Passion

Being an OUTie gives me a huge sense of belonging to something special. We all have green and purple blood running through our veins.

– Nereesa Govender

I love the culture. What I would say is a beautiful rainbow nation. If only our country had the same spirit and soul...

– Vann Meiring

Being an OUTie is not a vision or a statement. It's a privilege! My blood is green. #OUTies4life

– Corne Liebenberg

OUT SURANCE

It's being part of an awesome lifestyle where you get to enjoy every moment you spend being an OUTie.

– Neo Matshingo

Awesome service is non-negotiable that's why it's awesome working here. We work till our bank balances look like a mobile number.

– Happy Makhubedu

After so many years I am still excited to come to work every day #OUTies4life.

– Candy Leyds

Being an OUTie means being part of a supportive family that pushes you to reach your full potential. #OUTies4life

– Shan Cox

UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

Success

Being an OUTie is a privilege. You're part of a team that is focused on building a world-class business in a fun and challenging environment.

– Peter Cronje

Life changing moment #OUTies4life inspiring greatness.

– Jabu Mokwana

#Fun #happiness #success #believe #awesome #vibe #dreamscometrueatOUT! I love my work I feel like I'm at university again.

– Stephan Beukes

Being an OUTie isn't just a saying. It is a culture we have. It means to make a difference in people's lives #OUTies4life.

– Michael Goosen

Some people dream of success. OUT makes you part of the success.

– Yolandi Potgieter

The best company to work for. After all, I have been here for more than 10 years.

– Disele Moeng

We are family, we support each other and the 'Gees' is amazing. Such an awesome company to work for. #OUTies4life

– Chantal Bairos

World class

AWESOME SERVICE

PASSIONATE

HONEST

OUR

VALUES

HUMAN

DYNAMIC

RECOGNITION

Contents

Introduction

The report covers the consolidated financial results of OUTsurance Holdings Limited (The Group) for the six months ended 31 December 2017. The financial results are prepared based on international financial reporting standards (IFRS) and are unaudited.

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

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

The Group's mission is to provide world-class value-for money products backed by awesome client service.

Our performance for the six months ended 31 December 2017

31.8% normalised ROE

Gross written premium
R7 757 million
up by 1.3%

Ordinary dividend per share
20.5 cents
up by 17.1%

Diluted normalised earnings per share
37.1 cents
up by 18.1%

Annualised new premium written
R1 497 million
down by 7.2%

Normalised earnings
R1 461 million
up by 28.3%

Overview of results

The Group delivered a satisfactory financial and operating performance for the six months ended 31 December 2017. The Group's earnings grew by 28.3% to R1 461 million due to the material earnings contribution from the Group's recent investment in Hastings and a strong financial performance by Youi.

The primary results and accompanying commentary are presented on a normalised basis as the Group believes this most accurately reflects its economic performance. Normalised earnings are specifically adjusted for non-operating items that include intangible assets which arose from the Group's indirect acquisition of an interest in Hastings Group Holdings plc.

Over the last two years, the Group has shown muted new business growth owing to challenging economic conditions in South Africa, and competitive pressures experienced in the Australasian markets. We are pleased with an improving new business trend being experienced by the major operating units of the Group.

The Group's operating profit grew by 13.9% to R1 695 million. The primary driver of this improvement is Youi's 59.5% growth in operating profit.

The Group's gross written premium income for the six months grew by 1.3%. The limited growth was driven by reduced new business inceptions mostly experienced in the Australasian operation coupled with low levels of premium inflation in the major business units.

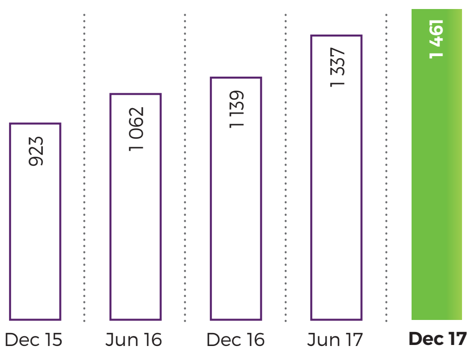
The Group concluded its acquisition of an indirect stake of 14.7% in Hastings during 2017. The investment has resulted in a 17% increase in normalised earnings for the six months under review.

The Group's claims ratio was lower at 51.5% due to lower natural peril claims in Australia coupled with continued low claims frequencies and limited claims cost inflation in South Africa.

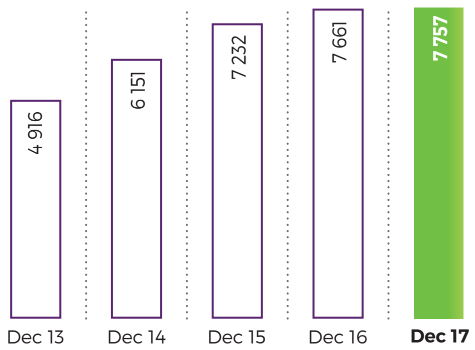
The cost-to-income ratio increased from 25% to 25.2% owing to a higher cost ratio at OUTsurance. Youi Australia's cost ratio reduced from 30.1% to 29.5%.

The Group's exposure to Steinhoff debt instruments was R24 million. These debt instruments were redeemed on 23 February 2018 at a value not materially different from the nominal value.

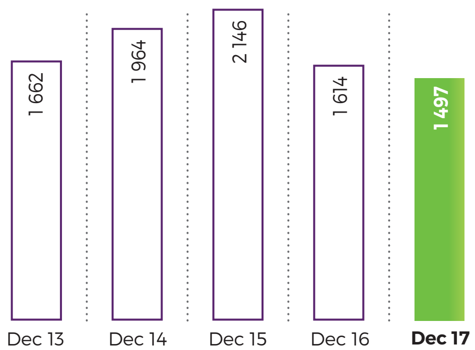
Normalised headline earnings (six monthly breakdown) (R'million)



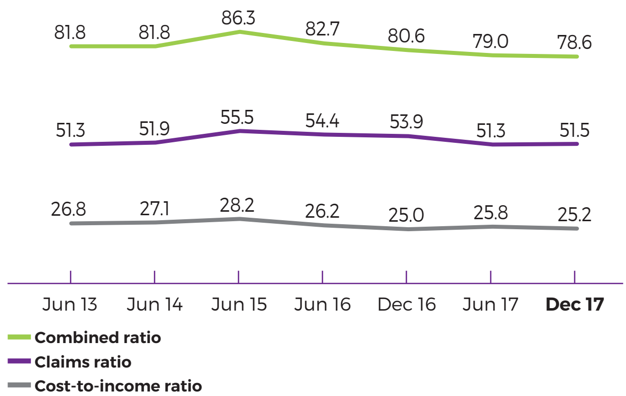
Gross written premium (R'million)



New policy inceptions (measured in terms of annualised premiums) (R'million)



Key ratios (%)



Overview of results *continued*

Group key financial ratios

R'million	Six months ended 31 December 2017	Six months ended 31 December 2016	% change	Year ended 30 June 2017
Gross written premium	**7 757**	7 661	1.3%	**14 908**
Net earned premium	**7 208**	7 048	2.3%	**14 064**
Operating profit	**1 695**	1 487	13.9%	**3 252**
Normalised earnings	**1 461**	1 139	28.3%	**2 476**
Normalised ROE (%)[1]	**31.8%**	39.0%		**33.7%**
Normalised earnings per share (cents)	**38.8**	32.7	18.7%	**65.8**
Diluted normalised earnings per share (cents)	**37.1**	31.4	18.2%	**63.3**
Dividend declared per share (cents)	**20.5**	17.5	17.1%	**40.2**
Claims ratio (including non-claims bonuses) (%)	**51.5%**	53.9%		**51.3%**
Cost-to-income ratio (%)	**25.2%**	25.0%		**25.8%**
Combined ratio[2] (%)	**78.6%**	80.6%		**79.0%**

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 results as follows;

