www.oldmutual.com


# ANNUAL REPORT
2018

**INSURE**

DO GREAT THINGS EVERY DAY

# INDEX



# ABOUT OUR ANNUAL REPORT

## Introduction

This Annual Report to our stakeholders covers the core activities of the business for the period 1 January 2018 to 31 December 2018. It focuses on our strategy and how our material operating segments and key enabling functions create value over the short, medium and long term.

## Forward-looking statement

This report may contain forward-looking statements with respect to some of Old Mutual Insure's plans or current goals and expectations relating to its future financial condition, performance and results, in particular, estimates of future cash flows and costs. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Old Mutual Insure's control. These include economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the risk of higher than expected claims, the impact of adverse weather conditions, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and regulations in the jurisdictions in which Old Mutual Insure and its affiliates operate. As a result, Old Mutual Insure's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the forward-looking statements. Old Mutual Insure undertakes no obligation to update the forward-looking statements contained in this report or any other forward-looking statements it may make.

DEFINING CONCEPTS

## Materiality

We apply the principle of materiality in assessing what information to include in our report, which focuses particularly on those issues, opportunities and challenges that impact materially on Old Mutual Insure and its ability to be a business that consistently delivers value to our stakeholders in a sustainable manner.

## Value

Value creation is the consequence of how we apply and leverage our resources and strategy in delivering financial performance and value for all stakeholders. We focus on improving both the quantum of value delivered for each of our stakeholders and the quality of their experience.

# 01

# OUR COMPANY

# TRACING OUR ROOTS

## THE STORY OF OLD MUTUAL INSURE DATES BACK TO

# 1831

**1965**

Three major companies – the Liverpool & London & Globe Insurance, Royal Insurance, and London & Lancashire Insurance – joined to form the Royal Group in 1965.

**1970**

The Royal Group then merged with Old Mutual's then short-term insurance company, the SA Mutual Fire & General Insurance company, to form Mutual & Federal in 1970.

**2009**

At the time of the merger in 1970, Old Mutual acquired a major shareholding in the newly formed Mutual & Federal, and later, in 2009, acquired the remaining shares.

# 2018

**On 26 June 2018**, Old Mutual Limited was **listed on the JSE Limited (JSE)**, with a standard listing on the London Stock Exchange (LSE) and secondary listings on the stock exchanges of Malawi, Namibia and Zimbabwe.

**On 26 September** Old Mutual announced the **unbundling** of its majority shareholding in Nedbank thereby concluding the managed separation process.

The Old Mutual Insure story forms part of the fabric of the South African economy. It reflects the determination and passion of various people, who skilfully negotiated many mergers and acquisitions. The golden thread, still visible today, is their thoughtful management of resources that played a vital role in the development of our local economy.

More than 18 companies have contributed to Old Mutual Insure's DNA. Each evolution brought with it a new set of skills that helped the business grow in an increasingly competitive environment. Adaptability will remain part of who we are, as we are entering a new era where diversity, openness and agility are the must-have tools for success.

## 2010

In February 2010, Mutual & Federal **became a wholly-owned subsidiary** of the Old Mutual Group.

## 2016

**Managed separation:** In March 2016, Old Mutual plc announced that the long-term interests of Old Mutual plc shareholders and other stakeholders would be best served by separating the four businesses, then owned by the Old Mutual plc Group, to operate as fully independent standalone companies: Old Mutual Emerging Markets (which included Old Mutual Insure), OM Asset Management plc (OMAM, now Brightsphere Investment Group), Nedbank and Old Mutual Wealth (now Quilter plc).

## 2017

**Rebranded** to Old Mutual Insure in June 2017, providing customers with a full range of insurance solutions under one brand.

**On 1 August 2018**, Old Mutual Insure launched **Elite**. Elite is a personal lines product for high-net-worth customers.

**On 4 October 2018**, Old Mutual Insure announced the acquisition of the underwriting management agency (UMA), **Sintelum** (previously known as Arch Underwriting Managers at Lloyds.)

# OLD MUTUAL INSURE TODAY

Old Mutual Insure pioneered insurance in South Africa, over 188 years ago.

Today, as one of the leading role players in southern Africa's short-term insurance landscape, Old Mutual Insure is proud of having a tradition of service and quality, as well as a range of products, which remain among the best in South Africa.

As part of Old Mutual Limited, Old Mutual Insure's purpose is to champion mutually positive futures, every day.

