were as follows:

| | Youi Holdings equity-settled scheme | |
|---|---|---|
| | **2019** | 2018 |
| Share price | **$0.42** | $0.41 |
| Exercise price | **$0.42** | $0.41 |
| Option duration | **5** | 4 |
| Expected volatility | **22.00%** | 22.00% |
| Risk free interest rate | **2.13%** | 2.22% |
| Dividend yield | **8.00%** | 0% |
| Annual employee turnover | **0%** | 0% |

## 31. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss relate to the preference shares issued by OUTsurance Insurance Company Limited to FirstRand Limited for the profit sharing arrangements. Profits arising from these arrangements are distributed by way of bi annual preference dividends payable in February and August each year. The preference dividend attributable to the profit share for the year is recognised in profit or loss as a fair value adjustment to the liability. The portion of the unpaid preference dividend at 30 June is recognised as a financial liability at fair value through profit or loss.

| | **2019 R'000** | 2018 R'000 |
|---|---|---|
| Shareholders for preference dividends on profit share arrangement | **65 222** | 92 655 |
| | **65 222** | 92 655 |

Refer to note 36 for the current and non-current analysis of shareholders for preference dividends.

Notes to the consolidated financial statements *continued*

## 32. Reconciliation of cash generated by / (utilised in) operations

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Comprehensive income for the year before tax | **3 164 430** | 4 185 417 |
| **Adjustments for:** | | |
| Depreciation | **139 121** | 136 141 |
| Equity accounted earnings from associate | **(157 907)** | (305 474) |
| Share-based payments – equity settled schemes | **177 910** | (55 232) |
| Net fair value adjustments on financial assets | **(76 537)** | (58 641) |
| Impairment of investment in associate | **450 000** | – |
| Profit on disposal of fixed assets | **6 519** | 6 444 |
| Fair value adjustment on financial liabilities | **169 016** | 193 070 |
| Provision for non-claims bonuses on insurance contracts for the year | **449 438** | 382 155 |
| Non-claims bonuses on insurance contracts paid | **(415 063)** | (385 647) |
| Finance charges | **56** | 123 |
| Interest received | **(500 308)** | (458 577) |
| Dividends received | **(69 411)** | (57 619) |
| Change in unearned premium provision | **210 934** | 6 821 |
| Change in deferred acquisition costs | **(61 569)** | 34 216 |
| Change in claims provisions | **76 813** | 90 846 |
| Change in policyholder liability under long-term insurance contracts | **122 571** | 125 727 |
| Employee benefit service cost | **84 310** | 99 493 |
| Decrease in share-based payment liability | **(17 940)** | (13 713) |
| Intellectual property payments | **(48 574)** | (139 321) |
| Intellectual property settlements received | **897** | 1 955 |
| Increase in employee benefits | **(43 209)** | 153 752 |
| **Cash generated by operations before working capital changes** | **3 661 497** | 3 941 936 |
| **Changes in working capital** | **(21 497)** | (158 002) |
| Increase in receivables | **(140 653)** | (89 570) |
| Increase / (decrease) in payables | **119 156** | (68 432) |
| **Cash generated by operations** | **3 640 000** | 3 783 934 |

## 33. Taxation paid

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Taxation payable – opening balance | **(197 884)** | (120 686) |
| Charge to profit or loss | **(1 064 504)** | (1 107 886) |
| Adjustment for deferred tax charge | **20 730** | (38 735) |
| Taxation payable – closing balance | **(95 918)** | 197 884 |
| **Taxation paid** | **(1 337 576)** | (1 069 423) |

Notes to the consolidated financial statements *continued*

## 34. Preference dividends paid

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Preference dividends unpaid at the beginning of the year | **(92 655)** | (110 372) |
| Preference dividend charged to profit or loss in respect of profit share arrangements | **(169 016)** | (193 070) |
| Preference dividend unpaid at the end of the year | **65 222** | 92 655 |
| **Preference dividend paid** | **(196 449)** | (210 787) |

## 35. Commitments

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **South Africa** | | |
| Up to 1 year | **7 501** | 3 394 |
| Between 1 and 5 years | **13 696** | 5 304 |
| **Total operating lease commitments[1]** | **21 197** | 8 698 |
| **Australasia** | | |
| Up to 1 year | **21 057** | 20 685 |
| Between 1 and 5 years | **42 065** | 26 342 |
| Between 5 and 10 years | **1 423** | – |
| **Total operating lease commitments for Youi Group[2]** | **64 545** | 47 027 |

1 *The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.*
2 *Youi Group leases its office building under a non-cancellable operating lease expiring within a maximum of five years. The leases are renewable for further periods of up to four years.*

Notes to the consolidated financial statements *continued*

## 36. Current / non-current split of amounts recognised on the statement of financial position

The analysis shows the current / non-current split of assets and liabilities based on the expected contractual maturities thereof, Items classified as current have expected or contractual maturities within the next twelve months. Non-current items are expected or will legally mature in longer than twelve months. Equity instruments are considered to have no contractual maturity.

| | Carrying amount R'000 | Current R'000 | Non-current R'000 | Shareholders equity R'000 |
|---|---|---|---|---|
| **30 June 2019** | | | | |
| **ASSETS** | | | | |
| Deferred income tax | 179 327 | – | 179 327 | – |
| Investment in associates | 3 622 848 | – | 3 622 848 | – |
| Intangible assets | 13 704 | – | 13 704 | – |
| Property and equipment | 1 038 227 | – | 1 038 227 | – |
| Employee benefits | 87 089 | 84 467 | 2 622 | – |
| Reinsurers' share of insurance contract provisions | 690 946 | 577 230 | 113 716 | – |
| Deferred acquisition costs | 360 029 | 360 029 | – | – |
| Financial assets | | | | |
| Fair value through profit or loss | 2 035 365 | 37 411 | 1 997 954 | – |
| Available-for-sale | – | – | – | – |
| Fair value through other comprehensive income | 3 027 100 | 1 810 903 | 1 216 197 | – |
| Amortised cost | 5 195 221 | 5 195 221 | – | – |
| Derivative financial instruments – assets | 35 658 | – | 35 658 | – |
| Insurance and other receivables | 2 764 112 | 2 764 092 | 20 | – |
| Tax receivable | 117 636 | 117 636 | – | – |
| Cash and cash equivalents | 781 811 | 781 811 | – | – |
| **TOTAL ASSETS** | 19 949 073 | 11 728 800 | 8 220 273 | – |
| **LIABILITIES AND EQUITY** | | | | |
| Total shareholders' equity | 10 494 854 | – | – | 10 494 854 |
| Non-controlling interest | 483 339 | – | – | 483 339 |
| Insurance contract liabilities | 7 457 013 | 6 406 108 | 1 050 905 | – |
| Share-based payment liability | 83 555 | 37 150 | 46 405 | – |
| Employee benefits | 272 812 | 235 937 | 36 875 | – |
| Financial liabilities at fair value through profit or loss | 65 222 | 65 222 | – | – |
| Derivative financial instrument – liability | 25 381 | 912 | 24 469 | – |
| Deferred income tax | 56 134 | – | 56 134 | – |
| Tax liabilities | 21 718 | 21 718 | – | – |
| Insurance and other payables | 989 045 | 987 897 | 1 148 | – |
| **TOTAL EQUITY AND LIABILITIES** | 19 949 073 | 7 754 944 | 1 215 936 | 10 978 193 |

Notes to the consolidated financial statements *continued*

## 36. Current / non-current split of amounts recognised on the statement of financial position *continued*

| | Carrying amount R'000 | Current R'000 | Non-current R'000 | Shareholders equity R'000 |
|---|---|---|---|---|
| **30 June 2018** | | | | |
| **ASSETS** | | | | |
| Deferred income tax | 190 615 | – | 190 615 | – |
| Investment in associates | 4 125 091 | – | 4 125 091 | – |
| Property and equipment | 1 104 446 | – | 1 104 446 | – |
| Employee benefits | 123 722 | 75 226 | 48 496 | – |
| Reinsurers' share of insurance contract provisions | 286 490 | 222 373 | 64 117 | – |
| Deferred acquisition costs | 307 424 | 307 424 | – | – |
| Financial assets | | | | |
| Fair value through profit or loss | 9 102 963 | 7 343 879 | 1 759 084 | – |
| Available-for-sale | 1 169 222 | 1 169 222 | – | – |
| Insurance and other receivables | 2 623 459 | 2 623 440 | 19 | – |
| Tax receivable | 1 876 | 1 876 | – | – |
| Cash and cash equivalents | 467 355 | 467 355 | – | – |
| **TOTAL ASSETS** | 19 502 663 | 12 210 795 | 7 291 868 | – |
| **LIABILITIES AND EQUITY** | | | | |
| Deferred income tax | 54 067 | – | 54 067 | – |
| Total shareholders' equity | 10 944 808 | – | – | 10 944 808 |
| Non-controlling interest | 199 297 | – | – | 199 297 |
| Insurance contract liabilities | 6 724 671 | 5 697 975 | 1 026 696 | – |
| Share-based payment liability | 101 495 | 56 577 | 44 918 | – |
| Employee benefits | 316 021 | 286 522 | 29 499 | – |
| Financial liabilities at fair value through profit or loss | 92 655 | 92 655 | | – |
| Tax liabilities | 199 760 | 199 760 | – | – |
| Insurance and other payables | 869 889 | 868 741 | 1 148 | – |
| **TOTAL EQUITY AND LIABILITIES** | 19 502 663 | 7 202 230 | 1 156 328 | 11 144 105 |

Notes to the consolidated financial statements *continued*

## 37. Related party transactions

The Group defines related parties as:

> The parent company, Rand Merchant Investment Holdings Limited (RMI Holdings). RMI Holdings owns its investment in OUTsurance Holdings Limited through wholly owned subsidiaries Firness International (Pty) Limited and RMI Asset Company (Pty) Limited.

> Associate companies of the parent company which include Discovery Holdings Limited, MMI Holdings Limited and Main Street 1353 (Pty) Limited and Coreshares Index Tracker Managers (RF) (Pty) Limited.

> Key management personnel such as the OUTsurance Holdings Limited Board of directors, the OUTsurance Holdings executive committee as well as the Youi Holdings Pty Limited Board and executive committee.

### Principal shareholders

The Group is ultimately controlled by RMI Holdings. At the reporting date, RMI Holdings and its wholly owned subsidiaries owned 89.1% (2018: 88.6%) of OUTsurance Holdings Limited, with the OUTsurance Holdings Share Trust owning 1.4% (2018: 1.2%), OUTsurance Investment Trust owning 3.7% (2018: 3.9%), OUTsurance Equity Trust 1.3% (2018: 0.9%) and management 4.5% (2018: 5.4%) of the issued share capital.

### Subsidiaries

Details of investments in subsidiaries are disclosed in note 19.

Transactions between OUTsurance Holdings Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

### Associates

Details of investments in associates are disclosed in note 20.

Notes to the consolidated financial statements *continued*

## 37. Related party transactions *continued*

For the year under review, the OUTsurance Holdings Group entered into arms-length transactions with related parties:

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Transactions with related parties** | | |
| Discovery Health | | |
| Medical aid premiums paid | **96 542** | 72 730 |
| MMI Holdings Limited | | |
| Medical aid premiums paid | **9 959** | 9 301 |
| Pension fund contribution | **103 472** | 88 919 |
| Group life premiums paid | **9 394** | 8 010 |
| Disability premiums paid | **8 728** | 6 827 |
| Firness International (Pty) Limited | | |
| Ordinary dividends paid | **2 183 390** | 1 510 913 |
| Main Street 1353 (Pty) Limited | | |
| Dividend received | **(194 040)** | (123 480) |
| OUTsurance Insurance Company of Namibia Limited | | |
| Dividend received | **(25 480)** | (9 800) |
| Administration fee received | **(33 047)** | (32 366) |
| **Investment income received:** | | |
| Discovery Holdings Limited | **(5 043)** | (5 194) |
| **Year end balances with related parties** | | |
| Discovery Holdings Limited | | |
| Preference share investment | **47 500** | 41 000 |
| Coreshares Index Tracker Managers (RF) (Pty) Limited | | |
| Collective Investment Scheme | **115 273** | 109 841 |
| OUTsurance Insurance Company of Namibia Limited | | |
| Administration fee receivable | **2 730** | 5 141 |
| Other receivable | **130** | 51 |
| **Key management personnel Remuneration** | | |
| Salaries and bonuses | **112 154** | 82 258 |
| Non-executive directors fees | **18 630** | 11 496 |
| Non-executive directors fees subsidiaries | **7 184** | 5 845 |
| Other short-term employee benefits | **2 506** | 1 020 |
| Share-based payments | **12 206** | 15 157 |
| | **152 680** | 115 776 |
| **Insurance related transactions** | | |
| Premiums received | **1 587** | 1 360 |
| Claims paid | **(355)** | (489) |

The preference share investment in Discovery Holdings Limited consists of non-cumulative, non-redeemable preference shares listed on the JSE. The dividend rate is 100% of the ruling prime interest rate.