	Operating profit				Normalised earnings			
	Six months ended 31 December			Year ended 30 June	Six months ended 31 December			Year ended 30 June
R'million	2017	2016	% change	2017	2017	2016	% change	2017
OUTsurance	**1 115**	1 113	0.2%	**2 240**	**898**	894	0.4%	**1 784**
OUTsurance Life	**22**	26	(15.4%)	**105**	**31**	35	(11.4%)	**112**
Youi Group	**558**	348	60.3%	**907**	**375**	212	76.9%	**578**
Youi Australia	**532**	387	37.5%	**978**	**370**	270	37.0%	**701**
Youi New Zealand[1]	**(14)**	(45)	68.9%	**(95)**	**(10)**	(41)	(75.6%)	**(86)**
Central and funding costs	**–**	–	–	**–**	**(25)**	(23)	(8.7%)	**(61)**
Consolidation and restatements[1]	**40**	6	>100%	**24**	**40**	6	>100%	**24**
Operating profit	**1 695**	1 487	13.9%	**3 252**	**1 304**	1 141	14.3%	**2 474**
Central and new business development[2]	**(9)**	4	(>100%)	**(2)**	**(48)**	(10)	(>100%)	**(30)**
Earnings from associates	**205**	8	>100%	**32**	**205**	8	>100%	**32**
Normalised Group	**1 891**	1 499	26.2%	**3 282**	**1 461**	1 139	28.3%	**2 476**

1 *Refer to page 22 for an explanation of restatements related to Youi New Zealand.*
2 *Includes consolidation entries, profit and losses generated by non-operating entities and new business development expenditure incurred across the Southern African Group. New business development expenditure includes the start-up loss of OUTvest and various research and development projects independent to the Group's core underwriting activities.*

Overview of results *continued*

Business unit performance

OUTsurance

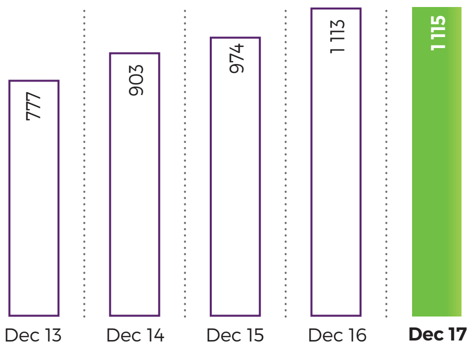
OUTsurance's operating profit increased by 0.2% to R1 115 million for the six months under review. Premium growth remained low as a result of the challenging economic environment and low claims cost inflation. The benefit of low claims related inflation has been passed onto our clients in the form of low price increases which has resulted in enhanced competitiveness. Despite several natural catastrophe events during the period, OUTsurance achieved a claims ratio if 48.7% which is below target and the long-term average.

The benefit of the lower claims ratio was offset by a higher cost-to-income ratio as expense inflation was above premium inflation. The cost-to-income ratio was further impacted by higher marketing, research and development and employee related costs.

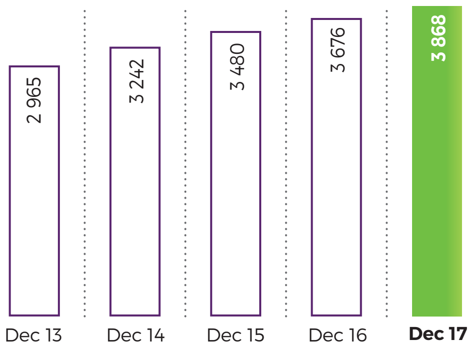
OUTsurance's gross written premium income grew by 5.2%. The core personal lines operation, which excludes the Homeowners business sourced from the FirstRand Group, grew gross written premiums by 4.9% owing to inflationary growth. New business volumes have shown an improving trend over the reporting period, benefitting from low premium adjustments and operational improvements. Business OUTsurance continues to deliver pleasing growth in line with an incremental expansion in the size and capabilities of the tied-agent force. Business OUTsurance grew gross written premiums by 9.6%.

Normalised earnings for the six months grew by 0.4% to R898 million. The slower growth is attributable to slower premium growth and the higher cost-to-income ratio which offset the benefits of the improved claims ratio. .

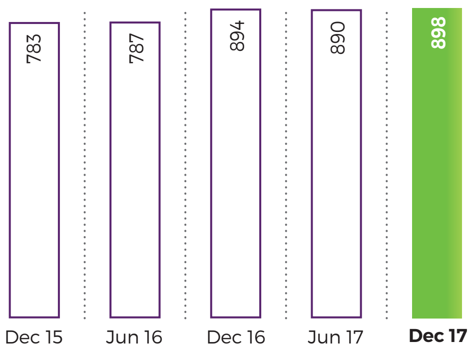
Operating profit (R'million)



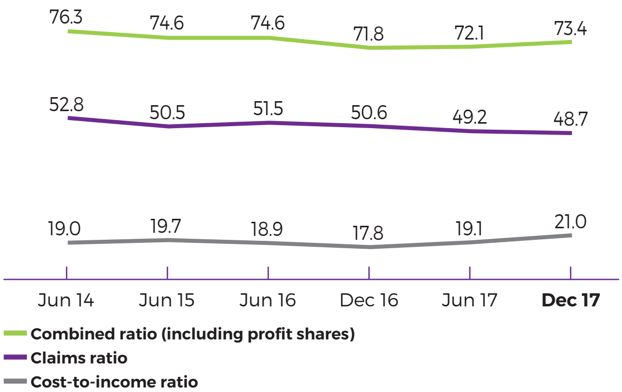
Gross written premium (R'million)



Normalised earnings (six monthly breakdown) (R'million)



Key ratios (%)



Overview of results *continued*

OUTsurance – key performance indicators

R'million	Six months ended 31 December 2017	Six months ended 31 December 2016	% change	Year ended 30 June 2017
Gross written premium	**3 868**	3 676	5.2%	**7 396**
Net earned premium	**3 744**	3 588	4.3%	**7 251**
Operating profit	**1 115**	1 113	0.2%	**2 240**
Normalised earnings	**898**	894	0.4%	**1 784**
Claims ratio (including bonuses) (%)	**48.7%**	50.6%		**49.2%**
Accident year claims raio (%)	**50.2%**	53.4%		**50.8%**
Prior year development (%)	**(1.5%)**	(2.8%)		**(1.6%)**
Cost-to-income ratio (%)	**21.0%**	17.8%		**19.1%**
Combined ratio (%)[1]	**73.4%**	71.8%		**72.1%**

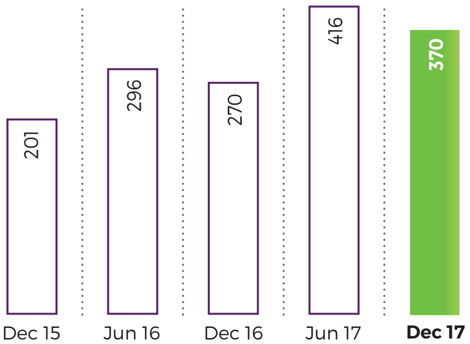
1 *After profit share distributions paid to FirstRand Limited.*

Youi

The Youi Group delivered a strong financial performance for the six month period under review growing normalised earnings by 76.9% to R375 million. The growth in profitability is attributed to a lower claims ratio and cost-to-income ratio. On a standalone basis, Youi Australia grew normalised earnings by a 37.0% to R370 million. Youi New Zealand's start-up loss reduced to R10 million due to lower claims and cost-to-income ratios.

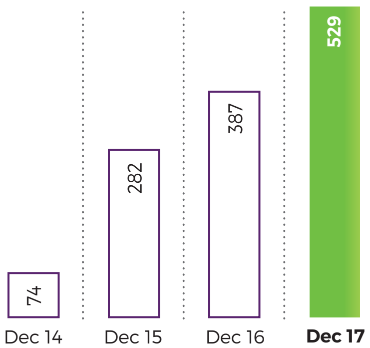
During the period under review, Youi Australia entered the Compulsory Third Party (bodily injury) insurance market in partnership with QBE. The CTP offering enhances Youi's overall customer proposition.