## Quick facts

Financial Sector Charter

**Level 4**

Broad–Based Black Economic Empowerment (B-BBEE) contributor

over 74% black and over 57% women

Employer of more than

**2 515**

permanent employees

### OUR PEOPLE AND CULTURE

People are valued because of the important role they play in helping us fulfil our promise to customers. There is a good combination of experience and youth in our employee profile, with continuous learning and development of talent as a key focus area.

In recent years, there has been a greater focus on diversity, equity and inclusion, which prioritised better representivity in our employee profile and enables us to build a culture that promotes inclusion.

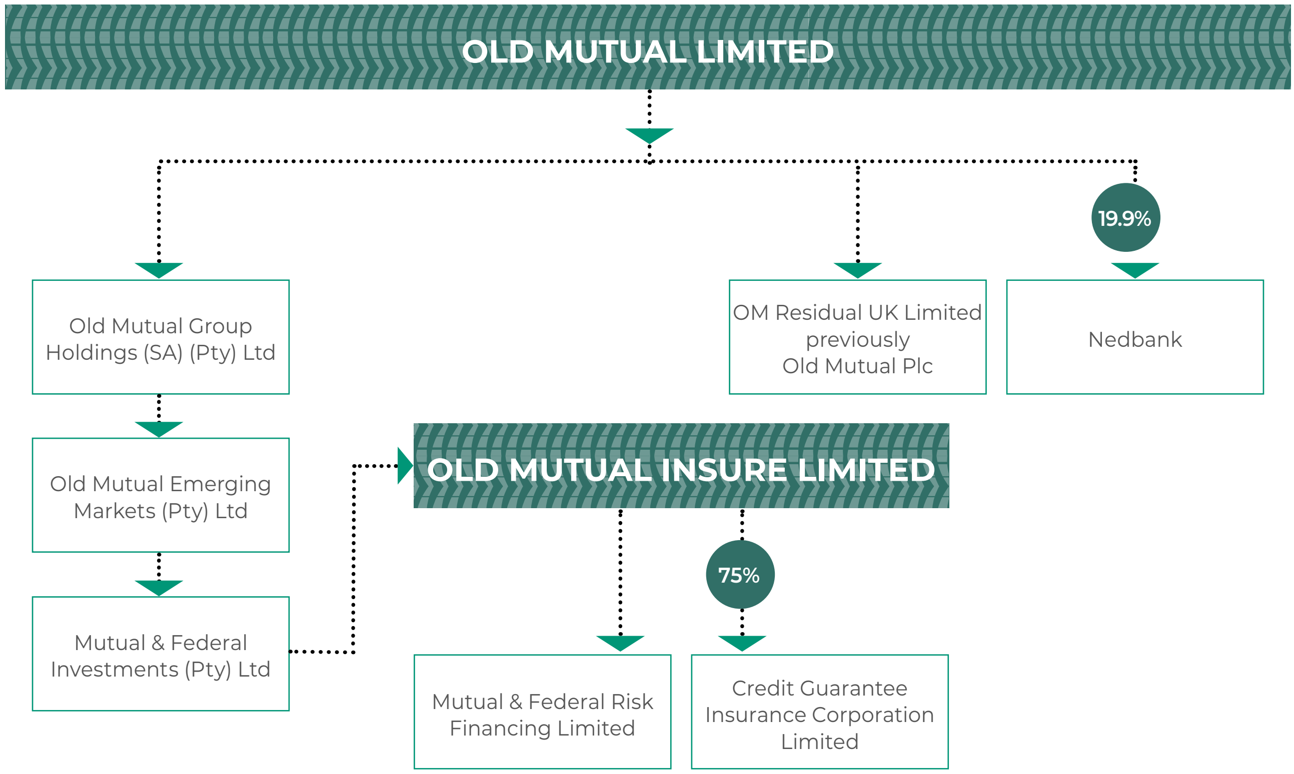
As a responsible business, we are proud of our initiatives to support and uplift the communities in which we operate: we actively take part in industry and other related initiatives to reduce youth unemployment, poverty and social ills. We also encourage and support our employees to take part in these initiatives.

At Old Mutual Insure, we understand that an increasingly volatile, uncertain, complex and ambiguous world creates opportunities. The more risk we have in the environment, the more opportunity there is for us to help customers manage those risks.

Insurance enables people to keep going – their lifestyles are maintained, despite the losses they endure. It is a way of protecting capital, investments and businesses. Therefore, we aim to enable positive futures by partnering with brokers and advisers to do great things for customers, every day.

# THE GROUP STRUCTURE

Simplified organisational structure Old Mutual Limited (post-separation)



# OUR BRAND

### OUR PROMISE

We champion individuals and businesses to be their exceptional best.