Insurance transactions are conducted at arm's length.

Notes to the consolidated financial statements *continued*

## 37. Related party transactions *continued*

### Remuneration

Prescribed officers' and directors' emoluments for the year ended 30 June is as follows:

| | Services as directors R'000 | Cash package R'000 | Performance related bonus[1] R'000 | Other benefits R'000 | Benefit derived from share incentive scheme R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Non-executive directors** | | | | | | |
| P Cooper[2] | 902 | – | – | – | – | 902 |
| LL Dippenaar[2] | 893 | – | – | – | – | 893 |
| AW Hedding | 449 | – | – | – | – | 449 |
| JJT Madavo | 357 | – | – | – | – | 357 |
| G Marx | 615 | – | – | – | – | 615 |
| NL Nightingale[5] | 144 | – | – | – | – | 144 |
| K Pillay | 409 | – | – | – | – | 409 |
| PR Pretorius | 357 | – | – | – | – | 357 |
| H Bosman[3, 4] | 405 | 10 903 | 61 | 1 477 | – | 12 846 |
| T Moabi | 321 | – | – | – | – | 321 |
| M Ramathe | 286 | – | – | – | – | 286 |
| B Hanise | 408 | – | – | – | – | 408 |
| R Ndlovu[4, 9] | 286 | – | – | – | – | 286 |
| WT Roos | 357 | – | – | – | – | 357 |
| **Executive directors and prescribed officers** | | | | | | |
| Executive directors | | | | | | |
| MC Visser | – | 5 364 | 8 621 | – | 1 758 | 15 743 |
| Prescribed officers | | | | | | |
| JH Hofmeyr | – | 4 448 | 6 819 | – | 1 758 | 13 025 |
| DH Matthee | – | 4 345 | 6 819 | – | – | 11 164 |
| **Total** | 6 189 | 25 060 | 22 320 | 1 477 | 3 516 | 58 562 |

Notes to the consolidated financial statements *continued*

## 37. Related party transactions *continued*

| | Services as directors R'000 | Cash package R'000 | Performance related bonus[1] R'000 | Other benefits R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Non-executive directors** | | | | | |
| P Cooper[2] | 600 | – | – | – | 600 |
| LL Dippenaar[2] | 714 | – | – | – | 714 |
| AW Hedding | 222 | – | – | – | 222 |
| F Knoetze[4, 7] | 168 | – | – | – | 168 |
| JJT Madavo | 168 | – | – | – | 168 |
| G Marx | 264 | – | – | – | 264 |
| NL Nightingale | 375 | – | – | – | 375 |
| K Pillay | 191 | – | – | – | 191 |
| PR Pretorius | 168 | – | – | – | 168 |
| H Bosman[3, 4] | 168 | 7 101 | 261 | 970 | 8 500 |
| H Aron | 42 | – | – | – | 42 |
| T Moabi | – | – | – | – | – |
| M Ramathe | – | – | – | – | – |
| B Hanise | – | – | – | – | – |
| **Executive directors and prescribed officers** | | | | | |
| Executive directors | | | | | |
| WT Roos[8] | 84 | 1 980 | – | – | 2 064 |
| MC Visser | – | 4 120 | – | – | 4 120 |
| Prescribed officers | | | | | |
| JH Hofmeyr | – | 3 974 | – | – | 3 974 |
| DH Matthee[6] | – | 3 924 | 1 853 | – | 5 777 |
| **Total** | 3 164 | 21 099 | 2 114 | 970 | 27 347 |

1 *Performance related bonus are paid on a two-year cycle, unless where specifically stated.*
2 *Includes fees for serving on the Rand Merchant Investment Holdings Board as a non-executive director (2019: R374 267) (2018: R354 756).*
3 *Paid by Rand Merchant Investment Holdings for services as an executive director of Rand Merchant Investment Holdings.*
4 *Directors fees are paid to representative companies.*
5 *Mr. NL Nightingale resigned as director on 28 August 2018.*
6 *Performance related bonus on a one-year cycle.*
7 *Mr. F Knoetze resigned 20 June 2018.*
8 *Mr. WT Roos resigned as chief executive officer on 31 December 2017 and thereafter serves as a non-executive director.*
9 *Mr. R Ndlovu was appointed as director on 28 August 2018.*

Notes to the consolidated financial statements *continued*

## 37. Related party transactions *continued*

**Directors' and prescribed officers' participation in group share incentive schemes**

**OUTsurance Holdings share incentive schemes**

| | Strike price rands | Vesting date from | Vesting date to | Settlement type | Opening balance 1 July 2018 '000 | Forfeited this year '000 | Taken up this year '000 | Granted in current year '000 | Closing balance 30 June 2019 '000 | Benefit derived R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| MC Visser | 7.15 | 01 / 07 / 2015 | 01 / 07 / 2018 | Cash | 600 | – | (600) | – | **–** | 1 758 |
| | 8.48 | 01 / 07 / 2016 | 01 / 07 / 2019 | Cash | 600 | – | – | – | **600** | – |
| | 9.30 | 01 / 07 / 2017 | 01 / 07 / 2020 | Cash | 700 | – | – | – | **700** | – |
| | 10.08 | 01 / 09 / 2018 | 01 / 09 / 2021 | Cash | – | – | – | 935 | **935** | – |
| JH Hofmeyr | 7.15 | 01 / 07 / 2015 | 01 / 07 / 2018 | Cash | 600 | – | (600) | – | **–** | 1 758 |
| | 8.48 | 01 / 07 / 2016 | 01 / 07 / 2019 | Cash | 600 | – | – | – | **600** | – |
| | 9.30 | 01 / 07 / 2017 | 01 / 07 / 2020 | Cash | 700 | – | – | – | **700** | – |
| | 10.08 | 01 / 09 / 2018 | 01 / 09 / 2021 | Cash | – | – | – | 740 | **740** | – |
| DH Matthee | 7.15 | 01 / 07 / 2015 | 01 / 07 / 2018 | Cash | – | – | – | – | **–** | – |
| | 8.48 | 01 / 07 / 2016 | 01 / 07 / 2019 | Cash | 550 | – | – | – | **550** | – |
| | 9.30 | 01 / 07 / 2017 | 01 / 07 / 2020 | Cash | 700 | – | – | – | **700** | – |
| | 10.08 | 01 / 09 / 2018 | 01 / 09 / 2021 | Cash | – | – | – | 740 | **740** | – |

**RMI Holdings share appreciation rights scheme**

| | Strike price Rands | Exercise date | Opening balance 1 July 2018 '000 | Forfeited this year '000 | Taken up this year '000 | Granted in current year '000 | Closing balance 30 June 2019 '000 | Benefit derived R'000 |
|---|---|---|---|---|---|---|---|---|
| HL Bosman | 28.74 | 02 / 04 / 2017 | 631 | – | – | – | **631** | – |
| | 28.74 | 02 / 04 / 2018 | 631 | – | – | – | **631** | – |
| | 28.74 | 02 / 04 / 2019 | 631 | – | – | – | **631** | – |
| | 41.25 | 14 / 09 / 2018 | 27 | – | – | – | **27** | – |
| | 41.25 | 14 / 09 / 2019 | 27 | – | – | – | **27** | – |
| | 41.25 | 14 / 09 / 2020 | 26 | – | – | – | **26** | – |
| | 43.41 | 14 / 09 / 2019 | 167 | – | – | – | **167** | – |
| | 43.41 | 14 / 09 / 2020 | 167 | – | – | – | **167** | – |
| | 43.41 | 14 / 09 / 2021 | 167 | – | – | – | **167** | – |
| | 39.92 | 19 / 09 / 2020 | 179 | – | – | – | **179** | – |
| | 39.92 | 19 / 09 / 2021 | 180 | – | – | – | **180** | – |
| | 39.92 | 19 / 09 / 2022 | 180 | – | – | – | **180** | – |
| | 39.47 | 14 / 09 / 2021 | – | – | – | 249 | **249** | – |
| | 39.47 | 14 / 09 / 2022 | – | – | – | 249 | **249** | – |
| | 39.47 | 14 / 09 / 2023 | – | – | – | 250 | **250** | – |

Notes to the consolidated financial statements *continued*

## 38. Restatement of comparatives

| 30 June 2018 | Amount as previously reported | Amount as restated | Difference |
|---|---|---|---|
| **Cash flow statement** | | | |
| Operating activities | | | |
| Cashflows on assets backing policyholder liabilities | – | (152 653) | (152 653) |
| Proceeds on disposal of financial assets | – | 8 162 970 | 8 162 970 |
| Purchase of financial assets | – | (9 346 072) | (9 346 072) |
| **Cash inflows from operating activities** | – | (1 335 755) | (1 335 755) |
| Investing activities | | | |
| Proceeds on disposal of financial assets | (8 191 909) | 28 939 | (8 162 970) |
| Purchase of financial assets | 9 504 843 | (6 118) | 9 498 725 |
| **Cash inflows from investing activities** | 1 312 934 | 22 821 | 1 335 755 |
| Total | 1 312 934 | (1 312 934) | – |

During the 2019 financial year, the Group's cash flow statement classification of certain financial assets was reviewed due to the implementation of IFRS 9. This resulted in financial assets held to back primarily insurance liabilities being restated to cash flows from operating activities.

## 39. Events after the reporting period

No matters which are material to the financial affairs of the Group occurred between the reporting date and date of the approval of the financial statements.

Notes to the consolidated financial statements *continued*

## 40. Changes in accounting policies

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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

| | Measurement category | | Carrying amount | | | |
|---|---|---|---|---|---|---|
| | Original – IAS 39 | New – IFRS 9 | Original R'000 | New R'000 | Changes in carrying amounts arising from a change in ECL on transition of IFRS 9 R'000 | Changes in carrying amounts on the basis of their measurement categories under IAS 39 R'000 |
| **Financial assets** | | | | | | |
| Listed preference shares | Available-for-sale | FVPL | 353 771 | 353 771 | – | – |
| Exchange traded funds | Available-for-sale | FVPL | 713 166 | 713 166 | – | – |
| Unsecured loan | FVPL | FVPL | 33 503 | 33 503 | – | – |
| Zero-coupon deposits | FVPL | FVPL | 345 943 | 345 943 | – | – |
| Money market and government bonds | FVPL | FVOCI | 3 352 374 | 3 318 222 | 34 152 | – |
| Insurance and other receivables | Amortised cost | Amortised cost | 2 623 459 | 2 623 459 | – | – |
| Cash and cash equivalents | Amortised cost | Amortised cost | 467 355 | 467 355 | – | – |
| Other payables | Amortised cost | Amortised cost | 869 889 | 869 889 | – | – |
| Term deposits | FVPL | Amortised cost | 5 261 302 | 5 261 302 | – | – |
| Unlisted preference shares | Available-for-sale | Amortised cost | 102 285 | 102 285 | – | – |
| Collective investment schemes | FVPL | FVPL | 109 841 | 109 841 | – | – |
| **Total financial assets** | | | 14 232 888 | 14 198 736 | 34 152 | – |

Notes to the consolidated financial statements *continued*

## 40. Changes in accounting policies *continued*

The table below provides a reconciliation of the reclassification impact of adopting IFRS 9:

| | Fair value through other comprehensive income (FVOCI) | Available-for-sale | Fair value through profit or loss (FVPL) | Amortised cost |
|---|---|---|---|---|
| Closing balance 30 June 2018 | – | 1 169 222 | 9 102 963 | – |
| Reclassify listed preference shares from available-for-sale to FVPL | – | (353 771) | 353 771 | – |
| Reclassify exchange traded funds from available-for-sale to FVPL | – | (713 166) | 713 166 | – |
| Reclassify unlisted preference shares from available-for-sale to amortised cost | – | (102 285) | – | 102 285 |
| Reclassify term deposits from FVPL to amortised cost | – | – | (5 261 302) | 5 261 302 |
| Reclassify money market and government bonds to FVOCI | 3 352 374 | – | (3 352 374) | – |
| **Opening balance 1 July 2018 – IFRS 9** | 3 352 374 | – | 1 556 224 | 5 363 587 |

*Reclassification from available-for-sale to FVPL*

Investments in exchange traded funds and the listed perpetual preference shares were reclassified from available-for-sale financial assets to FVPL (R713.1 million and R353.8 million respectively as at 1 July 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of R188.4 million were transferred from the available-for-sale financial assets reserve to retained earnings on 1 July 2018.