Youi Australia – normalised earnings (six-monthly breakdown (R'million)

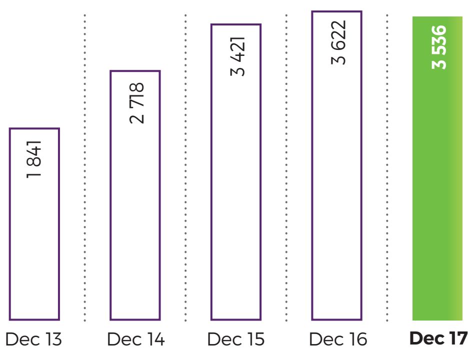


Youi Australia's new business volumes have started to recover in recent months owing to hardening market premiums. It will take time for growing new business volumes to impact overall premium growth. Youi Australia's gross written premiums were lower by 2.4% and 1.7% in Rands and Australian Dollars respectively.

Youi Australia – operating profit (R'million)



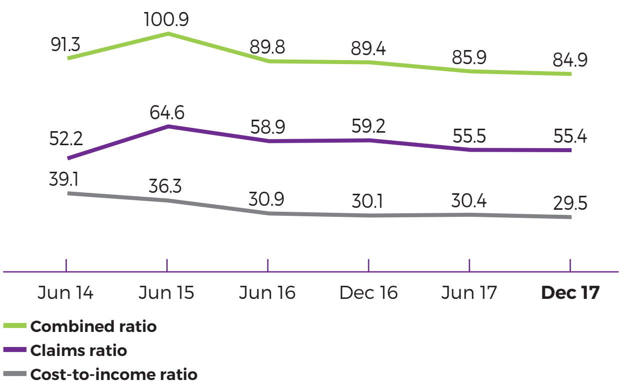
Youi Australia – gross written premium (R'million)



Overview of results *continued*

Favourable weather with less natural catastrophe events over the six month period resulted in Youi Australia's claims ratio declining to 55.4% from 59.2%. The cost-to-income ratio decreased from 30.1% to 29.5% .

Youi Australia – key ratios (%)



Youi Australia – key performance indicators

	Six months ended 31 December			Year ended 30 June
	2017	2016	% change	**2017**
Rand (R'million)				
Gross written premium	**3 536**	3 622	(2.4%)	**6 806**
Net earned premium	**3 216**	3 228	(0.4%)	**6 333**
Operating profit	**529**	387	36.7%	**978**
Normalised earnings	**370**	270	37.0%	**686**
Australian Dollars ($'million)				
Gross written premium	**341**	347	(1.7%)	**664**
Net earned premium	**310**	310	–	**618**
Normalised earnings	**36**	26	38.5%	**68**
Ratios				
Claims ratio (%)	**55.4%**	59.2%		**55.5%**
Accident year claims raio (%)	**60.3%**	65.7%		**59.2%**
Prior year development (%)	**(4.9%)**	(6.5%)		**(3.7%)**
Cost-to-income ratio (%)	**29.5%**	30.1%		**30.4%**
Combined ratio (%)	**84.9%**	89.4%		**85.9%**
AUD/ZAR exchange rate				
– Closing	**9.64**	9.89	(2.5%)	**10.03**
– Average	**10.37**	10.43	(0.6%)	**10.25**

Overview of results *continued*

Youi New Zealand – key performance indicators

	Six months ended 31 December			Year ended 30 June
	2017	2016 restated	% change	**2017 restated**
Rand (R'million)				
Gross written premium	**118**	146	(19.2%)	**265**
Net earned premium	**29**	35	(17.1%)	**65**
Operating profit	**(14)**	(45)	68.9%	**(94)**
Normalised earnings	**(10)**	(41)	75.6%	**(86)**
Australian Dollars ($'million)				
Gross written premium	**12**	15	(20%)	**27**
Net earned premium	**3**	3	–	**7**
Normalised earnings	**(1)**	(4)	75%	**(9)**
Ratios				
Claims ratio (%)	**53.7%**	56.7%		**58.4%**

A restatement has been made to the comparative results of Youi New Zealand. Refer to page 22 for an explanation thereof.

OUTsurance Life

OUTsurance Life grew gross written premiums by 8.3% to R235 million. The lower than expected growth was negatively impacted by the recessionary conditions prevailing in the life insurance market. The lower yield environment was the key driver of the reduction in normalised earnings and embedded value since June 2017. The embedded value is analysed on page 24.

OUTsurance Life – key financial outcomes

	Six months ended 31 December			Year ended 30 June
R'million	**2017**	2016	% change	**2017**
Gross written premium	**235**	217	8.3%	**440**
Normalised earnings	**31**	35	(11.4%)	**112**
Embedded value	**814**	766	6.3%	**835**

OUTsurance Namibia

OUTsurance Namibia generated normalised earnings of R23 million for the six months under review. The improvement in the cost-to-income ratio coupled with the decline in the claims ratio to 47.3% were the major drivers behind the 35.3% growth in normalised earnings. Gross written premium declined by 13.2%. This was however impacted by a cell captive arrangement which was disposed of in May 2017. Normalised gross written premium, which excludes the cell captive business, declined by 5.2% due to pressure on new business volumes in light of increased competition.

OUTsurance Namibia – key financial outcomes

	Six months ended 31 December			Year ended 30 June
R'million	**2017**	2016	% change	**2017**
Gross written premium (normalised)	**92**	97	(5.2%)	**197**
Gross written premium	**92**	106	(13.2%)	**205**
Net earned premium	**96**	100	(4.0%)	**207**
Normalised earnings	**23**	17	35.3%	**39**
Claims ratio (%)	**47.3%**	57.1%		**53.8%**

The Group owns 49% of OUTsurance Namibia with a 51% controlling stake owned by FNB Namibia Holdings Limited. The Group accounts for OUTsurance Namibia as an associate.

Overview of results *continued*

Hastings

During June 2017, the Group acquired a 49% interest in Main Street 1353 (Main Street) which owns a 29.9% interest in Hastings Group Holdings PLC (Hastings). Main Street is a 51% held subsidiary of Rand Merchant Investment Holdings Limited (RMI Holdings). The Group's effective exposure to Hastings is therefore 14.7%.

The Group accounts for its interest in Main Street as an investment in associate.

Hastings (via Main Street):

R'million	December 2017
Share of Hastings earnings (14.7%)	174
Interest on debt funding	(22)
Other	1
Equity accounted earnings	153

For further information related to the financial performance of Hastings for the year ended 31 December 2017, refer to www.hastingsplc.com

Capital position

At 31 December 2017, the regulated entities in the Group traded from adequate capital positions as summarised in the table below:

	Six months ended 31 December			Year ended 30 June
Solvency coverage ratio	2017	2016	Target	2017
Group	3.5	2.1	1.2	3.6
Short-term insurance				
OUTsurance	2.0	1.9	1.2	2.0
OUTsurance Namibia	2.2	1.5	1.2	2.0
Youi Group	3.5	2.7	1.5	3.4
Long-term insurance				
OUTsurance Life	3.8	5.3	1.5	5.0

The formal introduction of the Solvency Assessment and Management (SAM) regulatory regime, applicable to the South African operations is expected to become effective 1 July 2018. The Group is well prepared to comply with the new rgulatory standards.

Dividends

The Group declared an interim dividend of 20.5 cents per ordinary share which is 17.1% higher than the prior interim dividend. The slower growth compared to the growth in normalised earnings is associated with recent acquisitions and the required funding to support the various strategic growth initiatives of the Group.

	2017 Interim dividend	2016 interim dividend	% change	2017 total dividend
Cents per share	20.5	17.5	17.1%	40.2

During June 2017 the Group acquired an indirect interest in Hastings Group Holdings plc. This acquisition was partially settled in equity which results in an 8% increase in the number of issued ordinary shares.

The Group's dividend is considered with reference to the surplus regulatory capital of the various individual licensed entities as well as the consolidated Group together with surplus capital to be maintained to support the Group's various strategic growth initiatives.