### OUR PURPOSE

Championing mutually positive futures every day.

### BRAND CHARACTER

The imagineer, resourceful, in-touch, vibrant and sincere group.

### WHAT WE DO

We champion individuals and businesses to be their exceptional best by doing great things, every day.

### HOW WE DO IT

Through genuine understanding and support we coach, motivate and enable people to become their exceptional best and provide customers with the advantage of world-class products.

### WHY WE DO IT

So that our customers have the determination, conviction and financial means to become their exceptional best.

COACH | MOTIVATE | ENABLE

### CONSUMER TRUTH

The pursuit of dreams is hard and most have no idea where to start.

### OUR POINT OF VIEW

We believe that whatever point you're at, being exceptional starts right NOW.

# OUR VALUES THAT GROUND US

## OUR COMPANY VALUES

- Always act with integrity
- Trust and accountability
- Respect for each other and the communities we serve
- Champion the customer
- Agile innovation that makes a difference
- The power of diversity and inclusion

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## THE VISION

To be our customers' most trusted lifetime partner, passionate about helping them achieve their lifetime financial goals.

# OUR BUSINESS

Old Mutual Insure partners with brokers and advisers to offer an extensive range of insurance products and solutions. Since 2010, the company also uses a direct channel, iWYZE, which successfully serves previously untapped markets. This alternative distribution channel does not detract from the importance of the intermediary channel, but rather complements it by offering customers more options to access products and services.

## Comprehensive short-term insurance offerings

Old Mutual Insure has an extensive range of short-term insurance products and solutions to fulfil personal, commercial and corporate needs. In addition, cover for short-term insurance needs in the agricultural, engineering and marine sectors can also be provided.

### Commercial

We offer insurance for small to medium-sized enterprises (SMEs), catering for all their insurance and risk needs. Our solutions include cover for business interruption, theft of money, legal liability, company fleet vehicles and fraud losses. Furthermore, we offer specialised insurance for niche businesses and professions.


### Personal

We cover personal belongings, including home, household contents and vehicles.

### Corporate

We offer asset protection, fire cover, accident cover and motor fleet insurance for mid-sized companies to large multi-national businesses.

## Agriculture

Our Agri solutions assist farmers to manage their entire business.

## Specialty

We offer other specialist areas of corporate insurance services, including engineering, credit, marine, travel, financial lines and risk-financing insurance.

## Credit guarantee

Credit Guarantee Insurance Corporation of Africa  Limited (CGIC) provides cover against payment default for companies selling goods or services to other companies on repayment terms not exceeding 180 days.

## Risk financing

Mutual & Federal Risk Financing Limited (MFRF) provides large commercial and industrial organisations with a world-class risk financing facility. The organisation follows a multi-disciplined approach to the management of risk, giving customers access to a full range of MFRF-underwritten risk financing products. MFRF enables clients to enjoy the benefits of offering bespoke insurance products, as it recognises each company's unique needs and prides itself in partnering with clients to optimise the total cost of their risk within the ambits of regulation.

02

# OUR LEADERSHIP TEAM

# CHAIRMAN'S REPORT

"THE CONTINUED FOCUS ON APPROPRIATE UNDERWRITING, EFFICIENT SUPPLY CHAIN MANAGEMENT AND IMPROVED CUSTOMER AND INTERMEDIARY EXPERIENCE, IS BEARING FRUIT."

**M Ilsley**
*Chairman*

2018 has been a year of considerable change, with a shift to positive momentum in the business of Old Mutual Insure. Factors like climate change, new insurance legislation and technological disruptors impacting the insurance industry, against a backdrop of a tightening South African economic environment and social political stressors, require us to be increasingly agile if we are to achieve our ambition of restoring our market-leading position.

At the outset, I need to record the shareholder and Board's appreciation for the remarkable contribution of Acting Chief Executive Officer (CEO), Hannes Wilken, who has brought together a cohesive and talented management team, driving an increased focus on our policyholders, our intermediary business partners and our people. The continued focus on appropriate underwriting, efficient supply chain management and improved customer and intermediary experience, is bearing fruit. This is evidenced by our company's recent rating as a leading South African insurer brand, based on improved customer satisfaction levels and the latest South African customer service index (SAcsi) score moving upwards from 77% to 79.5%. This index also depicts Old Mutual Insure as the insurer with the second-highest net promoter score in the industry, with an improvement from 33% to 38%. This rating was further underscored by SBG Securities reporting that independent financial advisers rated Old Mutual Insure as No.1 for service.