*Reclassification of financial instruments at FVPL to FVOCI*

Segregated portfolios were reclassified from FVPL to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, segregated portfolios with a fair value of R3.3 billion were reclassified from FVPL financial assets to financial assets at FVOCI and fair value gains of R20.6 million were reclassified from retained earnings to the OCI reserve on 1 July 2018.

Notes to the consolidated financial statements *continued*

## 40. Changes in accounting policies *continued*

*Reclassification of financial instruments at available-for-sale to amortised cost*

The unlisted redeemable preference shares were reclassified from available-for-sale to amortised cost (R102.2 million as at 1 July 2018). At the date of initial application the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount.

*Financial instruments remaining at amortised cost*

Insurance and other receivables, cash and cash equivalents and other payables remained classified at amortised cost. The Group's business model is that it intends to hold these assets to collect contractual cash flows and these cash flows consist solely of payments of principal and interest.

*Reclassification of financial instruments from FVPL to amortised cost*

Term deposits were reclassified from FVPL to amortised cost (R5 261.3 million as at 1 July 2018). At the date of initial application the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal account.

*Financial assets remaining at FVPL*

The unsecured loan and collective investment scheme remained classified as FVPL. The loan and collective investment scheme meets the IFRS 9 criteria for classification as FVPL because they are held to collect contractual cash flows that do not represent solely payments of principal and interest. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9 on 1 July 2018. Zero coupon deposits remained classified as FVPL under the 'accounting mismatch' rule as these financial assets have specifically been acquired to match the OUTbonus portion of the policyholder liability.

The total impact on the Group's retained earnings as at 1 July 2018 is as follows:

| | 2019 R'000 |
|---|---|
| Opening balance | 7 882 900 |
| **Change in accounting policy adjustments:** | |
| Reclassified investments from available-for-sale to FVPL | 188 350 |
| Deferred tax relating to investments reclassified from available-for-sale to FVPL | (42 190) |
| Reclassified investments from FVPL to FVOCI | (20 587) |
| Deferred tax relating to investments reclassified from FVPL to FVOCI | 5 574 |
| Expected credit loss for investments at FVOCI | (34 152) |
| Deferred tax relating to expected credit loss for investments at FVOCI | 9 302 |
| Adjustment to retained earnings from adoption of IFRS 9 on 1 July 2018 | 106 297 |
| **Opening retained earnings 1 July 2018 – IFRS 9** | **7 989 197** |

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies

The accounting policies were consistent with that of the prior year, unless where stated under the relevant accounting policy.

### 41.1 Consolidated financial statements

The consolidated financial statements include the assets and liabilities of the holding company and all of its subsidiary companies. The results of the OUTsurance Holdings Share Trust are also fully consolidated.

#### 41.1.1 Subsidiary companies

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### 41.1.2 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

#### 41.1.3 Non-controlling interest

Non-controlling interest can be measured at either:

> the proportionate share in the fair value of the identifiable net assets of the subsidiary at acquisition date; or

> fair value at acquisition date.

This measurement choice is applied at acquisition date per business combination transaction.

Non-controlling interests are treated as equity participants of the subsidiary company. Therefore, all transactions of the Group with non-controlling interests in their capacity as owners, where there is no change in control, are treated as transactions within equity. In such transactions, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group. Gains and losses on disposals to non-controlling interests are also recorded in equity.

#### 41.1.4 Separate financial statements

Interests in subsidiary companies in the company financial statements are shown at cost less any required impairment. Acquisition costs are recorded as an expense in the period in which they are incurred, except for the costs to issue debt or equity securities, which are part of the consideration transferred. The carrying amounts of these investments are reviewed annually for impairment.

Interests in associates are accounted for at cost less any impairment in the company financial statements. The carrying amounts are reviewed annually for impairment.

#### 41.1.5 Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. The Group assesses at each reporting period whether there is objective evidence that an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

The Group's share of its associates' earnings is recognised in profit or loss and its share of post acquisition movements is recognised in other comprehensive income. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments were made to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

# Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.2 Classification of insurance contracts

Contracts issued by the Group are governed by the relevant insurance legislation of the country in which the Group operates. Contracts under which the Group accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary, are classified as insurance contracts.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

### 41.3 Recognition and measurement of insurance contracts

#### 41.3.1 Short-term insurance

Short-term insurance provides benefits under short-term policies, typically one year or less, under which the Group accepts significant insurance risks from the policyholder if the policyholder incurs losses relating to uncertain future events such as mechanical breakdown of equipment, theft, fire, weather-related events, fraud, third party claims, accidents etc.

*Premiums*

Gross premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed. The earned portion of premiums received is recognised as revenue. Premiums relating to a future accounting period are included in unearned premium provision and are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

*Unearned premium provision*

All short-term insurance contracts have even risk profiles. The provision for unearned premiums represents the proportion of the current year's premiums written that relate to risk periods extending into the following year, computed separately for each insurance contract using the 365th method.

*Insurance contract claims incurred*

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not. Estimates are calculated based on the most recent cost experience of similar claims and includes an appropriate risk margin for unexpected variances between the actual cost and the estimate. Where applicable, deductions are made for salvage and other recoveries. Salvage proceeds are generated upon the successful salvage of damaged insured items after the settlement of the underlying claim. Recoveries are settlements from third parties as a result of involvement in a claim incident for which the third party is responsible. Recoveries are disclosed net of liabilities where the Group settles a third-party claim on behalf of the customer, where the customer is responsible for causing a loss to a third party. Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately.

*Claims provisions*

Provision is made for the estimated final costs of:

> claims notified but not settled at year end, using the best information available at that time; and

> claims incurred at year end but not reported until after that date (IBNR), using historical experience and the best information available at the time.

Estimates provide for inflation, claim handling expenses as well as a risk margin to allow for the uncertainty in the development of such claims estimates.

Claims handling expenses include all costs directly attributable to the administration of an insurance claim and includes the cost of claims assessments.

Notes to the consolidated financial statements *continued*

# 41. Summary of significant accounting policies *continued*

## 41.3 Recognition and measurement of insurance contracts *continued*

### 41.3.1 Short-term insurance *continued*

*Commission and insurance related fee income*

Insurance related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums and is recognised when these actions have been fulfilled in the course of providing and administering insurance products. Commission income relates to commission earned on the placement of reinsurance treaties and is recognised on the placement of these treaties.

*Reinsurance*

The Group cedes reinsurance in the normal course of business to limit its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the impact of the event on the amounts that the Group will receive from the reinsurer can be measured. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following events:

> Significant financial difficulty of the issuer or debtor;

> A breach of contract, such as a default or delinquency in payments; or

> It is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

*Liabilities adequacy test for unexpired risk liabilities*

At the end of the reporting period, the adequacy of the unearned premium liabilities is assessed against the present value of the expected future cash flows resulting from potential future claims relating to unexpired periods of insurance contracts in force at the end of the reporting period, plus an additional risk margin to reflect the inherent uncertainty of the central estimate (liability adequacy test).

If the unearned premium liabilities, less deferred acquisition costs, are deficient, then the resulting deficiency is recognised immediately in profit or loss. Reinsurance is taken into account, where appropriate.

The deficiency is recognised first by writing off any deferred acquisition costs and thereafter any excess is recognised as unexpired risk liabilities in the statement of financial position.

*Non-claims bonuses on insurance contracts*

The Group provides for its contractual obligation per the contract of insurance to pay a non-claims bonus to a customer in the event that the customer remains claim free for a specified period of time. To derive the best estimate of the expected future cash flows, the non-claims bonus percentage per the contract of insurance is adjusted for the following factors:

> The bonus percentage is reduced to allow for the probability that the customer may claim (and hence forfeit eligibility for the OUTbonus) over the OUTbonus cycle.

> The bonus percentage is reduced to allow for the probability that the customer will cancel during the OUTbonus cycle.

> A risk margin is added to allow for the uncertainty relating to the above claims and lapse assumptions.

> Where the impact of discounting is considered to be material, the expected future obligation is discounted to the present value using an appropriate discount rate reflecting the time value of money.

### 41.3.2 Long-term insurance

Benefits are provided under long-term policies for life protector, underwritten life and funeral plan. Benefits are recorded as an expense when they are incurred.

*Policyholder liabilities*

Long-term insurance contracts are valued in accordance with the Financial Soundness Valuation (FSV) method as detailed in the Standard of Actuarial Practice (SAP) 104 issued by the Actuarial Society of South Africa (ASSA).

The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments and expenses and the present value of future premiums and investment income. The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as prescribed by SAP 104. In addition to the compulsory margins, discretionary margins may be added to protect against possible future adverse experience.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.3 Recognition and measurement of insurance contracts *continued*

#### 41.3.2 Long-term insurance *continued*

Discretionary margins are specifically allowed for to zerorise negative reserves which may arise from the FSV calculation. Such a margin is allowed for after allowing for the acquisition costs as described in note 40.3.3.

The zerorisation of negative reserves ensures that profit and risk margins allowed for in premiun income are not recognised before its is probable that future economic benefits will flow to the entity.

The compulsory and discretionary margins allowed for in the measurement of the liability are contained in note 27.

Refer to note 27 for the calculation basis and the specific assumptions used to calculate the policyholder liabilities.

*Premiums*

Gross premiums comprise the premiums as received on insurance contracts during the year. Premiums are disclosed before the deduction of commission.

Gross premium includes insurance related fee income which relates to policy fees and take-on fees charged in the ordinary course of the underwriting of long-term insurance policies.

*Reinsurance*

The Group cedes reinsurance in the normal course of business to limit its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. Premiums ceded and claims reimbursed are presented separately from the gross amounts. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such reinsurance contracts are recognised in the same year as the related claim. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the impact of the event on the amounts that the Group will receive from the reinsurer can be measured.

Reinsurance assets are held on the statement of financial position in connection with outstanding claims provisions at the amount of the expected recovery that will be made once the outstanding claim is finalised.

*Insurance related fee income*

Insurance related fee income is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the contractual conditions for the rendering of the related service have been met. Insurance related fee income is linked to specific actions such as the inception and renewal of policies and the collection of premiums. This income is recognised when these actions have been fulfilled in the course of providing and administering insurance products.

*Insurance contract claims incurred and outstanding*

Insurance contract claims incurred relate to claims payments on long-term insurance contracts, which include death, disability, critical illness and retrenchment, are charged to profit or loss on notification of a claim. The estimated liability for compensation owed to policyholders is based on the sum assured. Claims which have been reported but which are outstanding at the reporting date are recognised in insurance contract liabilities. Reinsurance recoveries are accounted for in the same period as the related claim.

Incurred but not reported claims is a provision made in the policyholders' liabilities under insurance contracts, on the statement of financial position, for the estimated cost at the end of the year for claims incurred but not reported at that date. These liabilities are not discounted due to the short-term nature of the outstanding claims.

*Liability adequacy test*

At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of its insurance liabilities (as measured under the FSV basis) net of any related intangible present value of acquired in-force business (PVIF) assets is inadequate in light of the estimated future cash flows (based on the best estimate basis underlying the FSV basis, but excluding compulsory margins as described in SAP 104 as well as any additional discretionary margins), the deficiency is recognised immediately in profit or loss.

*Non-claims bonuses on insurance contracts*

The expected non-claims cash bonuses to be paid in the future to policyholders on fulfilment of certain claims-related conditions are taken into account in the FSV per SAP 104.

Notes to the consolidated financial statements *continued*

# 41. Summary of significant accounting policies *continued*

## 41.3 Recognition and measurement of insurance contracts *continued*

### 41.3.3 Deferred acquisition costs

*Short-term insurance contracts*

Directly attributable acquisition costs include advertising and other selling and underwriting costs incurred in generating insurance premium revenue. These acquisition costs are deferred as a deferred acquisition cost (DAC) asset and are amortised systematically over the contractual term of the policy.

Acquisition costs, which are all deferred, are recognised as an asset. The amount of the asset is limited to the amount by which the related unearned premiums exceed the present value of future expected claims plus settlement and policy maintenance costs relating to the policies in force at the reporting date. Where a shortfall exists, the DAC asset is written down and any remaining excess is recognised as unexpired risk liabilities in the statement of financial position.

Acquisition costs on policies with an effective contractual term of one month or less are expensed as incurred.