Overview of results *continued*

Strategic Investments

The OUTsurance Group acquired a 25.6% stake in Coreshares on 26 November 2017. Coreshares is an emerging South African passive asset manager. The rationale for the investment is supported by the establishment of OUTvest. The Group accounts for its interest in Coreshares as an investment in associate.

Looking ahead

The Group has undergone a period of slow top-line growth whilst maintaining targeted profitability. The focus of the management team is to deliver on the growth objectives of our various business units.

Over recent months we have seen an improvement in the growth of the South African personal lines operation and a satisfactory expansion in the business volumes written by our commercial agency force. In the near-term, the improvement in new business volumes is likely to be dampened by very low premium inflation.

We are focussed on sustaining the improved new business performance of Youi Australia and reigniting growth in the New Zealand operation. The growth recovery is expected to be incremental.

Digitising the way we do business is a key strategy across all our operating units. We are excited about the improved customer experience and efficiency associated with these initiatives.

OUTvest is a newly launched digital investment platform where clients receive high-quality advice and a value for-money passive investment proposition. We are focussed on the expansion of the product range and capabilities of this business.

Management changes

In October 2017 Willem Roos, the Group's long serving CEO and founding member, resigned and took up a non-executive position on the Group's board. We thank Willem for his visionary leadership, dedication and creation of a unique business culture which has led to the success of our Group since its founding in 1998. Willem leaves behind a highly experienced and dedicated management team committed to the customer centric culture, service excellence and underwriting discipline which are the cornerstones of our success.

Basis of presentation

OUTsurance Holdings prepares its consolidated financial results in accordance with the Companies Act (71 of 2008) and IFRS, including IAS 34 Interim Financial Reporting. This circular should be read in conjunction with the Group's annual report for the year ended 30 June 2017 which is available at www.outsurance.co.za. The accounting policies applied are consistent with those applied during the previous financial year.

Events after the reporting period

The directors are not aware of any material events, as defined in IAS 10, occurring between 31 December 2017 and the date of the authorisation of the interim results announcement.

Marthinus Visser
Chief Executive Officer

Laurie Dippenaar
Chairman

19 February 2018

Earnings reconciliation

R'000	Six months ended 31 December 2017	2016	% change	Year ended 30 June 2017
IFRS profit attributable to equity holders	1 447 864	1 154 103	25.5%	3 252 572
Non-controlling interest	(26 192)	(14 804)	76.9%	(40 280)
IFRS earnings attributable to ordinary shareholders	1 421 672	1 139 299	24.8%	3 212 293
Adjusted for:				
Impairment of available-for-sale reserve[1]	–	–		12 608
(Gain) / loss on disposal of property and equipment	(260)	(276)		573
Tax effect of headline earnings adjustments	(18)	79		(2 861)
Headline earnings	1 421 394	1 139 102	24.8%	3 222 613
Adjusted for:				
Add back of gain on derivative related to Main Street 1353 acquisition[2]	–	–		(750 269)
Amortisation of intangible assets related to Main Street 1353[3]	39 556	–	100%	3 468
Normalised earnings	1 460 950	1 139 102	28.3%	2 475 812

1 *The impairment of accumulated losses in the available-for-sale reserve is associated with mark-to-market losses on the Group's investment in listed perpetual preference shares.*

2 *The Group acquired a 49% interest in Main Street 1353 in the previous financial year. This gain represents the movement in the fair value of Main Street from 1 March 2017, the contractual date, up to 1 June 2017 when the contract became effective. The once-off gain is linked to the significant appreciation in the share price of Hastings between these dates. IFRS deemed the period between 1 March 2017 and 1 June 2017 to be a derivative contract and therefore the gain that arises is considered a derivative gain.*

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

TelkomSA LTE
13:01
Back
Get OUTthere cover
Please note, you cannot take out cover on behalf of someone else.
I want to be covered
for R 700 000
for 14 day/s
For R 700 000 OUTthere cover for 14 day/s
Your premium is:
What am I covered for?
The thrill is OUTthere
Get our app for that!
OUT SURANCE

Consolidated statement of comprehensive income

for the six months ended 31 December 2017

	Six months ended 31 December 2017 R'000	Six months ended 31 December 2016 R'000	% Change	Year ended 30 June 2017 R'000
Gross insurance premium written	**7 757 048**	7 660 887	1.3%	**14 907 697**
Outward reinsurance premiums	**(465 178)**	(464 088)	(0.2%)	**(881 681)**
Net premiums written	**7 291 870**	7 196 799	1.3%	**14 026 016**
Change in provision for unearned premiums	**(84 249)**	(149 029)	43.5%	**38 186**
Earned premiums, net of reinsurance	**7 207 621**	7 047 770	2.3%	**14 064 202**
Commission income	**48 016**	54 959	(12.6%)	**106 598**
Other income	**659**	2 785	(76.3%)	**3 898**
Investment income	**261 999**	266 853	(1.8%)	**527 268**
Net gains / (losses) from fair value adjustments on financial assets	**19 310**	(13 517)	>100%	**1 547**
Income	**7 537 605**	7 358 850	2.4%	**14 703 513**
Policyholder benefits on insurance contract net of reinsurance	**(3 662 206)**	(3 776 895)	3.0%	**(7 183 155)**
Gross policyholder benefits under insurance contracts	**(3 995 471)**	(3 954 093)	(1.0%)	**(7 994 951)**
Reinsurers' share of insurance contract claims	**333 265**	177 198	88.1%	**811 796**
Transfer to policyholder liabilities under insurance contracts	**(70 215)**	(23 638)	>(100%)	**(28 468)**
Acquisition expenses	**(10 050)**	(7 349)	(36.8%)	**(24 985)**
Marketing and administration expenses	**(1 861 165)**	(1 814 348)	(2.6%)	**(3 715 503)**
Fair value adjustment to financial liabilities	**(100 415)**	(88 192)	(13.9%)	**(198 563)**
Result of operating activities	**1 833 554**	1 648 428	11.2%	**3 552 839**
Finance charges	**(7)**	(409)	(98.3%)	**(586)**
Equity accounted earnings from associates	**164 739**	8 189	>100%	**28 697**
Gain on derivative related to acquisition of investment in associate	**–**	–	–	**750 269**
Profit before taxation	**1 998 286**	1 656 208	20.7%	**4 331 219**
Taxation	**(550 422)**	(502 105)	(9.6%)	**(1 078 647)**
Net profit for the year	**1 447 864**	1 154 103	25.5%	**3 252 572**
Net profit attributable to:				
Ordinary shareholders	**1 421 672**	1 139 299	24.8%	**3 212 292**
Non-controlling interest	**26 192**	14 804	76.9%	**40 280**
Net profit for the year	**1 447 864**	1 154 103	25.5%	**3 252 572**
Other comprehensive income				
Fair value gains / (losses) on available-for-sale financial instruments	**73 386**	(26 574)	>100%	**(21 889)**
Impairment of available-for-sale financial instruments				**12 608**
Deferred income tax relating to available-for-sale financial instruments	**(16 438)**	5 953	>(100%)	**2 079**
Exchange differences on foreign operations	**(149 045)**	(280 785)	46.9%	**(248 232)**
Total comprehensive income for the year	**1 355 767**	852 697	59.0%	**2 997 138**
Total comprehensive income attributable to:				
Ordinary shareholders	**1 338 499**	853 686	56.8%	**2 970 827**
Non-controlling interest	**17 268**	(989)	>100%	**26 311**
Total comprehensive income for the year	**1 355 767**	852 697	59.0%	**2 997 138**
Earnings attributable to to shareholders				
Earnings per share (cents)				
Basic earnings per share	**37,75**	32,71		**85,38**
Diluted earnings per share	**36,08**	31,40		**82,60**
Weighted average number of ordinary shares ('000)	**3 766 448**	3 483 189		**3 762 173**
Weighted average number of diluted ordinary shares ('000)	**3 832 658**	3 539 932		**3 818 466**