In November 2018, Hannes handed over the CEO reins to incoming Managing Director (MD), Garth Napier, but retained responsibility for the 2018 results, of which he can be justifiably proud.

Our new MD, Garth, strikes one as having an agile, curious and quick mind, coupled with good communication skills and an adaptable style. He holds a B.Com cum laude, B.Com Honours and an MBA from Harvard University. His career has developed rapidly – he spent four years at an international consulting firm, eight years at Edcon – ending as Chief Executive of the Speciality Division – and more recently, served as the MD of Pep Africa. His track record of working well with teams and executive peers, often under constrained circumstances, bodes well for Old Mutual Insure's future.

The 2018 year is also marked by the retirement of two longstanding board members:

- My sincere thanks go to outgoing Chairman, Mike Harper, who greatly assisted my transition into the Chairman's role. The Board greatly appreciates his loyal and committed service as a non-executive director over the past nine years.
- Mac Mia, one of the longest-serving directors on the Board, also retired during the year. His wise counsel will surely be missed by his fellow directors.

As Mike and Mac depart, so we welcome a new director to the Board:

- Thandeka Zondi is a chartered accountant, an entrepreneur as well as a seasoned executive and non-executive director. Aside from her financial and business acumen, she brings a unique passion and energy to the Board.

Over the past year, Old Mutual Insure has consolidated its market position and has stabilised and improved profitability as borne out by the 2018 underwriting results.

We aim to continue to develop new market offerings, target new segments, leverage off combined synergies with the wider Old Mutual Group, as well as expand our direct distribution channel, to create a platform for sustainable future profitable growth and an increase in market share. While low gross domestic product (GDP) growth in South Africa remains a challenge, we are in a strong position to leverage non-organic growth opportunities, recognising that it is critical to maintain current underwriting disciplines in pursuit of these opportunities.

And, we have the team to do it.

**Mike Ilsley**
*Chairman*

26 March 2019

# EXECUTIVE LEADERSHIP


### 1. Hannes Wilken

*Acting Chief Executive Officer*

Hannes was the Acting Chief Executive Officer for Old Mutual Insure from December 2017 to end 2018. He joined the Group in 2015 as one of three partners who engaged with Old Mutual to grow and develop direct insurance businesses of which the turnaround of iWYZE was an immediate priority. In 2017, he was appointed as the acting Chief Financial Officer (CFO) of Old Mutual Insure. Prior to joining the Group, he was the CFO of Telesure, the CEO of the Doves Group, and held a number of leadership positions at Santam, including being the acting Managing Director. He also serves as a non-executive director on the boards of Abagold and Bremer Investments. He is a registered member of the South African Institute of Chartered Accountants and holds a Master of Business Leadership (MBL) degree.

### 2. Garth Napier

*Managing Director*

Before joining Old Mutual Insure in November 2018, Garth served as the Managing Director of Pep Africa (Pepkor). Garth started off his career at McKinsey as a business analyst. After obtaining an MBA, he worked as an associate and in 2007, he was appointed as the Engagement Partner. In 2008, he joined Edcon in the Discount division as the Marketing, Business Strategy and Pricing Executive. In 2014, he was appointed the Chief Executive of the division, looking after the Jet, JetMart and Legit brands. Later in 2015, Garth was appointed the Chief Executive of the Edcon speciality division, which houses the cellular business. His experience demonstrates an understanding of consumers, consumer behaviour and the ability to manage a large number of stakeholders.

### 3. Nokuthula (Thuli) Manyoha

*Financial Director*

Thuli was appointed as Financial Director from 1 January 2018, after serving as the Head of Finance, and the Shareholders Segment CFO at MMI Holdings. She is a chartered accountant and a dynamic and seasoned leader whose experience at companies such as Deloitte has contributed to her rapid career progression. She has a proven track record in good financial management and strategic and operational excellence.

### 4. Thabile Nyaba

*Chief Risk Officer*

Thabile joined Old Mutual Insure in January 2018 and prior to this Thabile worked as a general manager for the Road Accident Fund (RAF), and also held a position as an associate director at Deloitte, responsible for partnering with organisations to become risk intelligent, to elevate risk management to be a strategic enabler, and to implement governance, risk and compliance (GRC) frameworks. Thabile previously worked at Momentum, Vodacom, Alexander Forbes, and SITA, and she has extensive and practical experience in GRC, internal audit and combined assurance in private, public and consulting sectors. She is one of the first 10 certified risk management practitioners (CRM Prac) in South Africa and is also a certified internal auditor (CIA). Thabile is currently Vice President of the Institute of Risk Management South Africa (IRMSA).