*Long-term insurance contracts*

Acquisition costs represent all costs directly attributable to the underwriting and acquiring of long-term insurance contracts. These costs are expensed as incurred.

The level of day one profits allowed in the form of negative rand reserves not zerorised is determined with reference to the costs directly attributable to acquiring a policy. The amount of directly attributable acquisition costs calculated is compared to the negative reserve available on each individual policy. Where the amount of directly attributable acquisition costs is greater than the negative reserve available on the policy, the available negative reserve is recognised in full. Where the amount of directly attributable acquisition costs is less than the negative reserve, the negative reserve recognised is limited to the amount of directly attributable acquisition costs.

## 41.4 Accounting for profit sharing arrangements

A profit sharing arrangement has been entered into between OUTsurance Insurance Company Limited and FirstRand Bank Limited. In terms of this profit sharing arrangement, ninety percent of the operating profit generated on the homeowners' insurance business referred by FirstRand Bank Limited businesses is paid to FirstRand Bank Limited by way of a biannual preference dividend. Operating losses incurred are for OUTsurance Insurance Company Limited's account. OUTsurance Insurance Company Limited however, retains the right to offset such losses against future profits generated in the determination of any preference dividends to be paid to the preference shareholder.

These shareholders for preference share dividends are accounted for as a financial liability on the face of the statement of financial position. The profit attributable to the preference shareholder is the fair value movement and the payment of a dividend is treated as a partial settlement of the liability.

The profitability of the profit sharing business is reviewed on a monthly basis to ensure that the Group is not exposed to uneconomical risks over which it has no day-to-day management control.

The policy for the recognition and measurement of insurance contracts applied to the profit sharing arrangements is similar to the policy under 40.3 above.

## 41.5 Segment reporting

The Group's products and services are managed by various business units along geographical lines and product categories. The segment information is presented by each distinct revenue-generating area representing groups of similar products, consistent with the way the Group manages the business. Given the nature of operations, there are no major single customers within any of the segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers when making operating decisions and for allocating resources and assessing performance. Certain reporting adjustments are provided separately to reconcile to IFRS reported earnings.

## 41. Summary of significant accounting policies *continued*

### 41.6 Foreign Currency

#### 41.6.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in South African Rand (R), which is the functional and presentation currency of OUTsurance Holdings Limited.

None of the Group entities operate in a hyperinflationary environment.

#### 41.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### 41.6.3 Group companies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

> assets and liabilities for each reporting date presented are translated at the closing rate at the date of that statement of financial position;

> income and expenses for each statement of profit or loss and other comprehensive income are translated at the average exchange rate for the year. If this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction date, the income and expenses are translated at the transaction date rate; and

> all resulting exchange differences are recognised as a separate component of other comprehensive income (foreign currency translation reserve).

When a foreign operation is partially disposed of or sold, and control is lost, the Group's portion of the cumulative amount of the exchange differences that were recorded in other comprehensive income are reclassified to profit or loss when the gain or loss on disposal is recognised. For partial disposals where control is retained, the Group re-attributes the proportionate share of the cumulative exchange differences, recognised in other comprehensive income to the non-controlling interest of the foreign operation.

### 41.7 Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Gains or losses on disposals are determined by comparing sales proceeds with the carrying amount of the asset, and are included in profit or loss. Repairs and renewals are charged to profit or loss when the expenditure is incurred.

*Depreciation*

Depreciation is calculated using the straight-line method to allocate historical cost to the residual values over the estimated useful lives, as follows:

| | |
|---|---|
| Building fixtures and owner occupied property | between 20 and 50 years |
| Computer equipment | 2 to 5 years |
| Fittings and office equipment | 5 to 6 years |
| Computer software | 2 to 3 years |
| Motor vehicles | 5 years |

Land is not depreciated

Annual reviews of the residual values and useful lives of the assets are conducted in order to evaluate the continued appropriateness of the above policy. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is immediately written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use.

*Owner-occupied properties*

Owner-occupied properties are held by the Group for use in the supply of services or, for its own administration purposes.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.7 Property and equipment *continued*

Property under development is property not yet available for use and is carried at cost less required impairment. This asset is impaired if the recoverable amount is less than the cost. Once development is complete the property is transferred to owner occupied property.

### 41.8 Intangible assets

#### 41.8.1 Computer software development costs

Costs associated with research activities and maintaining computer software are recognised as an expense as incurred.

Costs that are directly attributable to identifiable software products controlled by the Group are recognised as intangible assets if certain criteria are met. These costs comprise of all directly attributable costs necessary to create, produce and prepare the asset for its intended use.

Development costs are recognised as an intangible asset when all of the following criteria are met:

> The technical feasibility of the development can be demonstrated.

> The Group is able to demonstrate its intention and ability to complete and use the software.

> It can be demonstrated how the software product will generate probable future economic benefits.

> It can be demonstrated that adequate technical, financial and other resources to complete the development and to use or sell the software product are available.

> The expenditure attributable to the software product during its development can be reliably measured.

Development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs are recognised as assets from the point where the recognition criteria above are satisfied, and are amortised once the asset is ready for use, on a straight line basis over the expected useful life.

The carrying amount of intangible assets are reviewed for impairment if there is an indication of impairment.

The intangibles are subsequently measured at cost less accumulated amortisation and impairment.

Amortisation is calculated using the straight-line method to allocate historical cost to the residual values over the estimated useful lives as follows:

| | |
|---|---|
| Computer software | 2 to 3 years |

### 41.9 Impairment review – Non financial assets

A periodic review of the carrying amount of the Group's assets is conducted and, where there are indications that the value of an asset may be impaired, an impairment loss is recognised. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The difference between the carrying amount and the recoverable amount is charged to profit or loss for the year in which the impairment is identified, to reduce the carrying amount of such impaired asset to its estimated recoverable amount. Should an event occur after the recognition of an impairment, which increases the recoverable amount of the previously impaired asset, the impairment of the asset, or a portion thereof, is reversed through profit or loss. The adjusted carrying value may not exceed what the carrying value would have been had the impairment not been recognised before.

### 41.10 Financial instruments under IFRS 9 (from 2019 financial year)

#### 41.10.1 General

The Group recognises a financial asset or a financial liability on its statement of financial position when and only when, it becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on trade-date being the date on which the group commits to purchase or sell the asset.

The Group classifies its financial assets in the following measurement categories:

> financial assets at fair value through profit or loss (FVPL);

> financial assets at fair value through other comprehensive income (FVOCI); and

> financial assets at amortised cost.

Financial liabilities are classified in the following categories:

> financial liabilities at fair value through profit or loss (FVPL); and

> financial liabilities at amortised cost.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.10 Financial instruments under IFRS 9 (from 2019 financial year) *continued*

#### 41.10.1 General *continued*

Management determines the classification of its financial instruments at initial recognition. Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing financial assets. In such a case, all affected financial assets are reclassified prospectively from the reclassification date.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus, in the case of an asset not at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The Group assesses the business model in which a financial asset is held at a portfolio level. Information considered in determining the applicable business model includes:

> policies and objectives for the relevant portfolio;
> how the performance and risks of the portfolio are managed, evaluated and reported to management; and
> the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent solely payments of principal and interest (SPPI).

Principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time, e.g. on repayment of the principal. Interest is defined as consideration primarily for the time value of money, the credit risk of the principal outstanding, other basic lending risks and costs and a profit margin.

In assessing whether contractual cash flows are SPPI compliant, contractual terms that could change the contractual cash flows so that it would not meet the condition for SPPI are considered, including:

> contingent events that could change the amount or timing of cash flows;
> leverage features;
> prepayment and extension features;
> non-recourse arrangements; and
> features that modify the time value of money (e.g. periodic reset of interest rates).

A prepayment feature meets the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include compensation for early termination of the contract. For a financial asset acquired at a premium or discount to its contractual nominal amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued contractual interest (which may include compensation for early termination of the contract) is considered SPPI compliant if the fair value of the prepayment feature is insignificant on initial recognition.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective i.e. instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends are recognised in profit or loss when the Group's right to receive payments is established.

#### 41.10.2 Financial instruments at fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets cash flows represent solely payments of principal and interest, are measured at FVOCI, if these financial assets are not designated at FVPL.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.10 Financial instruments under IFRS 9 (from 2019 financial year) *continued*

#### 41.10.2 Financial instruments at fair value through other comprehensive income (FVOCI) *continued*

Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other movements in the carrying amount are taken through OCI. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss.

Financial assets classified as FVOCI comprise various debt investments in money market and capital market instruments, including government bonds.

#### 41.10.3 Financial instruments at fair value through profit or loss (FVPL)

Financial assets not classified at amortised cost or FVOCI are measured at FVPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Net gains or losses, including any interest or dividend income and foreign exchange gains and losses are recognised in profit or loss.

Financial assets classified as FVPL comprise:

> Collective investment schemes
> Unsecured loans
> Ordinary shares
> Debt instruments
> Perpetual preference shares
> Zero coupon deposits
> Derivative financial instruments

Financial liabilities classified as FVPL are measured at fair value. Net gains and losses including interest expense and foreign exchange gains and losses are recognised in profit or loss, unless they arise from derivatives designated as hedging instruments in net investment hedges.

#### 41.10.4 Financial assets measured at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method, if these financial assets are not designated at FVPL.

Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss.

Financial assets classified as amortised cost comprise:

> Redeemable preference shares
> Insurance and other receivables
> Term deposits

Financial liabilities are measured at amortised cost using the effective interest method. Net gains and losses including interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss.

#### 41.10.5 Derivatives

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group uses derivatives to offset the interest rate risk inherent in some of the life insurance products underwritten by the Group. The Group has elected not to apply hedge accounting to the asset-liability matching strategy.

#### 41.10.6 Impairment

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

> financial assets measured at amortised cost
> debt investments measured at FVOCI
> financial guarantee contracts

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

> financial assets that are determined to have low credit risk at the reporting date;
> financial assets where credit risk has not increased significantly since initial recognition; and
> financial assets which are callable on demand or within a period of 12 months from reporting date.

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

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.10 Financial instruments under IFRS 9 (from 2019 financial year) *continued*

#### 41.10.6 Impairment *continued*

At each reporting date, the Group assesses whether financial assets measured at amortised cost and at FVOCI are credit impaired. The Group writes off a financial instruments when the entity has no reasonable expectation of recovery of the outstanding balance of the instrument. Determining when to write off financial assets is a matter of judgement and incorporates both quantitative and qualitative information. Evidence that a financial asset is credit-impaired includes observable data:

> significant financial difficulty of the issuer or debtor;

> a breach of contract, such as a default or delinquency in payments;

> a restructuring of an amount due to the Group on terms that would not otherwise be considered by the Group;

> it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; or

> the disappearance of an active market for that financial asset because of financial difficulties.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In assessing whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

> the markets assessment of creditworthiness as reflected in the bond yields;

> the rating agencies' assessment of credit-worthiness;

> the country's ability to access the capital markets for new debt issuance;

> the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and

> the international support mechanisms in place to provide the necessary support as 'lender of last resort' to the country as well as the intention, communicated in public statements, of governments and agencies to access those mechanisms, including an assessment of the depth of the mechanisms and the capacity to fulfil the required criteria.

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

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospects of recovery by the Group. Financial assets that are written off may still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### 41.10.7 Derecognition

The Group derecognises a financial asset:

> when the contractual rights to the asset expires; or

> where there is a transfer of the contractual rights to receive the cash flows of the financial asset in a transaction in which:

- substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

### 41.11 Financial instruments under IAS 39 (Prior to 2019 financial year)

#### 41.11.1 General

The Group recognises a financial asset or a financial liability on its statement of financial position when and only when, it becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets in the following categories:

> financial assets at fair value through profit or loss;

> insurance and other receivables;

> available-for-sale financial assets; and

> held-to-maturity investments.

Financial liabilities are classified in the following categories:

> financial liabilities at fair value through profit or loss; and

> financial liabilities at amortised cost.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.11 Financial instruments under IAS 39 (Prior to 2019 financial year) *continued*

#### 41.11.1 General *continued*

Management determines the classification of its financial instruments at initial recognition. Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss. Financial instruments carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Insurance and other receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit for the year as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss as investment income when the entity's right to receive payment is established.

The fair values of financial assets quoted in active markets are based on current market prices. The fair values of financial liabilities quoted in active markets are based on current ask / offer prices. Alternatively, fair values are derived from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The Group recognises purchases and sales of financial instruments that required delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date.