OUT SURANCE

Consolidated statement of financial position

at 31 December 2017

	Six months ended 31 December		Year ended 30 June
	2017 R'000	2016 R'000	**2017 R'000**
ASSETS			
Investment in associates	3 999 498	37 994	3 842 191
Property and equipment	1 112 171	722 863	992 187
Employee benefits	47 185	72 921	88 713
Reinsurers' share of insurance contract provisions	583 604	237 330	672 014
Deferred acquisition costs	317 086	347 757	338 478
Financial assets			
Fair value through profit and loss	7 805 180	7 623 157	7 721 871
Available-for-sale	1 172 556	1 440 099	1 101 254
Deferred income tax	108 470	90 847	152 740
Loans and receivables	2 614 701	2 620 248	2 533 889
Cash and cash equivalents	696 204	734 987	721 460
TOTAL ASSETS	18 456 655	13 928 203	18 164 797
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	37 648	34 827	37 649
Share premium	2 583 789	237 394	2 599 038
Other reserves			
Share-based payment reserve	17 058	13 521	13 711
Foreign currency translation reserve	176 611	286 003	316 732
Available-for-sale reserve	130 521	60 154	73 573
Equity accounted reserve	(1 683)	–	–
Retained earnings	7 187 675	5 306 619	6 639 636
Total shareholders' equity	10 131 619	5 938 518	9 680 339
Non-controlling interest	159 873	126 144	143 635
TOTAL EQUITY	10 291 492	6 064 662	9 823 974
LIABILITIES			
Insurance contract liabilities	6 825 428	6 589 343	6 841 308
Share-based payment liability	78 650	81 254	115 208
Employee benefits	127 663	119 799	162 269
Financial liabilities at fair value through profit or loss	100 415	88 191	110 372
Deferred income tax	53 149	–	52 659
Tax liabilities	89 086	62 836	120 686
Insurance and other payables	890 772	922 118	938 321
TOTAL LIABILITIES	8 165 163	7 863 541	8 340 823
TOTAL EQUITY AND LIABILITIES	18 456 655	13 928 203	18 164 797

Consolidated statement of changes in equity

for the six months ended 31 December 2017

	Share capital R'000	Share premium R'000	Available-for-sale reserves R'000	Equity accounted reserve R'000	Foreign currency translation reserve R'000	Share based payments reserve R'000	Retained earnings R'000	Total ordinary shareholders' interest R'000	Non-controlling interest R'000	Total R'000
Opening balance as at 1 July 2016	34 780	197 656	80 775	–	550 995	8 580	4 893 454	5 766 240	130 137	5 896 377
Total profit for the period	–	–	–	–	–	–	1 154 103	1 154 103	–	1 154 103
Total other comprehensive loss for the period	–	–	(20 621)	–	(280 785)	–	–	(301 406)	–	(301 406)
Issue of share capital	47	39 738	–	–	–	–	–	39 785	–	39 785
Share based payment expense	–	–	–	–	–	4 941	–	4 941	–	4 941
Share option expense transferred to retained earnings	–	–	–	–	–	–	(47 983)	(47 983)	–	(47 983)
Profit / (loss) attributable to non-controlling interests	–	–	–	–	15 793	–	(14 804)	989	(989)	–
Transactions with minorities	–	–	–	–	–	–	3 004	3 004	(3 004)	–
Ordinary dividend paid	–	–	–	–	–	–	(681 155)	(681 155)	–	(681 155)
Balance at 31 December 2016	34 827	237 394	60 154	–	286 003	13 521	5 306 619	5 938 518	126 144	6 064 662
Opening balance as at 1 July 2017	37 649	2 599 038	73 573	–	316 732	13 711	6 639 636	9 680 339	143 635	9 823 974
Total profit for the period	–	–	–	–	–	–	1 447 864	1 447 864	–	1 447 864
Total other comprehensive income / (loss) for this period	–	–	56 948	–	(149 045)	–	–	(92 097)	–	(92 097)
Issue of share capital	(1)	(15 249)	–	–	–	–	–	(15 250)	–	(15 250)
Share based payment expense	–	–	–	–	–	3 347	–	3 347	–	3 347
Transaction with non-controlling interests in subsidiary	–	–	–	–	–	–	1 030	1 030	(1 030)	–
Profit / (loss) attributable to non-controlling interests	–	–	–	–	8 924	–	(26 192)	(17 268)	17 268	–
Share option spread payment	–	–	–	–	–	–	(18 110)	(18 110)	–	(18 110)
Reserve adjustment of associate entities	–	–	–	(1 683)	–	–	–	(1 683)	–	(1 683)
Ordinary dividend paid	–	–	–	–	–	–	(856 553)	(856 553)	–	(856 553)
Balance at 31 December 2017	37 648	2 583 789	130 521	(1 683)	176 611	17 058	7 187 675	10 131 619	159 873	10 291 492

Consolidated statement of cash flows

for the six months ended 31 December 2017

	Six months ended 31 December		Year ended 30 June
	2017 R'000	2016 R'000	**2017 R'000**
OPERATING ACTIVITIES			
Cash generated by operations	**1 880 533**	1 221 280	**2 751 423**
Interest received	**228 556**	220 569	**477 923**
Dividends received	**33 443**	46 283	**58 165**
Finance charges	**(7)**	(409)	**(586)**
Taxation paid	**(536 336)**	(543 051)	**(1 038 537)**
Ordinary dividends paid	**(856 553)**	(681 155)	**(1 290 593)**
Preference dividends paid	**(110 372)**	(104 461)	**(192 652)**
Cash inflow from operating activities	**639 264**	159 056	**765 143**
INVESTING ACTIVITIES			
Acquisition of investment in associate	**(4 050)**	–	**(678 046)**
Property and equipment acquired to maintain operations	**(212 681)**	(140 204)	**(481 174)**
Proceeds on disposal of property and equipment	**2 275**	432	**2 146**
Proceeds on disposal of financial assets	**3 992 603**	2 718 275	**9 469 329**
Purchase of financial assets	**(4 225 308)**	(1 999 601)	**(8 926 194)**
Cash (outflow) / inflow from investing activities	**(447 161)**	578 902	**(613 939)**
FINANCING ACTIVITIES			
Purchase of treasury shares by share scheme participants	**77 771**	128 384	**206 961**
Purchase of treasury shares by share trust from share scheme participants	**(93 021)**	(88 599)	**(157 714)**
Cash (outflow) / inflow from financing activities	**(15 250)**	39 785	**49 247**
Increase in cash and cash equivalents	**176 853**	777 743	**200 451**
CHANGE IN CASH AND CASH EQUIVALENTS			
Opening balance of cash and cash equivalents	**721 460**	477 856	**477 856**
Effect of exchange rates on cash and cash equivalents	**(202 109)**	(520 612)	**43 153**
Increase in cash and cash equivalents	**176 853**	777 743	**200 451**
Closing balance of cash and cash equivalents	**696 204**	734 987	**721 460**

Notes to the consolidated financial statements

Financial risk management

The Group's activities expose it to a variety of financial risks. The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's Annual Financial Statements at 30 June 2017.

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

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

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

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

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group at 31 December 2017				
Financial assets				
Equity securities				
Listed preference shares	346 355	–	–	346 355
Exchange traded funds	723 787	–	–	723 787
Collective investment schemes	–	107 333	–	107 333
Debt securities				
Unlisted preference shares	–	102 415	–	102 415
Zero-coupon deposits	–	291 993	–	291 993
Term deposits		4 421 245	–	4 421 245
Government, municipal and public utility securities	–	416 136	–	416 136
Money market securities <1 year	–	1 402 731	–	1 402 731
Money market securities >1 year	–	1 165 741	–	1 165 741
Total financial assets	1 070 142	7 907 594	–	8 977 736
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	100 415	100 415
Total financial liabilities	–	–	100 415	100 415

Financial risk management *continued*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group at 31 December 2016				
Financial assets				
Equity securities				
Listed preference shares	387 667	–	–	387 667
Exchange traded funds	547 208	–	–	547 208
Debt securities				
Unlisted preference shares	–	505 224	–	505 224
Zero-coupon deposits	–	126 717	–	126 717
Term deposits	–	4 577 224	–	4 577 224
Government, municipal and public utility securities	–	465 701	–	465 701
Money market securities <1 year	–	1 605 481	–	1 605 481
Money market securities >1 year	–	848 034	–	848 034
Total financial assets	934 875	8 128 381	–	9 063 256
Financial liabilities				
Debt securities				
Financial liabilities at fair value through profit and loss	–	–	88 191	88 191
Total financial liabilities	–	–	88 191	88 191

There were no transfers between levels for the six months ended 31 December 2017.