### 5. Dr. Liziwe Masoga

*Executive: People & Brand*

Liziwe joined Old Mutual Insure as the Executive for Human Resources in January 2015, after serving as the Head of People Operations at Discovery Limited. In 2018 her portfolio was expanded to include Marketing & Customer Experience. Prior to this, she worked for the Edcon Group, where she held various HR leadership roles. A psychologist by profession, Liziwe holds a PhD in Consulting Psychology and she also completed an Executive Development Programme at SAID Business School, Oxford University (London).

### 6. Dr Heydon Hall

*Chief Information Officer*

Heydon was appointed as CIO for Old Mutual Insure in October 2017. Prior to joining Old Mutual Insure, he was Group CIO of Regent Insurance. Before joining Regent Insurance, Heydon had an entrepreneurial stint as the CEO of a start-up FinTech company, running operations in six countries across Africa, after holding senior business and IT roles at Ford Motor Company and Continental Tyre AG. Heydon holds a BCom degree, an MBA from Oxford Brookes University (UK), and a Doctorate in Performance, Leadership and Change, from the University of Johannesburg.


### 7. Coenraad de Jager

*Executive: Personal, Commercial & Distribution*

Coenraad was appointed as the Executive for Personal Lines at Old Mutual Insure in October 2013. In January 2016, his portfolio expanded to include Commercial Lines and Distribution. Before joining Old Mutual Insure, Coenraad was the leading consultant on short-term insurance at Willis Towers Watson South Africa. He also held other senior roles at Absa Consultants & Actuaries, Absa Insurance Company, Absa Risk Management Services, and Absa iDirect. Coenraad holds a B.Sc. (Mathematics) from the University of the Free State and is a fellow of the Actuarial Society of South Africa.

### 8. John Nienaber

*Executive: Specialty*

John was appointed as the Executive for Specialty in July 2016. Prior to joining Old Mutual Insure, he was the CEO of ACE Insurance South Africa, where he drove the company's Africa strategy by expanding their product offering, especially in the specialist classes. John began his career at Glenrand MIB as an assistant to the MD. He has extensive experience in the financial services industry and a track record of successfully developing new products and expanding into new markets. John holds a Bachelor of Arts and Bachelor of Law degree. He has also obtained a Higher Diploma in Financial Markets and a Diploma in Finance for non-financial managers.

### 9. Hennie Nortje

*Executive: Claims Centre of Excellence*

Hennie joined Old Mutual Insure in February 2017. Prior to this he was the Chief Operating Officer (COO) of MCIS, a life insurance company in Malaysia, and a subsidiary of Sanlam, where he was responsible for turning around the operations of the company. Hennie has extensive insurance industry experience having also worked as an executive head at Santam and as Group Executive at Liberty. He is a qualified chartered accountant and holds a Master of Accounting Sciences (MCompt) degree.

### 10. Susan Dalby

*Chief Operations Officer: IWYZE, Executive*

Susan joined Old Mutual Insure as COO for Old Mutual iWYZE in March 2016, to assist with the turnaround of the business. She is also responsible for the management of the facilities portfolio for the business and for business continuity. Prior to joining Old Mutual Insure, Susan was the Executive Head looking after Customer Management, Collections and Group Communications at Telesure. She holds a Business Management degree, as well as an MBA from the University of Cardiff, Wales.

### 11. Lisa Pines

*Chief Actuary*

Lisa is Chief Actuary of the Old Mutual Insure Group, which includes Credit Guarantee Insurance Corporation (CGIC) and Mutual & Federal Risk Finance. Her previous positions include General Manager Actuarial at CGIC, founder and the MD of Willis Towers Watson South Africa's short-term insurance practice, and Director at QED Actuaries and Consultants. As a consultant, she worked with several prominent South African insurers. Lisa is a past chair of the Actuarial Society of South Africa's Short-term Insurance Committee, and currently chairs their Professional Guidance Committee.

### 12. Charles Nortje

*CGIC CEO*

Charles has held the position of CEO of CGIC (the leading trade credit insurance company in South Africa) since 2013. Prior to joining CGIC, Charles was Managing Director of the Risk Management Practice at Marsh Africa. He started his insurance career at Alexander Forbes Risk Services and also served as Marketing Director at Guardrisk. Charles is a qualified chartered accountant with over 24 years international experience in corporate risk and insurance.

# BOARD OF DIRECTORS

The Old Mutual Insure Board structure was optimised during 2018 in line with the board succession plan as well as regulatory and governance requirements in respect of board size, composition, knowledge and skills.