#### 41.11.2 Financial instruments at fair value through profit or loss

This category has two sub categories: financial instruments held for trading, and those designated at fair value through profit or loss at initial inception.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as fair value through profit or loss to the extent that it produces more relevant information because it either:

> results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

> is a group of financial assets and / or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and / or liabilities is provided internally to the entity's key management personnel; or

> is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

Financial assets designated at fair value through profit or loss at initial recognition comprise various investments in money market instruments.

Financial liabilities designated at fair value through profit or loss comprise preference shares held in terms of a profit-sharing arrangement where the dividends are accrued monthly and paid six monthly.

These financial assets and liabilities were designated at fair value through profit or loss due to the fact that the investments are managed, reported on and the performance thereof, is evaluated on a fair value basis in accordance with an investment strategy.

The Group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.11 Financial instruments under IAS 39 (Prior to 2019 financial year) *continued*

#### 41.11.3 Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets classified as available-for-sale comprise:

> Listed preference shares;
> Unlisted preference shares;
> Listed ordinary shares; and
> Listed debt instruments.

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets in other comprehensive income. It recognises interest income on these assets as part of interest income based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

#### 41.11.4 Insurance and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Insurance and other receivables comprise loans advanced by the Group and trade and other receivables.

Loans advanced by the Group are measured at amortised cost using the effective interest method. Trade and other receivables originated by the Group are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Where there is objective evidence of an impairment, a provision is made for doubtful receivables based on a review of all outstanding amounts at year end.

#### 41.11.5 Financial liabilities at amortised cost

Financial liabilities are measured at amortised cost and interest is recognised over the period of the contract using the effective interest method.

Financial liabilities at amortised cost consist of trade and other payables. Trade and other payables are recognised when the Group has a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the Group.

#### 41.11.6 Derecognition

The Group derecognises a financial asset when:

> the contractual rights to the asset expires; or
> where there is a transfer of the contractual rights to receive the cash flows of the financial asset; or
> the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual cash flows to another party and consequently transfers substantially all the risks and benefits associated with the asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

#### 41.11.7 Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

*Financial assets carried at amortised cost*

The carrying amounts of the Group's financial assets are reviewed periodically to determine whether there is any indication of impairment. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Group about the following events:

> Significant financial difficulty of the issuer or debtor;
> A breach of contract, such as a default or delinquency in payments;
> It is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
> The disappearance of an active market for that financial asset because of financial difficulties; or
> Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group, including:
– Adverse changes in the payment status of issuers of debtors in the group; or
– National or local economic conditions that correlate with defaults on the assets in the group.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.11 Financial instruments under IAS 39 (Prior to 2019 financial year) *continued*

#### 41.11.7 Impairment of financial assets *continued*

If there is objective evidence that an impairment loss has been incurred on insurance and other receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

*Available-for-sale financial assets*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in the profit for the year. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit for the year. Impairment losses on equity instruments recognised in profit or loss are not reversed through the profit or loss for the year.

### 41.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term deposits held with banks. All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

Short-term deposits with banks are considered to be instruments which are highly liquid and have maturity dates of not more than three months from the reporting date. Short-term deposits which cannot be accessed within this period are classified as financial assets.

### 41.13 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Ordinary shares and non-redeemable non-cumulative preference shares together with share premium are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of taxation.

*Treasury shares*

Where the OUTsurance Holdings Share Trust purchases the Group's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are reissued or cancelled.

On consolidation, the cost of the shares acquired is deducted from equity. Subsequently, any proceeds on the re-issue or cancellation of these shares is recognised directly in shareholder's equity.

Any net income in relation to treasury shares is eliminated in the Group's results. Dividends paid in respect of treasury shares are similarly eliminated in the Group's results.

*Dividends paid*

Dividends payable on ordinary shares are recognised in equity in the period in which there is unconditional certainty that the dividend will become payable, which would include approval of the dividend declaration by the Group's Board of directors, regardless of whether the formalities of the payment thereof have been finalised. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

### 41.14 Current and deferred Income tax

The income tax expense for the period comprises current and deferred tax. Current tax comprises tax payable as calculated on the basis of the expected taxable income for the year, using tax rates substantively enacted at the reporting date. Adjustments to provisions made for tax payable in previous years as a result of a change in the estimated amount payable, or to the extent that actual assessments differ from the provision created in prior years, are charged or credited to the current year profit or loss.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.14 Current and deferred Income tax *continued*

Deferred tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Where a different tax rate will be applicable to the tax year in which such assets or liabilities are realised, those tax rates are used to determine deferred income tax. Deferred tax is charged or credited to the profit for the year, except where the underlying transaction is accounted for in other comprehensive income, in which case the attributable deferred tax is charged or credited to other comprehensive income or directly to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The deduction of short-term insurance provisions is limited for the purposes of calculating taxable income in that assessable losses cannot be created through those deductions. These provisions are however recognised in full for accounting purposes and, to the extent that accounting losses arise, deferred tax assets are created as these will be reversed upon the release of such short-term insurance provisions.

Deferred tax assets relating to the carry-forward of unused tax losses are recognised in profit or loss to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Taxation in respect of South African life insurance operations is determined using the five fund method applicable to life insurance companies. The taxation of life insurers in South Africa was amended to introduce a separate tax fund for risk products sold in tax periods beginning on or after 1 January 2016. From 1 July 2016, OUTsurance Life has allocated all risk products to the risk fund.

Indirect taxes comprise Value Added Tax. All transactions are accounted for net of the relevant Value Added Tax component.

Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or changes in equity.

### 41.15 Employee benefits

*Short-term employee benefits*

The undiscounted cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provision for employee entitlements to salaries and annual leave represents the amount which the Group has as a present obligation to pay, resulting from employees' services provided up to the reporting date. The provision is calculated at undiscounted amounts based on current salary rates. A provision for employee benefits in respect of their annual leave entitlement from past service is recognised in full.

Employees may elect to adopt a remuneration structure to allow for a non-discretionary bonus. Non-discretionary bonuses are provided for at reporting date.

*Post-employment benefits*

The Group's employees contribute to the OUTsurance Insurance Company Limited defined pension and provident contribution funds. Under defined contribution plans, the legal or constructive obligation of the Group is limited to the contributions made to the plan, thus benefits received by the employee is determined by the contributions made to the plan together with investment returns arising from the contributions.

The pension plans are funded by payments from employees. The amount paid in respect of defined pension and provident contribution fund plans during the year is charged to profit or loss and is included in employment cost. The Group has no further payment obligations once contributions have been made.

*Intellectual property bonuses*

In terms of the intellectual property bonus plan, employees are paid intellectual property bonuses based on management's discretion. The beneficiaries under the plan, which included executive directors, executive management, senior and middle management employed on a full-time basis, are subject to retention periods and amounts would need to be repaid should the employee be in breach of the retention period. The intellectual property bonuses are recognised as current service costs over retention periods ranging from six months to two years and are straight lined over the period of the contract.

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.16 Share-based payments

The Group operates both equity and cash-settled share incentive schemes.

*Equity-settled share-based payment transactions*

The Group operates an equity-settled share-based compensation plan for employees of the Youi Holdings Group.

The Group expenses the fair value of the employee services received in exchange for the granting of the options, over the vesting period of the options, as employee costs, with a corresponding credit to equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### 41.17 Share-based payments

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

*Cash-settled share-based payment transactions*

The Group operates a cash-settled share-based compensation plan for employees of OUTsurance and OUTsurance Life for notional shares (share appreciation rights) issued after 1 July 2010.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit for the year.

### 41.18 Share trust

The OUTsurance Holdings share incentive scheme is operated through a Share Trust. The Share Trust is considered to be a structured entity of the Group and therefore consolidated. All shares issued to the Share Trust are issued against the Share Trust loan which is measured at fair value.

### 41.19 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### 41.20 Investment income

*Interest*

Interest income is recognised in profit or loss as investment income for instruments measured at amortised cost using the effective interest method. Interest on cash and cash equivalents is recognised as earned.

*Dividends*

Dividends are recognised in investment income when the right to receive payment is legally established. This is on the 'last day to trade' for listed shares and on the 'date of declaration' for unlisted shares. In the case of certain cumulative prime rate linked preference share investments, dividends are accrued for using the effective interest method regardless of the status of their declaration. This accounting treatment is consistent with the provisions of the agreements governing such investments.

### 41.21 Revenue

*Revenue from investment advice and investment administration services*

Ongoing advice and administration fees are calculated and recognised as revenue on a daily basis.

#### 41.21.1 Revenue recognition

Ongoing advice and administration fees in OUTvest is calculated and recognised as revenue in terms of IFRS 15 on a daily basis. The fees are recognised on an earned basis calculated as a percentage of the assets under management, measured at a client level.

### 41.22 Government grants

Grants from the Government are recognised at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are recognised in profit over the period necessary to match them with the costs they are intended to compensate.

Notes to the consolidated financial statements *continued*

# 41. Summary of significant accounting policies *continued*

## 41.23 Amendments to published standards effective in the current year

During the year new accounting standards, interpretations and amendments were adopted by the Group for the first time, including:

| Number | Effective date | Executive summary and impact on the Group |
|---|---|---|
| *Amendments to IFRS 2 – Share-based payments Clarifying how to account for certain types of share-based payment transactions* | 1 January 2018 (published June 2016) | This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.<br>*This amendment does not have an impact on the Group.* |
| *IFRS 15 – Revenue from contracts with customers* | 1 January 2018 (published May 2014 and amendment published April 2016) | This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.<br>*IFRS 15 is applicable to non-insurance revenue. Revenue from contracts accounted for under IFRS 4 is outside the scope of IFRS 15. Based on managements assessment. The adoption of IFRS 15 has no material impact on the results of the Group.* |
| *IFRS 9 – Financial Instruments* | 1 January 2018 (published July 2014) | This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.<br>The reviewed standard establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS39.<br>An amendment to IFRS was issued by the IASB to align hedge accounting more closely to an entity's risk management. This amendment is effective on 1 January 2018.<br>*The adoption of IFRS 9 from 1 July 2018 resulted in a change in accounting policy. The new accounting policy is set out in note 41.10 and note 40. On 1 July 2018, the Group's management assessed which business models to apply to its financial instrument and classified them into appropriate IFRS 9 categories.*<br>*The IFRS 9 classification, measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet with no restatement of comparatives on initial application. The previous accounting policy under IAS 39 that relates to the prior financial year, is set out in note 41.11.* |

Notes to the consolidated financial statements *continued*

# 41. Summary of significant accounting policies *continued*

## 41.23 Amendments to published standards effective in the current year *continued*

| Number | Effective date | Executive summary and impact on the Group |
|---|---|---|
| *IFRS 4 – 'Insurance contracts'* | 1 January 2018 (published September 2016) | These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:<br>> Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and<br>> Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.<br>*The amendment does not have an impact on the Group as IFRS 9 has been implemented on the effective date and neither option introduced by the amendment was applied.* |
| *IFRIC 22 – Foreign currency transactions and advance consideration* | 1 January 2018 (published December 2016) | This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.<br>*The Group has assessed the impact of the interpretation on its financial statements and the impact is not considered material.* |
| *Annual improvements 2014 – 2016* | Annual periods beginning on or after 1 January 2018 (published December 2016) | These amendments impact on the following standards:<br>> IFRS 1,' First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018<br>This amendment has no impact on the Group.<br>> IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL).<br>The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018.<br>*The amendment has no impact on the Group.* |

Notes to the consolidated financial statements *continued*

## 41. Summary of significant accounting policies *continued*

### 41.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted:

The following new standards and interpretations to the existing standards are not yet effective for the current financial year. The Group has not early adopted these standards and therefore implementation date is effective date, unless otherwise stated.

| Number | Effective date | Executive summary and impact on the Group |
|---|---|---|
| *IFRS 9 – Financial Instruments* | 1 January 2019 (published October 2017) | This narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met.<br>*This amendment is not expected to have an impact on the Group as no such financial assets are issued by the Group.*<br>This narrow-scope amendment confirms that most modifications of financial liabilities will result in the immediate recognition of a gain or loss.<br>*This amendment is not expected to have an impact on the Group.* |
| *IFRS 16 – Leases* | 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (published January 2016) | The new standard requires lessees to recognise assets and liabilities arising from all leases in the statement of financial position. Lessor accounting has not substantially changed in the new standard. Lessees will recognise right-of-use assets and lease liabilities for operating leases under IAS 17. The nature of expenses related to the leases will change from operating lease charges to depreciation on right-to-use assets and interest expense on lease liabilities. A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).<br>IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.<br>*The Group has entered into leases for regional offices, vehicles and certain office equipment. Based on the assessment of leases at 1 July 2019, the Group will recognise right-of-use assets and lease liabilities of less than R25 million. The Group is not a lessor. OUTsurance Holdings Company does not have any lease liabilities. On transition, the Group has applied the modified retrospective approach. Comparatives are not restated under this approach.* |
| *IAS 28 – Investments in Associates and Joint Ventures* | 1 January 2019 (published October 2017) | This amendment provides clarification that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture but to which the equity method is not applied.<br>*This amendment is not expected to have a material impact on the Group.* |