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 market observable input, e.g. JIBAR, prime rate, foreign currency rates, listed bond rates of similar instruments, without significant adjustments

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

The fair value of money market instruments and government, municipal and public utility securities is determined based on observable market inputs. These instruments consist of fixed and floating rate notes held in segregated portfolios and are typically listed on the Bond Exchange of South Africa (BESA). Instruments listed on BESA 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.

Zero-coupon deposits are not traded actively during a financial reporting period and are classified as Level 2 financial instruments.

Notes to the consolidated financial statements *continued*

Financial risk management *continued*

Level 2 *continued*

The Group uses zero-coupon deposits to offset the interest rate risk inherent in some of the life insurance products underwritten by OUTsurance Life. The counterparties to these deposits are the large South African banks. The zero-coupon deposits have been structured to allow for the payment of the notional initial deposit to be spread over the specified term to enable cash flow matching. The maturity dates of the accreting zero-coupon deposits are long-term, with maturity dates at the various trading dates not exceeding 15 years. The fair values of the accreting zero-coupon deposits are determined monthly based on observable market inputs. To determine the fair values of the accreting zero-coupon deposits, a risk-free Swap Yield Curve produced every business day by the Johannesburg Securities Exchange is referenced. The instruments are designated at fair value through profit or loss, with both the interest accrual and fair value accounted for in profit or loss.

Level 3

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

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

- The fair value is determined based on valuation techniques where the input is determined by management, e.g. profits arising out of profit sharing arrangements, and is not readily available in the market or where market observable input is significantly adjusted.
- 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 instrument for the period under review:

	Six months ended 31 December	
	2017 R'000	**2016 R'000**
Opening balance	110 372	104 461
Preference dividend paid	(110 372)	(104 461)
Preference dividend charged to profit or loss	100 415	88 191
Closing balance	100 415	88 191

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.

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

Notes to the consolidated financial statements *continued*

Segment information *continued*

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

1 *Refer to restatement table for Youi New Zealand adjustments on page 23.*

Notes to the consolidated financial statements *continued*

Segment information *continued*

	Short term insurance				Long term insurance		
	OUTsurance Personal R'000	**OUTsurance Commercial R'000**	**Youi Australia Personal R'000**	**Youi New Zealand Personal R'000**	**OUTsurance Life R'000**	**Central and new business development[1] R'000**	**Group total R'000**
Six months ended 31 December 2016							
Gross written premium	3 151 491	524 181	3 622 095	145 715	217 405	–	7 660 887
Outward reinsurance premiums	(55 560)	(10 603)	(260 357)	(119 882)	(17 686)	–	(464 088)
Change in provision for unearned premium	(16 868)	(4 921)	(134 185)	9 383	–	(2 438)	(149 029)
Earned premium, net of reinsurance	3 079 063	508 657	3 227 553	35 216	199 719	(2 438)	7 047 770
Commission income	–	–	–	54 959	–	–	54 959
Other income	–	–	355	–	–	2 430	2 785
Policyholder benefits on insurance contracts net of reinsurance	(1 552 639)	(262 859)	(1 911 997)	(19 893)	(29 507)	–	(3 776 895)
Transfer to policyholder liabilities under insurance contracts	–	–	–	–	(23 638)	–	(23 638)
Marketing, acquisition and administration expenses	(508 788)	(118 025)	(972 489)	(117 839)	(111 606)	10 483	(1 818 264)
Fair value adjustment to financial liabilities	(88 192)	–	–	–	–	–	(88 192)
Underwriting result	929 444	127 773	343 422	(47 557)	34 968	10 475	1 398 525
Investment income on technical reserves	50 346	5 781	43 559	2 457	(9 445)	–	92 698
Operating profit	979 790	133 554	386 981	(45 100)	25 523	10 475	1 491 223
Equity accounted earnings							8 189
Operating profit including associate earnings							1 499 412
Net investment income on shareholder investment capital							156 796
Profit before tax							1 656 208

1 *Refer to restatement table for Youi New Zealand adjustments on page 23.*

Notes to the consolidated financial statements *continued*

Earnings from associates

	Six months ended 31 December 2017 R'000	Six months ended 31 December 2016 R'000	Year ended 30 June 2017 R'000
OUTsurance Insurance Company of Namibia Ltd	**11 495**	8 189	**19 093**
Main Street 1 353 (Pty) Ltd	**153 700**	–	**9 604**
Other	**(456)**	–	**–**
	164 739	8 189	**28 697**

Calculation of earnings per share

	Six months ended 31 December 2017	Six months ended 31 December 2016	Year ended 30 June 2017
Basic normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 460 950**	1 139 102	**2 475 812**
Weighted average number of shares in issue ('000)	**3 766 448**	3 483 189	**3 762 173**
Normalised earnings per share – basic (cents)	**38.79**	32,70	**65.81**
Diluted normalised earnings per share			
Normalised earnings attributable to ordinary shareholders (R'000)	**1 460 950**	1 139 102	**2 475 812**
Diluted headline earnings attributable to minorities of Youi Holdings Group (R'000)	**(38 785)**	(27 926)	**(58 256)**
Diluted normalised earnings attributable to ordinary shareholders (R'000)	**1 422 165**	1 111 176	**2 417 556**
Weighted average number of shares in issue ('000)	**3 766 448**	3 483 189	**3 762 173**
Dilution impact of share incentive scheme ('000)	**66 210**	56 743	**56 293**
Diluted weighted average number of shares in issue ('000)	**3 832 658**	3 539 932	**3 818 466**
Normalised earnings per share – diluted (cents)	**37.11**	31,39	**63.31**
Total number of shares in issue ('000)	**3 798 908**	3 518 163	**3 798 908**

Restatement of Youi New Zealand earnings

Due to a technical interpretation error in the Liability Adequacy Test (LAT) the comparative results for Youi New Zealand have been restated. Previously an Unexpired Risk Reserve (AURR) was held and no deferred acquisition costs (DAC) asset was recognised. The subsequent restatement of the error removes the AURR liability and raises a DAC asset. Due to the immaterial value of the restatement, the Group has decided to account for the entire value of the historic misstatement in the Group consolidated results in the current six months ended 31 December 2017. The restatement is however material to the low earnings base of Youi New Zealand and as such the comparatives have been restated for the interim financial statements to be issued by New Zealand for the six months ended 31 December 2017.

	Six months ended 31 December 2017 R'000	Six months ended 31 December 2016 R'000	Year ended 30 June 2017 R'000
Youi New Zealand normalised earnings reported	**(9 983)**	(35 253)	**(62 906)**
Restatement of Youi New Zealand earnings	**–**	(5 727)	**(23 571)**
Pro-forma Youi New Zealand earnings assuming restatement	**(9 983)**	(40 980)	**(86 477)**

Notes to the consolidated financial statements *continued*

Reclassification of comparatives

31 December 2016	Amount as previously reported R'000	Amount as reclassified R'000	Difference R'000	Explanation
Statement of cash flows				
Operating activities				
Cash generated by operations	1 495 907	1 221 280	274 627	Transfer of interest and dividends received to statement of cash flows from cash generated by operations
Interest received	–	220 569	(220 569)	Transfer of interest and dividends received to statement of cash flows from cash generated by operations
Dividends received	–	46 283	(46 283)	Transfer of interest and dividends received to statement of cash flows from cash generated by operations
Investing activities				
Intellectual property payments	(7 940)	–	(7 940)	Transfer of intellectual property payments and settlements to cash generated by operations
Intellectual property settlements	165	–	165	Transfer of intellectual property payments and settlements to cash generated by operations
Total	1 488 132	1 488 132	–	
Statement of profit or loss and other comprehensive income				
Policyholder benefits on insurance contract claims	(3 579 415)	(3 776 895)	197 480	
Gross policyholder benefits under insurance contracts	(3 756 613)	(3 954 093)	197 480	Reclassification of non-claims bonuses into gross policyholder benefits
Reinsurers share of insurance contract claims	177 198	177 198	–	
Non-claims bonuses on insurance contracts	(197 480)	–	(197 480)	Reclassification of non-claims bonuses into gross policyholder benefits
Other comprehensive income				
Total	(3 776 895)	(3 776 895)	–	

The order of assets and liabilities have been sorted by liquidity on the statement of financial position. Certain assets and liabilities have been reclassified as part of the new IAS 1 disclosure initiative.