Old Mutual Insure is in the process of completing the board restructure which includes the appointment of a lead independent director as required by the Prudential Governance and Operational Standards for Insurers, Old Mutual Insure Board Charter and Group Governance Framework.

### Michael (Mike) Gerald Ilsley

*Chairman – non-executive director*

Mike was appointed as Chairman of Old Mutual Insure in August 2018, subject to regulatory approval. He is currently employed as an advisor to the executive directors of Old Mutual Limited and he also serves as a non-executive director on the boards of Old Mutual Finance and OM Residual UK Limited (formerly Old Mutual plc). Mike has extensive experience in governance, business, financial and short-term insurance and has operated as an executive, non-executive and independent director of a number of large listed and regulated companies in the financial services industry, including short-term insurers.


### 1. Mthandazo Peter Moyo

*Non-executive director – CEO, Old Mutual Limited*

Peter rejoined Old Mutual in June 2017 as Chief Executive Officer of Old Mutual Emerging Markets and later Old Mutual Limited, having left in 2005 to take the helm at Alexander Forbes. Before joining Old Mutual, he was a Partner at Ernst & Young, where he also served on the National Executive. Peter has held various directorships both in the public and private sector; which include chairing the Boards of Vodacom Group Limited, Willis SA Proprietary Limited, CSC SA Proprietary Limited and the audit committee of the Office of the Auditor General. He .is a founding director and shareholder of NMT Capital Group. He currently serves on the Board of Nedbank Group Limited, Advisory Board of the University of Stellenbosch Business School and is the Chairperson of Business Against Crime South Africa.

### 2. Nokuthula (Thuli) Beauty Manyoha

*Financial Director*

Thuli was appointed as Financial Director from 1 January 2018. She is a chartered accountant, and was the Head of Finance and the Shareholders Segment Chief Financial Officer (CFO) at MMI Holdings. She is a dynamic and seasoned leader whose experience at companies such as Deloitte has contributed to her rapid career progression. She has a proven track record in good financial management and strategic and operational excellence.

### 3. Gary Steven Palser

*Non-executive director*

Gary joined Old Mutual Insure's Board on 1 March 2014 as a non-executive director. He worked for Old Mutual for 36 years before retiring at the beginning of 2016. After completing his actuarial exams with the Institute of Actuaries in 1982, he was admitted as a Fellow of the Institute of Actuaries in 1984. His vast experience in the Old Mutual Group included working full time on the demutualisation project. Gary has held several senior positions within the Old Mutual Group, such as Chief Actuary for Old Mutual South Africa, culminating in him being appointed as the Risk and Actuarial Director for Old Mutual Emerging Markets.

### 4. Paul Gerardus Maria Truyens

*Independent non-executive director*

Paul was a senior manager with PricewaterhouseCoopers (PwC) in the Netherlands from 2002 to 2007. Prior to that, he enjoyed a 20-year actuarial career with Southern Life in Cape Town, ending as Chief Actuary and CFO, and a member of the Executive Directors' Committee. Paul served on the Old Mutual South Africa and Old Mutual Emerging Market boards until 2017 and currently serve on the Old Mutual Kenya and UAP Kenya boards.

| NAME | STATUS | DEGREES AND AWARDS | AGE | DATE APPOINTED |
|---|---|---|---|---|
| Mr M Ilsley (Chairman) | NED | CA(SA), B.Comm, B.Acc | 57 | 01/04/2018 |
| Mr MP Moyo (Group chief executive) | NED | Advanced Management Programme (Harvard), Higher Diploma Tax Law, CA(SA), B.Compt (Hons), CA(Zimbabwe) | 56 | 01/06/2017 |
| Mr G Napier (MD) | Exec | MBA, B.Com Acc (Hons) | 40 | 05/11/2018 |
| Ms NB Manyoha (FD) | Exec | CA(SA), B.Com (Fin acc), B.Com Fin acc (Hons) | 35 | 01/01/2018 |
| Mr G Palser (acting lead independent director) | INED | B.BusSc (Hons), FASSA | 62 | 01/03/2014 |
| Mr PC Rörich | INED | CA(SA), MBA, B.Com (Hons) | 50 | 01/09/2015 |
| Mr PGM Truyens | INED | BA, BA (Hons), BSc, FIA | 71 | 26/07/2010 |
| Ms TP Zondi | INED | B.Comm Acc (Hons), CA(SA) | 37 | 01/06/2018 |

*Exec = Executive, NED = Non-executive, INED = Independent non-executive*


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6


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## 5. Pieter Cornelius Rörich

*Independent non-executive director*

Pieter has a solid educational background in business and finance, complemented by broad work experience of more than 20 years in corporate finance, investment banking and investments as an adviser, principal investor and operational business leader. He is a qualified chartered accountant with an executive MBA from Saïd Business School, Oxford, which he passed with distinction. Pieter's extensive corporate experience included his role as acting CEO of MB Technologies, one of the largest information technology (IT) distributors in Southern Africa and Head of Investments at Royal Bafokeng Holdings. His corporate experience spans various industries, including financial services, mining and professional services companies.