Notes to the consolidated financial statements *continued*

# 41. Summary of significant accounting policies *continued*

## 41.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted *continued*

| Number | Effective date | Executive summary and impact on the Group |
|---|---|---|
| *IFRIC 23 – Uncertainty over Income Tax Treatments* | 1 January 2019 (published June 2017) | This IFRIC specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.<br>*This interpretation is not expected to have a material impact on the Group.* |
| *IAS 19 – Employee Benefits* | 1 January 2019 | Plan Amendment, Curtailment or Settlement (Amendments to IAS 19): The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.<br>*This interpretation is not expected to have a material impact on the Group.* |
| *Annual improvements 2015-2017* | Annual periods beginning on or after 1 January 2019 (published December 2017) | These amendments impact the following standards:<br>> IFRS 11: Joint Arrangements' regarding clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.<br>*This amendment is not expected to have an impact on the Group.*<br>> IFRS 12: Income Taxes' regarding clarification that all income tax consequences of dividends should be recognised in profit or loss regardless of how the tax arises.<br>*This amendment is not expected to have an impact on the Group.*<br>> IFRS 3: Business Combinations' regarding clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure all previously held interests in that business.<br>*This amendment is not expected to have an impact on the Group.*<br>> IAS 23: Borrowing Costs" provides clarification that when calculating the capitalisation rate on general borrowings, the entity should include borrowings that remain outstanding after the related asset is ready for its intended use or sale.<br>*This amendment is not expected to have an impact on the Group.* |

Notes to the consolidated financial statements *continued*

# 41. Summary of significant accounting policies *continued*

## 41.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted *continued*

| Number | Effective date | Executive summary and impact on the Group |
|---|---|---|
| *IFRS 3 – Business Combinations* | 1 January 2020 | The amendments:<br>> confirmed that a business must include inputs and a process, and clarified that:<br>– the process must be substantive; and<br>– the inputs and process must together significantly contribute to creating outputs<br>> narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and<br>> added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.<br>*This amendment is not expected to have an impact on the Group.* |
| *IAS 1 – Presentation of Financial Statements* | 1 January 2020 | Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards<br>*This amendment is not expected to have a material impact on the Group.* |
| *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors* | 1 January 2020 | Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.<br>*This interpretation is not expected to have a material impact on the Group.* |
| *IFRS 17 – Insurance Contracts* | 1 January 2022 Earlier application is permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. | IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.<br>IFRS 17 supersedes IFRS 4, 'Insurance Contracts'.<br>*The standard will have an impact on the Group's current reported financial position and future revenue recognition. The Group has an IFRS 17 Committee facilitating implementation of IFRS 17 within the Group to ensure that the Group is fully prepared for implementation on the effective date. This Committee provides regular feedback on its progress to the various governance structures within the Group.* |

# 41. Summary of significant accounting policies *continued*

## 41.24 Standards, amendments, and interpretations published that are not yet effective and have not been early adopted *continued*

| Number | Effective date | Executive summary and impact on the Group |
|---|---|---|
| *Amendments to IFRS 10 – Consolidated financial statements' and IAS 28: Investments in associates and joint ventures' on sale or contribution of assets* | Effective date postponed (initially 1 January 2016) | The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures. The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.<br>*The amendments are not expected to have a material impact on the Group.* |

# Company annual financial statements

The reports and statements set out below comprise the company financial statements presented to the shareholders

# Statement of **profit or loss and other comprehensive income**

for the year ended 30 June

| | Notes | 2019 R'000 | 2018 R'000 |
|---|---|---|---|
| Investment income | 4 | **2 789 021** | 1 887 323 |
| Impairment loss on investment in associate | 9 | **(450 000)** | – |
| Impairment loss on investment in subsidiary | | **(61 310)** | – |
| **Income** | | **2 277 711** | 1 887 323 |
| Marketing and administration expenses | 5 | **(2 839)** | (1 035) |
| **Result of operating activities** | | **2 274 872** | 1 886 288 |
| Finance charges | 6 | **(42 630)** | (42 843) |
| **Profit before taxation** | | **2 232 242** | 1 843 445 |
| Taxation | 7 | **(1 206)** | (983) |
| **Total profit for the year** | | **2 231 036** | 1 842 462 |

During the current and previous years, there were no items that affected other comprehensive income and therefore the reconciliation of other comprehensive income has not been disclosed.

# Statement of **financial position**

at 30 June

| | Notes | 2019 R'000 | 2018 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Investment in subsidiaries | 8 | **1 930 441** | 1 881 751 |
| Investment in associates | 9 | **3 417 383** | 3 866 474 |
| Loans and receivables | 10 | **229 569** | 161 580 |
| Cash and cash equivalents | 11 | **96 733** | 6 124 |
| **TOTAL ASSETS** | | **5 674 126** | 5 915 929 |
| **EQUITY** | | | |
| Capital and reserves attributable to equity holders | | | |
| Share capital | 12 | **37 989** | 37 989 |
| Share premium | 12 | **2 617 306** | 2 617 306 |
| Retained earnings | | **2 418 750** | 2 645 608 |
| **TOTAL EQUITY** | | **5 074 045** | 5 300 903 |
| **LIABILITIES** | | | |
| Long-term liability | 13 | **600 000** | 600 000 |
| Tax liabilities | | **81** | 26 |
| Other payables | 14 | **–** | 15 000 |
| **TOTAL LIABILITIES** | | **600 081** | 615 026 |
| **TOTAL EQUITY AND LIABILITIES** | | **5 674 126** | 5 915 929 |

# Statement of **changes in equity**

for the year ended 30 June

| | Share capital R'000 | Share premium R'000 | Retained earnings R'000 | Total R'000 |
|---|---|---|---|---|
| Balance as at 30 June 2017 | 37 989 | 2 617 306 | 2 444 274 | 5 099 569 |
| Total profit for the year | – | – | 1 842 462 | 1 842 462 |
| Ordinary dividend paid | – | – | (1 641 128) | (1 641 128) |
| Balance as at 30 June 2018 | **37 989** | **2 617 306** | **2 645 608** | **5 300 903** |
| Total profit for the year | **–** | **–** | **2 231 036** | **2 231 036** |
| Ordinary dividend Paid | **–** | **–** | **(2 457 894)** | **(2 457 894)** |
| **Balance as at 30 June 2019** | **37 989** | **2 617 306** | **2 418 750** | **5 074 045** |

# Statement of **cash flows**
## for the year ended 30 June

| | Notes | 2019 R'000 | 2018 R'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Cash generated by operations | 15 | **2 788 252** | 1 893 778 |
| Interest paid | | **(42 630)** | (42 843) |
| Taxation paid | 16 | **(1 151)** | (1 103) |
| Ordinary dividend paid | | **(2 457 894)** | (1 641 128) |
| **Cash inflow from operating activities** | | **286 577** | 208 704 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of additional shares in subsidiary | | **(110 000)** | (46 000) |
| Purchase of additional shares in associate | | **(909)** | (78 256) |
| **Cash outflow from investing activities** | | **(110 909)** | (124 256) |
| **FINANCING ACTIVITIES** | | | |
| Purchase of treasury shares by share scheme participants | | **281 901** | 92 771 |
| Purchase of treasury shares by share trust | | **(366 960)** | (218 234) |
| **Cash outflow from financing activities** | | **(85 059)** | (125 463) |
| **Increase / (decrease) in cash and cash equivalents** | | **90 609** | (41 015) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | | | |
| Opening balance of cash and cash equivalents | | **6 124** | 47 139 |
| Increase / (decrease) in cash and cash equivalents | | **90 609** | (41 015) |
| Closing balance of cash and cash equivalents | 11 | **96 733** | 6 124 |

# Notes to the **financial statements**

## 1. General information

OUTsurance Holdings Limited (the Company) is an unlisted public company incorporated and domiciled in South Africa and a subsidiary of Rand Merchant Investment Holdings Limited.

## 2. Basis of preparation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

The financial statements are prepared in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting.

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements that affect the reported amounts in the statement of financial position and the statement of profit or loss and other comprehensive income. Where appropriate, details of estimates are presented in the accompanying notes to the consolidated financial statements. All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

## 3. Management of risk and capital

### 3.1 Risk management framework

The Company has developed an Enterprise Risk Management Framework to provide reasonable assurance that the Company's risks are being prudently and soundly managed. The framework is designed according to acceptable principles on Corporate Governance and Risk Management standards. The risk management framework outlines the key risks facing the business and how these risks are monitored and mitigated.

Risk and governance oversight is provided by the OUTsurance Holdings Board, OUTsurance Holdings Audit, Risk and Compliance Committee, OUTsurance Holdings Investment Committee, OUTsurance Reinsurance Committee and the OUTsurance Holdings Risk Committee, the latter three being internal management committees. Risk and governance oversight for the Youi Group is provided by the Youi Holdings Board, Audit and Risk and Compliance Committees.

### 3.2 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk including interest rate risk, credit risk and liquidity risk.

#### 3.2.1 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in the market price. Investments valued at fair value are therefore subject to changes in value due to market fluctuations, which may impact on the net income during those financial years in which such fluctuations occur. Market risk comprises interest rate risk.

**Interest rate risk**

Interest rate risk is the risk that the value or the future cash flow of a financial instrument will fluctuate as a result of a change in market interest rates.

The Company's financial assets are exposed to interest rate risk as a significant portion of the Company's assets are invested in interest rate sensitive debt and money market securities. The risk attached to these securities is managed according to pre-specified risk levels based on a mandate with the fund manager. Risk exposure to movements in yields is specified as a maximum value per interest rate point move per million rand invested. These levels are approved annually by the Board of directors and the Group Investment Committee.

Notes to the financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Financial risk management *continued*

### 3.2.1 Market risk *continued*

**Interest rate risk** *continued*

The Company's exposure to interest rate risk is R96.7 million (2018: R6.1 million), which consists of variable rate instruments.

An increase or decrease of 1% in the market interest rate would result in the following changes in profit or loss before tax of the Company:

| | 2019 1% increase R'000 | 2019 1% decrease R'000 | 2018 1% increase R'000 | 2018 1% decrease R'000 |
|---|---|---|---|---|
| Cash and cash equivalents | **967** | **(967)** | 61 | (61) |
| | **967** | **(967)** | 61 | (61) |

### 3.2.2 Credit risk

Credit risk is the risk that a financial asset may not be realisable due to the inability or unwillingness of the issuer of such instrument to discharge its contractual obligations. The key areas where the Company is exposed to credit risk are:

> Cash and cash equivalents; and

> Amounts due from debtors.

The credit quality of the Company's counterparties as well as the exposure to credit risk is monitored by the Group's Investment Committee against a set Board investment mandate. The mandate is informed by the prudential regulatory capital requirements of each entity.

The table below indicates the credit quality of the Company's financial assets:

| | BB R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|
| **At 30 June 2019** | | | |
| Loans and receivables | **438** | **229 131** | **229 569** |
| Cash and cash equivalents | **96 733** | **–** | **96 733** |
| **Total** | **97 171** | **229 131** | **326 302** |

| | BB R'000 | Not rated R'000 | Total R'000 |
|---|---|---|---|
| **At 30 June 2018** | | | |
| Loans and receivables | – | 161 580 | 161 580 |
| Cash and cash equivalents | 6 124 | – | 6 124 |
| **Total** | 6 124 | 161 580 | 167 704 |

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset in the table above.

Where available, the Company utilises the credit ratings per counterparty as provided by each of the major credit rating agencies to determine the credit quality of a specific instrument. Where the instrument credit rating is not available, the credit rating of the counterparty as provided by the major credit ratings agencies is utilised.

Notes to the financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Financial risk management *continued*

### 3.2.2 Credit risk *continued*

In instances where the credit rating for the counterparty is not available, the Company utilises the credit rating provided by a service provider amended to take into account the credit risk appetite of the Company. The internal methodology of the service provider provides a credit rating which assesses the counterparty's credit quality based on its financial standing. This methodology has been approved by the Group Internal Investment Committee. Should the service provider not provide a credit rating, the counterparty is shown as unrated. The ratings disclosed are long-term international scale, local currency ratings.