OUTsurance Life embedded value

Embedded value of covered business

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

The embedded value 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; less
- The cost of required capital.

The total profit recognised over the lifetime of a policy is the same as under IFRS but the timing of recognition of profits is different.

Covered business is defined as business regulated by the Financial Services Board (FSB) as long-term insurance business written in OUTsurance Life Insurance Company Limited (OUTsurance Life).

The ANW represents the excess of assets over liabilities on the statutory valuation method.

The value of in-force covered business is the discounted value of the projected stream of after-tax shareholder profits arising from existing in-force covered business. These shareholder profits arise from the release of margins under the statutory basis of valuing liabilities which differs from the release of profits on the published accounting basis.

The required capital is defined as the level of capital that is restricted for distribution to shareholders. This comprises the statutory Capital Adequacy Requirement (CAR) calculated in accordance with Standard Actuarial Practice (SAP) 104 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 CAR, which is the target CAR Ratio.

The cost of required capital is 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 value of new business is calculated as the discounted value, at point of sale, using a risk discount rate, of the projected stream of after-tax profits for new covered business issued in the reporting period. 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 embedded value.

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 the discounted value, using a risk discount rate, of expected future premiums on new recurring premium business.

The return on embedded value is calculated by expressing the embedded value earnings as an annualised percentage of the embedded value at the beginning of the reporting period.

OUTsurance Life embedded value *continued*

Embedded value of covered business *continued*

The table below shows the components of the embedded value of OUTsurance Life at 31 December 2017 and comparative periods:

Embedded value

	2017 December R'000	2016 December R'000	**2017 June R'000**
Covered business ANW	**533 975**	457 408	**527 859**
Free surplus	**329 901**	333 667	**379 240**
Required capital	**204 074**	123 741	**148 619**
Present value of in-force business (PVIF)	**560 099**	464 198	**516 151**
Cost of required capital	**(279 583)**	(155 642)	**(208 569)**
Embedded value of covered business	**814 491**	765 964	**835 441**
Annualised return on embedded value	**2.2%**	25.4%	**22.5%**

After allowing for the dividend of R45 million and the R15 million change in the Available-for-Sale reserve, the reported embedded value decreased by 2.5% since June 2017. The significant yield volatility seen over the 6 month period resulted in an increase of the value of the policyholder liabilities, the required capital and the resultant cost of capital. Changes to the valuation basis and methodology also contributed to the increase in the cost of capital.

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

	Six months ended 31 December		Year ended 30 June
	2017 R'000	2016 R'000	**2017 R'000**
Ordinary shareholders funds per IFRS	**638 754**	559 442	**638 024**
Allowance for deferred acquisition costs in policyholder liabilities (net of tax)	**(104 779)**	(102 034)	**(110 165)**
Covered business ANW	**533 975**	457 408	**527 859**

OUTsurance Life embedded value *continued*

Embedded value earnings

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

	Adjusted net worth R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
at December 2017 (6 months)				
Embedded value at end of the period	533 975	560 099	(279 583)	**814 491**
Dividends paid	45 587	–	–	**45 587**
Movement in available-for-sale reserve	(15 399)	–	–	**(15 399)**
Embedded value at beginning of the period	(527 859)	(516 151)	208 569	**(835 441)**
Embedded value earnings for the period	36 304	43 948	(71 014)	**9 238**
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	(5 385)			
Headline earnings	30 919			
at December 2016 (6 months)				
Embedded value at end of the period	457 408	464 198	(155 642)	**765 964**
Movement in available-for-sale reserve	(1 864)	–	–	**(1 864)**
Embedded value at beginning of the period	(431 908)	(434 367)	184 001	**(682 274)**
Embedded value earnings for the period	23 636	29 831	28 359	**81 826**
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	3 725			
Headline earnings	27 361			
at June 2017 (12 months)				
Embedded value at end of the period	527 859	516 151	(208 569)	**835 441**
Movement in available-for-sale reserve	501	–	–	**501**
Embedded value at beginning of the period	(431 908)	(434 367)	184 001	**(682 274)**
Embedded value earnings for the period	96 452	81 784	(24 568)	**153 668**
Movement in allowance for deferred acquisition costs in policyholder liabilities (net of tax)	15 355			
Headline earnings	111 807			

OUTsurance Life embedded value *continued*

Components of embedded value earnings

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

	Adjusted net worth R'000	PVIF R'000	Cost of required capital R'000	Embedded value R'000
at December 2017 (6 months)				
Value of new business at point of sale	–	17 859	(6 255)	**11 604**
New business strain at point of sale	(64 505)	64 505	–	**–**
Expected return on covered business	–	29 787	(3 141)	**26 646**
Expected profit transfer	79 744	(79 744)	–	**–**
Operating experience variances	11 425	25 410	37 195	**29 099**
Operating assumption and model changes	(7 007)	(22 465)	(65 370)	**(49 912)**
Embedded value earnings from operations	19 657	35 352	(37 571)	**17 437**
Investment return variances	24 323	–	–	**24 323**
Effect of economic assumption changes	(7 676)	8 596	(33 443)	**(32 523)**
	36 304	43 948	(71 014)	**9 237**
at December 2016 (6 months)				
Value of new business at point of sale	–	21 379	(7 222)	**14 157**
New business strain at point of sale	(69 760)	69 760	–	**–**
Expected return on covered business	–	45 070	11 980	**57 050**
Expected profit transfer	68 349	(68 349)	–	**–**
Operating experience variances	8 863	(29 697)	(78 856)	**(99 690)**
Operating assumption and model changes	3 517	(6 488)	(20 905)	**(23 876)**
Embedded value earnings from operations	10 969	31 675	(95 003)	**(52 359)**
Investment return variances	9 881	–	–	**9 881**
Effect of economic assumption changes	2 786	(1 844)	123 362	**124 304**
Headline earnings	23 636	29 831	28 359	**81 826**
at June 2017 (12 months)				
Value of new business at point of sale	–	46 115	(20 994)	**25 121**
New business strain at point of sale	(136 944)	136 944	–	**–**
Expected return on covered business	–	60 848	(11 725)	**49 123**
Expected profit transfer	141 662	(141 662)	–	**–**
Operating experience variances	26 987	(33 668)	13 474	**6 793**
Operating assumption and model changes	20 898	(3 717)	31 235	**48 416**
Embedded value earnings from operations	52 603	64 860	11 990	**129 453**
Investment return variances	29 163	–	–	**29 163**
Effect of economic assumption changes	14 686	16 924	(36 558)	**(4 948)**
	96 452	81 784	(24 568)	**153 668**

OUTsurance life embedded value *continued*

Value of new business

The table below shows the value of new business written:

	2017 December R'000	2016 December R'000	% Change	2017 June R'000
Value of new business (at point of sale)				
Gross value of new business	17 859	21 379	(16.5%)	46 115
Cost of required capital	(6 255)	(7 222)	(13.4%)	(20 994)
	11 604	14 157	(18.0%)	25 121
Present value of new business premiums	236 827	293 751		578 922
New business margin	4.9%	4.8%		4.3%

The decrease in the new business margin results from a slowdown in sales owing to tough economic conditions.