## 6. Garth Napier

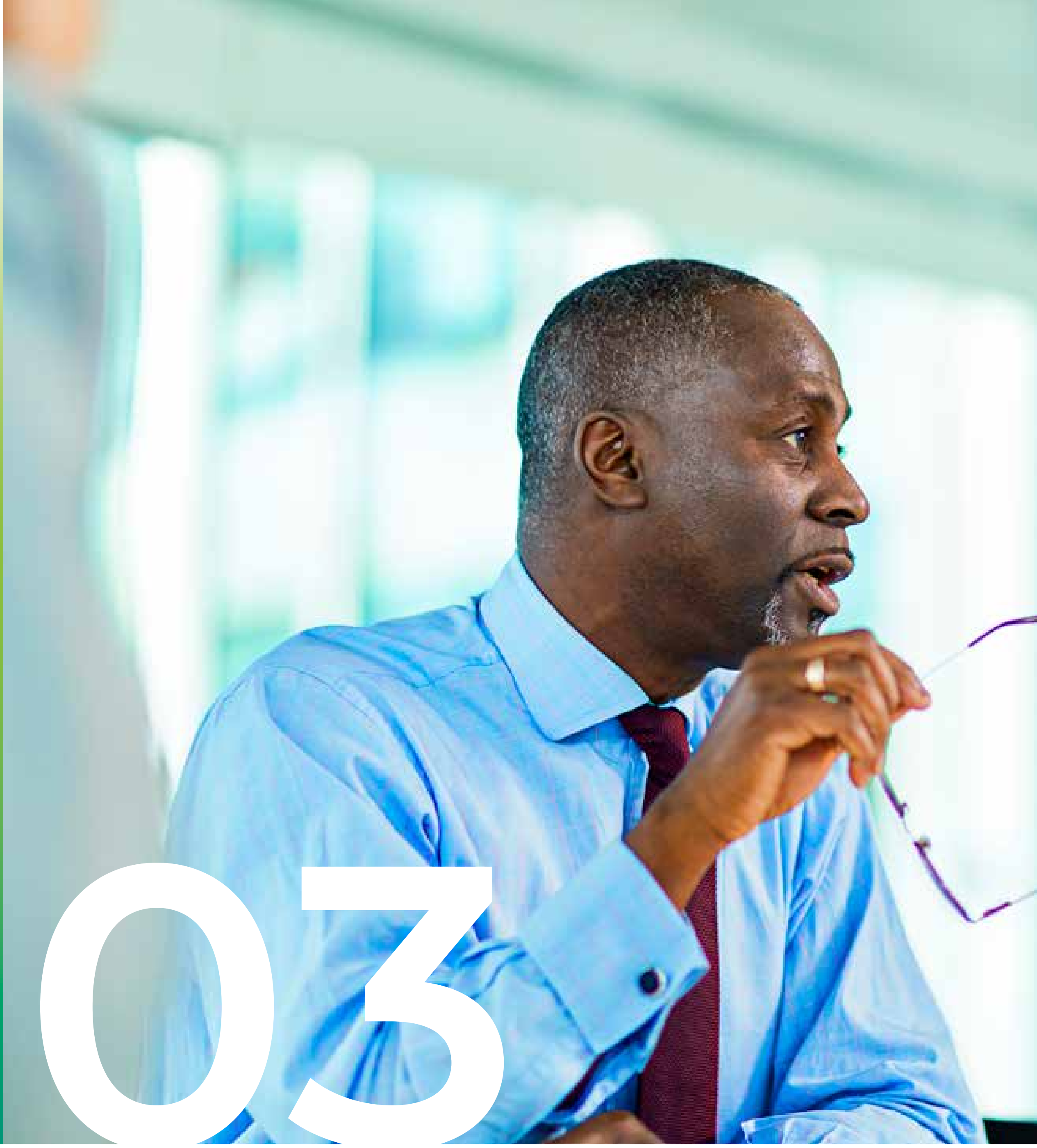
*Managing director*

Garth joined Old Mutual Insure in November 2018. He started his career at McKinsey as a business analyst, but after obtaining an MBA, he worked as an associate and in 2007, he was appointed as their engagement partner. In 2008, he joined Edcon in the Discount division, as the Marketing, Business Strategy and Pricing Executive. In 2014, he was appointed as the Chief Executive of the division, looking after the Jet, JetMart and Legit brands. Later in 2015, Garth was appointed as the Chief Executive of the Edcon Speciality division, which houses the cellular business. His experience demonstrates an understanding of customers, customer behaviour and the ability to manage a large number of stakeholders. In 2017, he was appointed as the Managing Director of Pep Africa (Pepkor), which gave him broader exposure to the African continent.

## 7. Thandeka Pamela Zondi

*Independent non-executive director*

Thandeka joined Old Mutual Insure as an independent non-executive director on 1 June 2018. She serves on the Board and as a member of the Audit, Risk and Compliance committees. Thandeka is a qualified chartered accountant, entrepreneur and seasoned executive and non-executive director. Thandeka is currently the CEO of MoneyWorks Financial Services, a digital supply chain and asset rental financing fund and platform. Thandeka is a thought-leader and speaker on strategy, technology, innovation and leadership with her unique focus on the importance of your business and/or personal value proposition to others to continue to grow in the midst of the massive changes that face everyone everyday in a business and personal context. Thandeka has also taken up independent non-executive director roles on the boards of Old Mutual SuperFund Defined Contribution Umbrella Retirement Fund, Jasco Group Ltd, Resultant Finance (Pty) Ltd, the South African Institute of Chartered Accountants, and the Gauteng Growth and Development Agency. On all the Boards she is or has participated as a member of the Audit and Risk Committee on all of them and the Chair of the Audit Committee on some. Thandeka is also a past 1st Vice President of ABASA as well as board member.