The rating is defined as follows:

BB Speculative quality. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

**Impairment of financial assets**

None of the Company's financial assets exposed to credit risk are past due or impaired.

### 3.2.3 Liquidity risk

Liquidity risk is the risk that the Company, although solvent, is not able to settle its obligations as they fall due because of insufficient liquid assets in the Company. To ensure that the Company is able to meet its liabilities when they fall due, the liquidity profile of the balance sheet is actively managed with a defined investment mandate. The table below provides a liquidity profile of the Company's financial assets. The liquidity profile assumes that instruments can be traded in the ordinary course of business and in markets with sufficient liquidity. The effects of discounting are considered to be immaterial.

| | 30 June 2019 | | 30 June 2018 | |
|---|---|---|---|---|
| | R'000 | % | R'000 | % |
| **Liquid financial assets** | | | | |
| *Realisable within 30 days* | | | | |
| Cash and cash equivalents | **96 733** | **30%** | 6 124 | 4% |
| *Realisable between one and twelve months* | | | | |
| Loans and receivables[1] | **229 569** | **70%** | 161 580 | 96% |
| **Total liquid financial assets** | **326 302** | | 167 704 | |
| **Total financial assets held** | **326 302** | **100%** | 167 704 | 100% |

1 *This constitutes loans and receivables classified as financial assets.*

**Maturity profile of liabilities**

The table below shows the expected liquidity profile of the Company's liabilities and shows the liquid asset coverage ratio which indicates how many times the liabilities are covered by liquid assets. This ratio is actively tracked in accordance with the investment and balance sheet management mandate of the Company. The effects of discounting are considered to be immaterial.

Notes to the financial statements *continued*

# 3. Management of risk and capital *continued*

## 3.2 Financial risk management *continued*

### 3.2.3 Liquidity risk *continued*

| | 0 – 12 months R'000 | 37 – 60 months R'000 | Total R'000 |
|---|---|---|---|
| **At 30 June 2019** | | | |
| **Contractual undiscounted cash flows** | | | |
| Long-term liability | **–** | **600 000** | **600 000** |
| **Other liabilities** | | | |
| Tax liabilities | **81** | **–** | **81** |
| **Total liabilities** | **81** | **600 000** | **600 081** |
| Liquid asset coverage ratio | **>100** | | **0.54** |
| Financial assets coverage ratio | | | **0.54** |
| **At 30 June 2018** | | | |
| **Contractual undiscounted cash flows** | | | |
| Long-term liability | – | 600 000 | 600 000 |
| **Other liabilities** | | | |
| Other payables | 15 000 | – | 15 000 |
| Tax liabilities | 26 | – | 26 |
| **Total liabilities** | 15 026 | 600 000 | 615 026 |
| Liquid asset coverage ratio | >100 | | 0.27 |
| Financial assets coverage ratio | | | 0.27 |

# 4. Investment income

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Cash and cash equivalents | | |
| Interest received | **4 422** | 3 698 |
| Dividends from subsidiaries and associates | **2 784 599** | 1 883 625 |
| | **2 789 021** | 1 887 323 |

Notes to the financial statements *continued*

## 5. Marketing and administration expenses

The following expenses have been included in the statement of profit or loss under marketing and administration expenses:

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Consulting and legal fees for professional services | **1 163** | 729 |
| Marketing and management expenses | **1 676** | 306 |
| **Total marketing and administration expenses** | **2 839** | 1 035 |

## 6. Finance charges

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Interest paid | **42 630** | 42 843 |
| | **42 630** | 42 843 |

## 7. Taxation

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| South African normal taxation | | |
| Current tax | **(1 206)** | (983) |
| **Total taxation charge** | **(1 206)** | (983) |
| | | |
| Tax rate reconciliation | | |
| Normal tax on companies | **625 028** | 516 165 |
| Non-temporary differences | **(623 822)** | (515 182) |
| Exempt dividends | **(767 751)** | (515 419) |
| Non-allowable expenses | **762** | 237 |
| Impairment loss on associate | **126 000** | – |
| Impairment loss on subsidiary | **17 167** | – |
| **Amount calculated at effective rate** | **1 206** | 983 |

Notes to the financial statements *continued*

## 8. Investment in subsidiaries

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **OUTsurance Insurance Company Ltd** | | |
| Ordinary shares at cost | **141 900** | 141 900 |
| Capitalised share-based payments | **6 340** | 6 340 |
| | **148 240** | 148 240 |
| **OUTsurance International Holdings (Pty) Ltd** | | |
| Ordinary shares at cost | **1 169 086** | 1 169 086 |
| | **1 169 086** | 1 169 086 |
| **OUTsurance Life Insurance Company Ltd** | | |
| Ordinary shares at cost | **435 002** | 435 002 |
| Capitalised share-based payments | **218** | 218 |
| | **435 220** | 435 220 |
| **OUTsurance Properties (Pty) Ltd** | | |
| Ordinary shares at cost | **38 105** | 38 105 |
| | **38 105** | 38 105 |
| **Youi (Pty) Ltd** | | |
| Ordinary shares at cost | **15 000** | 15 000 |
| | **15 000** | 15 000 |
| **OUTsurance Shared Services (Pty) Ltd** | | |
| Ordinary shares at cost | **100** | 100 |
| | **100** | 100 |
| **OUTvest (Pty) Ltd** | | |
| Ordinary shares at cost | **75 000** | 30 000 |
| Issue of ordinary shares | **25 000** | 45 000 |
| | **100 000** | 75 000 |
| **Bateleur Technologies (Pty) Ltd** | | |
| Ordinary shares at cost | **1 000** | 1 000 |
| Issue of ordinary shares | **85 000** | – |
| Impairment | **(61 310)** | – |
| | **24 690** | 1 000 |
| **Total investment in subsidiaries** | **1 930 441** | 1 881 751 |

Subsidiary companies only distribute dividends if management is of the opinion that the target solvency and liquidity margin in the subsidiary will be maintained after the payment of such dividends.

The carrying value of Bateleur Technologies has been impaired during the current year due to uncertainty concerning the recoverability of the investment. The carrying amount has been set equal to the net asset value of the company resulting in an impairment of R61 million.

Notes to the financial statements *continued*

## 8. Investment in subsidiaries *continued*

### Summarised financial information on subsidiaries with non-controlling interest

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| *Statement of financial position* | | |
| Current assets | **8 670 311** | 8 399 866 |
| Non-current assets | **698 427** | 717 038 |
| Current liabilities | **(1 477 851)** | (1 465 983) |
| Technical provisions | **(4 517 818)** | (4 505 029) |
| *Equity* | **3 373 069** | 3 145 892 |
| *Statement of profit or loss and other comprehensive income* | | |
| Gross written premium | **7 251 595** | 6 762 694 |
| After tax comprehensive income attributable to the group | **590 636** | 797 229 |
| *Cash flow statement* | | |
| Cash inflow from operating activities | **6 588** | 889 299 |
| Cash (outflow) from investing activities | **(117 056)** | (964 779) |
| Cash inflow from financing activities | **203 299** | 106 |
| Effect of exchange rates on cash and cash equivalents | **10 063** | (9 756) |
| Increase in cash and cash equivalents | **102 894** | (85 130) |
| Opening balance of cash and cash equivalents | **186 321** | 271 451 |
| Closing balance of cash and cash equivalents | **289 215** | 186 321 |

The detail of subsidiary companies are as follows:

| Subsidiary | Nature of business | Country of Incorporation | Effective Holding 2019 | Effective Holding 2018 |
|---|---|---|---|---|
| OUTsurance Insurance Company Ltd | Short-term Insurer | South Africa | **100%** | 100% |
| OUTsurance International Holdings (Pty) Ltd | Holding Company | South Africa | **100%** | 100% |
| OUTsurance Life Insurance Company Ltd | Long-term Insurer | South Africa | **100%** | 100% |
| OUTsurance Properties (Pty) Ltd | Property Company | South Africa | **100%** | 100% |
| Youi (Pty) Ltd (South Africa) | Administration Company | South Africa | **100%** | 100% |
| Youi Holdings Pty Ltd | Holding Company | Australia | **84.5%** | 93% |
| Youi Pty Ltd | Short-term Insurer | Australia | **84.5%** | 93% |
| OUTsurance Shared Services (Pty) Ltd | Service Company | South Africa | **100%** | 100% |
| OUTvest (Pty) Ltd | Online digital advice and administrative services | South Africa | **100%** | 100% |
| OUTvest Nominees RF (Pty) Ltd | Nominee | South Africa | **100%** | 100% |
| Bateleur Technologies (Pty) Ltd | Technology | South Africa | **100%** | 100% |
| Youi NZ Pty Ltd | Short-term Insurer | New Zealand | **84.5%** | 93% |
| Youi Properties Pty Ltd | Property Company | Australia | **84.5%** | 93% |

The OUTsurance Holdings Share Trust is controlled by OUTsurance Holdings Limited.

Refer to note 17 for the current and non-current analysis of investments in subsidiaries.

Notes to the financial statements *continued*

## 9. Investment in associates

The Company effectively owns a 49% share in the ordinary shares of OUTsurance Insurance Company of Namibia Ltd, a company incorporated and domiciled in Namibia.

The Company owns a 49% share in the ordinary shares of Main Street 1353 (Pty) Ltd (Main Street) which owns a 29.9% interest in Hastings Group Holdings plc.

On 1 March 2018, the Company acquired a 30% share in the ordinary shares of AutoGuru Australia Pty Ltd (AutoGuru) for a purchase consideration of AUD$6 million. AutoGuru is an online car servicing company operating in the Australian market.

On 27 November 2017, the Company acquired a 25.64% share in the ordinary shares of Coreshares Holdings (Pty) Ltd (Coreshares) for a purchase consideration of R4 050 000. On 1 March 2018, the Company acquired a further interest in Coreshares for a purchase consideration of R10 202 400. On 15 February 2019 a further interest was acquired amounting to R908 800, resulting in the effective shareholding increasing to 27.7%. Coreshares is a passive investment management business in Africa.

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

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

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| OUTsurance Insurance Company of Namibia Ltd | **4 900** | 4 900 |
| Main Street 1353 (Pty) Ltd | **3 333 319** | 3 783 318 |
| Other | **79 164** | 78 256 |
| | **3 417 383** | 3 866 474 |

| | 2019 N$'000 | 2018 N$'000 |
|---|---|---|
| **OUTsurance Insurance Company of Namibia Ltd** | | |
| *Statement of financial position* | | |
| Current assets | **163 116** | 186 590 |
| Non-current assets | **4 260** | 4 707 |
| Current liabilities | **(21 810)** | (20 773) |
| Technical provisions | **(46 351)** | (49 437) |
| *Equity* | **99 215** | 121 087 |
| *Statement of profit or loss and other comprehensive income* | | |
| Revenue | **177 699** | 189 551 |
| After tax profit or loss attributable to the Group | **14 771** | 20 129 |
| *Cash flow statement* | | |
| Cash inflow from operating activities | **25 147** | 40 334 |
| Cash inflow from investing activities | **(33 715)** | 2 405 |
| Cash (outflow) from financing activities | **(52 000)** | (20 000) |
| (Decrease) / Increase in cash and cash equivalents | **(60 568)** | 22 739 |
| Opening balance of cash and cash equivalents | **91 319** | 68 580 |
| Closing balance of cash and cash equivalents | **30 751** | 91 319 |

Notes to the financial statements *continued*

## 9. Investment in associates *continued*

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Main Street 1353 (Pty) Ltd** | | R'000 |
| *Statement of financial position* | | |
| Current assets | **3 875** | 9 090 |
| Non-current assets | **9 379 620** | 9 439 469 |
| Current liabilities | **(2 702 075)** | (2 719 854) |
| *Equity* | **6 681 420** | 6 728 705 |
| *Statement of profit or loss and other comprehensive income* | | |
| Revenue | **427 122** | 664 335 |
| After tax profit or loss attributable to the Group | **164 755** | 293 718 |
| *Cash flow statement* | | |
| Cash inflow from operating activities | **484 815** | 417 940 |
| Cash (outflow) from investing activities | **(327)** | (1 171) |
| Cash (outflow) from financing activities | **(485 400)** | (339 039) |
| Increase in cash and cash equivalents | **(912)** | 77 730 |
| Opening balance of cash and cash equivalents | **85 391** | 7 661 |
| Closing balance of cash and cash equivalents | **84 479** | 85 391 |
| **Other** | | |
| *Statement of financial position* | | |
| Current assets | **30 717** | 76 799 |
| Non-current assets | **40 831** | 67 863 |
| Current liabilities | **(98 523)** | (102 394) |
| *Equity* | **(26 975)** | 42 268 |
| *Statement of profit or loss and other comprehensive income* | | |
| Revenue | **93 910** | 3 989 |
| After tax profit or loss attributable to the Group | **(21 906)** | (8 373) |
| *Cash flow statement* | | |
| Cash (outflow) from operating activities | **(41 994)** | (27 596) |
| Cash (outflow) from investing activities | **(249)** | (435) |
| Cash inflow from financing activities | **(639)** | 71 784 |
| Increase in cash and cash equivalents | **(42 882)** | 43 753 |
| Opening balance of cash and cash equivalents | **46 072** | 2 319 |
| Closing balance of cash and cash equivalents | **3 190** | 46 072 |

Refer to note 17 for the current and non-current analysis of investments in associates.