Sensitivity analysis

The table below provides an analysis of the sensitivities of the embedded value of the in-force book:

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change
Value of in-force sensitivity analysis				
at December 2017				
Base value at 31 December 2017	560 099	(279 583)	280 516	
1% increase in risk discount rate	539 566	(282 913)	256 653	(8.5%)
1% decrease in the interest rate environment	588 132	(284 621)	303 511	8.2%
10% decrease in maintenance expenses	576 471	(279 667)	296 804	5.8%
10% decrease in new business acquisition expenses	560 099	(279 583)	280 516	–
10% decrease in lapse rates	550 300	(297 088)	253 212	(9.7%)
5% decrease in morbidity and mortality rates	589 369	(280 876)	308 493	10.0%
at December 2016				
Base value at 31 December 2016	464 198	(155 642)	308 556	
1% increase in risk discount rate	448 015	(155 061)	292 954	(5.1%)
1% decrease in the interest rate environment	487 807	(163 574)	324 233	5.1%
10% decrease in maintenance expenses	479 308	(155 473)	323 835	5.0%
10% decrease in new business acquisition expenses	464 198	(155 642)	308 556	–
10% decrease in lapse rates	455 887	(170 765)	285 122	(7.6%)
5% decrease in morbidity and mortality rates	485 522	(154 327)	331 195	7.3%
at June 2017				
Base value at 30 June 2017	516 151	(208 569)	307 582	
1% increase in risk discount rate	497 798	(207 734)	290 064	(5.7%)
1% decrease in the interest rate environment	545 585	(245 322)	300 263	(2.4%)
10% decrease in maintenance expenses	530 238	(208 449)	321 789	4.6%
10% decrease in new business acquisition expenses	516 151	(208 569)	307 582	–
10% decrease in lapse rates	517 933	(225 678)	292 255	(5.0%)
5% decrease in morbidity and mortality rates	540 737	(208 730)	332 007	7.9%

OUTsurance Life embedded value *continued*

Sensitivity analysis *continued*

The table below provides an analysis of the sensitivities of the value of new business written:

	Gross value of in-force R'000	Cost of required capital R'000	Net value of in-force R'000	% Change
Value of new business sensitivity analysis				
at December 2017 (6 months)				
Base value at 31 December 2017	17 859	(6 255)	11 604	–
1% increase in risk discount rate	15 570	(5 629)	9 941	(14.3%)
1% decrease in the interest rate environment	21 208	(3 907)	17 301	49.1%
10% decrease in maintenance expenses	19 014	(4 666)	14 348	23.7%
10% decrease in new business acquisition expenses	24 056	(6 255)	17 801	53.4%
10% decrease in lapse rates	23 088	(7 465)	15 623	34.6%
5% decrease in morbidity and mortality rates	19 226	(5 254)	13 972	20.4%
at December 2016 (6 months)				
Base value at 31 December 2016	21 379	(7 222)	14 157	–
1% increase in risk discount rate	18 992	(6 782)	12 210	(13.8%)
1% decrease in the interest rate environment	25 274	(5 000)	20 274	43.2%
10% decrease in maintenance expenses	22 961	(7 206)	15 755	11.3%
10% decrease in new business acquisition expenses	28 648	(7 222)	21 426	51.3%
10% decrease in lapse rates	26 471	(8 091)	18 380	29.8%
5% decrease in morbidity and mortality rates	23 139	(7 293)	15 846	11.9%
at June 2017 (12 months)				
Base value at 30 June 2017	46 115	(20 994)	25 121	–
1% increase in risk discount rate	40 995	(20 185)	20 810	(17.2%)
1% decrease in the interest rate environment	53 414	(33 045)	20 369	(18.9%)
10% decrease in maintenance expenses	48 723	(20 968)	27 755	10.5%
10% decrease in new business acquisition expenses	60 481	(20 994)	39 487	57.2%
10% decrease in lapse rates	57 880	(22 119)	35 761	42.4%
5% decrease in morbidity and mortality rates	49 809	(21 106)	28 703	14.3%

Economic assumptions

The following economic assumptions were used in calculating the embedded value at 31 December 2017 and the comparative periods:

	2017 December	2016 December	2017 June
Gross investment return, risk discount rate and inflation			
Point used on the relevant yield curve[1] (in years)	11.22	12.00	11.10
Fixed-interest securities (bond curve – non ALM) (%)	11.8%	11.4%	11.8%
Fixed-interest securities (swap curve – ALM) (%)	9.6%	9.5%	9.7%
Inflation rate (%)	8.9%	9.0%	9.1%
Risk discount rate (%)	15.8%	16.3%	15.8%

1 *The point provided is an estimate of the full curve used in the embedded value calculation.*

https://www.youtube.com/watch?v=hZqu5k0QJUY

Southern Africa

100

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

100

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

49

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

100

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

% Ownership

Australasia

93

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

93

Youi **New Zealand** was launched in July 2014. The start-up operation provides personal lines insurance cover direct to the New Zealand public.

% Ownership

United Kingdom

The Group recently acquired a 14.7% indirect stake in Hastings Group Holdings PLC. Hastings is a fast growing digital insurer operating in the United Kingdom with a unique digitally enabled business model. Hastings provides personal lines insurance cover through direct and price comparison website channels.

Definitions

Annualised premium income	Annualised premium value of all new client policies incepted during the period under review. This measure excludes the renewal of existing client policies.
Capital adequacy ratio (CAR)	Eligible capital divided by the solvency capital requirement.
Claims ratio	Net incurred claims including non-claims bonus costs divided by net earned premium. The Group claims ratio measure includes policyholder liability transfers relating to long-term insurance business.
Combined ratio	Net incurred claims (including non-claims bonuses) plus total operating expenses plus profit share distributions divided by net earned premium. This ratio provides a measure of the surplus generated from the Group's insurance activities.
Cost-to-income ratio	Total operating expenses divided by net earned premium. Total operating expenses excludes profit share distributions to FirstRand Limited relating to the Homeowners Cover product.
Eligible capital	Total equity adjusted for asset inadmissibility and valuation differences per the local or group regulations.
Normalised earnings	Normalised earnings adjustments are applied where the Group believes that certain transactions creates a mismatch between the Group's accounting and economic performance. Normalised earnings is therefore considered to most accurately reflect the Group's economic performance.
Solvency capital requirement (SCR)/ Required capital	The amount of regulatory capital required as determined by the local regulatory authorities.
Weighted number of ordinary shares	Weighted number of ordinary shares in issue during the reporting period.
Actuarial Practice Note (APN) 107	The guidance note on embedded value financial disclosures of South African long-term insurers issued by the Actuarial Society of South Africa.
Covered business	Business regulated by the FSB as long-term insurance business.
Embedded value (EV) of covered business	The present value of earnings from covered business attributable to shareholders, excluding any value that may be attributed to future new business. Consists of: • Adjusted net worth, plus • Value of in-force covered business, less • The cost of required capital.

Definitions *continued*

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	The discounted value of the projected stream of after tax shareholder profits arising from existing in-force covered business.
Cost of required capital	The present value, at the risk discount rate, of the projected release of the required capital allowing for investment returns on the assets supporting the projected required capital.
Value of new business	Present value of the expected after-tax shareholder cash flows less cost of required capital arising at the point of sale in respect of new covered business contracts sold in the reporting period.
Profitability of new covered business	Ratio of the net value of new business to present value of new business premiums (gross of reinsurance).
Present value of new business premiums	The discounted value, using a risk-adjusted discount rate, of expected future premiums on new recurring premium business.

Company information

Directors

Mr Laurie Dippenaar (Chairman), Mr Kubandiran Pillay, Mr Alan William Hedding, Ms Judy Madavo, Mr George Louis Marx, Mr Rudolf Pretorius, Mr Herman Lambertus Bosman, Mr Neville Nightingale, Mr Willem Roos, Mr Howard Aron (resigned 19 February 2018), Mr Marthinus Visser (Chief Executive Officer), Mr Peter Cooper, Mr Francois Knoetze

Company secretary and registered address

The company secretary is Mr Mark Ehlert whose registered addresses are:

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"You always get something out."

STUDIO 5