**Impairment of associate**

When the Group acquired the 49% interest in Main Street 1353 (which owns 29.9% of Hastings Group Holdings plc) in 2017, the initial take-on value was mark-to-market to reflect the significant appreciation in the share price of Hastings from 248p to 312p between the date on which the purchase agreement was reached to acquire the interest and the effective date. This movement resulted in a derivative gain of R750 million being capitalised to the carrying value of the investment in Main Street 1353. This accounting treatment resulted in the initial carrying value being recognised significantly above the actual acquisition cost of the investment. When measured against the current market capitalisation of Hastings, the carrying value of the investment should be considered for impairment. IAS 28 considers a significant or prolonged reduction in the market value of an associate as an indication of impairment resulting in an impairment test being performed. This impairment test resulted in a R450 million reduction in the carrying value of the investment in Main Street 1353. The carrying value reflects management's assessment of the value-in-use.

Notes to the financial statements *continued*

## 10. Loans and receivables

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Other receivables | | |
| Loan account with group companies | – | 17 500 |
| Loan to share trust | **229 131** | 144 072 |
| Other receivables and prepayments | **438** | 8 |
| **Total receivables** | **229 569** | 161 580 |

Other receivables are carried at amortised cost using the effective interest method. Where the effects of discounting are deemed material, the receivables are reflected at the discounted amounts.

Included in loans and receivables are amounts due by related parties. Refer to note 18 for further details thereof.

The carrying amount of loans and receivables approximates the fair value. Refer to note 17 for the current and non-current analysis of loans and receivables.

Included in the loans and receivables is the loan advanced by the Company to the OUTsurance Holdings Share Trust to enable transactions relating to the remuneration scheme.

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Opening balance | **144 072** | 18 609 |
| Repayment of loan | **(281 901)** | (92 771) |
| Cash advanced to share trust | **366 960** | 218 234 |
| **Closing balance** | **229 131** | 144 072 |

## 11. Cash and cash equivalent

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Cash at bank and on hand | **96 733** | 6 124 |
| | **96 733** | 6 124 |

The carrying value of cash and cash equivalents approximates the fair value. Refer to note 17 for the current and non-current analysis of cash and cash equivalents.

Notes to the financial statements *continued*

## 12. Share capital

| | 2019 R | 2018 R |
|---|---|---|
| **Authorised share capital** | | |
| 3 999 998 000 (2018: 3 999 998 000) ordinary shares at R0.01 each | **39 999 980** | 39 999 980 |
| 1000 variable rate non cumulative non-redeemable preference shares of R0.01 each | **10** | 10 |
| 1000 "A" variable rate, cumulative redeemable preference shares with no par or nominal value | **–** | – |
| **Issued ordinary share capital (fully paid)** | | |
| 3 798 908 308 (2018: 3 798 908 308) ordinary shares at R0.01 each | **37 989 083** | 37 989 083 |
| **Closing balance** | **37 989 083** | 37 989 083 |
| **Issued preference share capital** | | |
| 60 "A" cumulative, redeemable preference shares | **–** | – |

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Ordinary share premium** | | |
| Opening balance | **2 617 306** | 2 617 306 |
| Share premium raised | **–** | – |
| | **2 617 306** | 2 617 306 |

The unissued shares of the Company are under the control of the directors until the forthcoming annual general meeting.

Refer to note 17 for the current and non-current analysis of share capital.

## 13. Long-term liability

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Long-term loan – Redeemable preference shares | **600 000** | 600 000 |
| | **600 000** | 600 000 |

During the 2017 financial year, OUTsurance Holdings Limited raised funding to acquire its 49% interest in Main Street 1353 (Pty) Ltd, which owns a 29.9% investment in Hastings Group plc. The funding was raised by the issue of 60 "A" cumulative, redeemable preference shares to OUTsurance Insurance Company Ltd at R10 million per share.

These shares are redeemable at the subscription price on 1 July 2020 or such later date as may be agreed between the contracting parties.

Dividends are calculated with reference to the 'prime interest rate' and are payable in arrears on 30 June and 30 December until such date of redemption.

Refer to note 17 for the current and non-current analysis of the long-term liability.

## 14. Other payables

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Loan account with group companies | **–** | 15 000 |
| **Total payables** | **–** | 15 000 |

Refer to note 17 for the current and non-current analysis of payables.

Notes to the financial statements *continued*

## 15. Reconciliation of cash generated by operations

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Profit for the year before tax | **2 232 242** | 1 843 445 |
| Adjusted for: | | |
| Impairment loss on investment in subsidiary | **61 310** | – |
| Impairment loss on investment in associate | **450 000** | – |
| Finance charges | **42 630** | 42 843 |
| **Cash generated by operations before working capital changes** | **2 786 182** | 1 886 288 |
| Decrease / (Increase) in receivables | **17 070** | (7 435) |
| (Decrease) / Increase in payables | **(15 000)** | 14 925 |
| **Changes in working capital** | **2 070** | 7 490 |
| **Cash generated by operations** | **2 788 252** | 1 893 778 |

## 16. Taxation paid

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| Taxation payable – opening balance | **(26)** | (146) |
| Charge in statement of profit or loss | **(1 206)** | (983) |
| Taxation payable – closing balance | **81** | 26 |
| **Taxation paid** | **(1 151)** | (1 103) |

## 17. Current / non-current split of amounts recognised on the statement of financial position

The analysis shows the current / non-current split of assets and liabilities based on the expected contractual maturities thereof. Items classified as current have expected or contractual maturities within the next twelve months. Non-current items are expected or will legally mature in longer than twelve months. Equity instruments are considered to have no contractual maturity.

| | Carrying amount R'000 | Current R'000 | Non-current R'000 | Shareholders' equity R'000 |
|---|---|---|---|---|
| **30 June 2019** | | | | |
| **ASSETS** | | | | |
| Investment in subsidiaries | **1 930 441** | **–** | **1 930 441** | **–** |
| Investment in associates | **3 417 383** | **–** | **3 417 383** | **–** |
| Loans and receivables | **229 569** | **229 569** | **–** | **–** |
| Cash and cash equivalents | **96 733** | **96 733** | **–** | **–** |
| **TOTAL ASSETS** | **5 674 126** | **326 302** | **5 347 824** | **–** |
| **LIABILITIES AND EQUITY** | | | | |
| Total shareholders' equity | **5 074 045** | **–** | **–** | **5 074 045** |
| Long-term liability | **600 000** | **–** | **600 000** | **–** |
| Tax liabilities | **81** | **81** | **–** | **–** |
| **TOTAL EQUITY AND LIABILITIES** | **5 674 126** | **81** | **600 000** | **5 074 045** |

Notes to the financial statements *continued*

## 17. Current / non-current split of amounts recognised on the statement of financial position *continued*

| | Carrying amount R'000 | Current R'000 | Non-current R'000 | Shareholders' equity R'000 |
|---|---|---|---|---|
| **30 June 2018** | | | | |
| **ASSETS** | | | | |
| Investment in subsidiaries | 1 881 751 | – | 1 881 751 | – |
| Investment in associates | 3 866 474 | – | 3 866 474 | – |
| Loans and receivables | 161 580 | 161 580 | – | – |
| Cash and cash equivalents | 6 124 | 6 124 | – | – |
| **TOTAL ASSETS** | 5 915 929 | 167 704 | 5 748 225 | – |
| **LIABILITIES AND EQUITY** | | | | |
| Total shareholders' equity | 5 300 903 | – | – | 5 300 903 |
| Long-term liability | 600 000 | – | 600 000 | – |
| Tax liabilities | 26 | 26 | – | – |
| Other payables | 15 000 | 15 000 | – | – |
| **TOTAL EQUITY AND LIABILITIES** | 5 915 929 | 15 026 | 600 000 | 5 300 903 |

## 18. Related party transactions

The Company defines related parties as:

> The parent company, Rand Merchant Investment Holdings Ltd (RMI Holdings). RMI Holdings owns its investment in OUTsurance Holdings Ltd through wholly owned subsidiaries Firness International (Pty) Ltd and RMI Asset Company (Pty) Ltd.

> Associate companies of RMI Holdings which include, Discovery Holdings Ltd, MMI Holdings Ltd and the Hastings Group Holdings plc, through Main Street 1353 (Pty) Ltd and Coreshares Index Tracker Managers (RF) (Pty) Ltd.

> Key management personnel such as the OUTsurance Holdings Ltd Board of directors and the OUTsurance Holdings executive committee as well as the Youi Holdings (Pty) Ltd Board and executive committee.

### Principal shareholders

The Company is ultimately controlled by RMI Holdings. At the reporting date, RMI Holdings owned 89.1% (2018: 88.6%) of OUTsurance Holdings Ltd, with the OUTsurance Holdings Share Trust owning 1.4% (2018: 1.3%), OUTsurance Investment Trust owning 3.7% (2018: 3.9%), OUTsurance Equity Trust 1.3% (2018: 0.9%), and management 4.5% (2018: 5.3%) of the issued share capital.

#### Subsidiaries

Details of investment in subsidiaries are disclosed in note 8.

#### Associates

Details of investment in associates are disclosed in note 9.

Notes to the financial statements *continued*

## 18. Related party transactions *continued*

### Key management personnel

Details of key management remuneration are disclosed in the OUTsurance Holdings Ltd Group financial statements. For the year under review, the Company entered into the following transactions with related parties.

| | 2019 R'000 | 2018 R'000 |
|---|---|---|
| **Transactions with related parties** | | |
| RMI Holdings Ltd | | |
| Ordinary dividends paid | **2 183 390** | 1 510 913 |
| OUTsurance Insurance Company Ltd | | |
| Ordinary dividends received | **(1 973 000)** | (1 682 500) |
| OUTsurance Insurance Company of Namibia Ltd | | |
| Ordinary dividends received | **(25 480)** | (9 800) |
| OUTsurance Holdings Share Trust | | |
| Ordinary dividend received | **(24 079)** | (12 758) |
| Ordinary dividend paid | **24 079** | 12 758 |
| Main Street 1353 (Pty) Ltd | | |
| Ordinary dividend received | **(194 040)** | (123 480) |
| OUTsurance Shared Services (Pty) Ltd | | |
| Ordinary dividend received | **–** | (5 000) |
| OUTsurance Life Insurance Company Ltd | | |
| Ordinary dividend received | **–** | (45 587) |
| Youi (Pty) Ltd | | |
| Ordinary dividend received | **–** | (4 500) |
| **Year end balances with related parties** | | |
| OUTsurance Holdings Share Trust | | |
| Loan to Share Trust | **229 131** | 144 072 |
| OUTsurance International Holdings (Pty) Ltd | | |
| Receivables | **–** | 2 500 |
| OUTsurance Insurance Company Ltd | | |
| Preference shares | **600 000** | 600 000 |
| Payables | **–** | 15 000 |
| Youi (Pty) Ltd (SA) | | |
| Payables | **–** | (14 000) |
| Bateleur Technologies (Pty) Ltd | | |
| Payables | **–** | (1 000) |

The Company has provided security to OUTsurance in the event of default by OUTsurance Properties (Pty) Ltd. The terms of security states that the Company will pledge a portion of its shareholding in OUTsurance Properties (Pty) Ltd calculated with reference to the outstanding loan and shares held in OUTsurance Properties (Pty) Ltd at default date.

## 19. Events after the reporting period

No matters which are material to the financial affairs of the Company occurred between the reporting date and date of the approval of the financial statements.

## 20. Summary of significant accounting policies

The financial statements of OUTsurance Holdings Ltd are prepared according to the same accounting policies used in preparing the consolidated financial statements of the OUTsurance Holdings Ltd Group.

# Glossary

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

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# COMPANY INFORMATION

## Directors

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

## Company Secretary and Registered Address

The company secretary is Mr M Ehlert whose registered addresses are:

## Business Address

1241 Embankment Road
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