# 03

# OUR STRATEGY

# Strategic overview

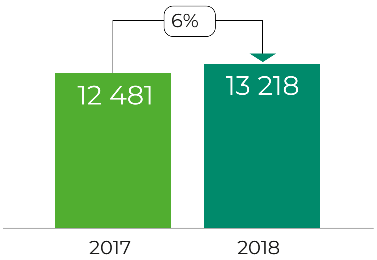
Old Mutual Insure is primarily focused on South African business, while providing support to the Group's African Property & Casualty operations. As a centre of excellence for short-term insurance across the Old Mutual Limited Group, Old Mutual Insure has acquired and developed the right skills, mobilised experienced teams, and successfully built scale in all areas of our business, including diversified product lines and enhanced risk selection.

We do this with a specific focus on:

- **Our customers** – to protect what is important to them and turn setbacks into comebacks.
- **Our intermediary business partners** – to make it easy to do business with us.
- **Our people** – to create a great place to work, where employees can achieve their career aspirations.
- **Our shareholders** – to create value by offering compelling returns to shareholders.
- **Our communities** – to be a responsible corporate citizen by being involved in initiatives that support and uplift communities, enabling positive futures.

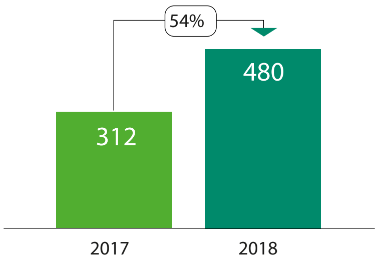
## Our results at a glance

Gross written premiums (GWP) (R million)



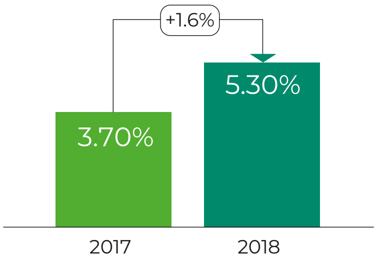

*6% increase in GWP*

Underwriting profit (R million)



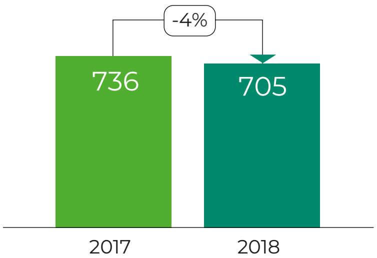

54% increase in underwriting profit

Underwriting margin (%)




*160 basis points increase in underwriting margin*

IFRS profit (R million)




*4% decrease in IFRS profit*
*Significant reduction in returns on equities*

## Financial highlights (R million)

| Old Mutual Insure | | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| GWP | Rm | 13 218 | 12 481 | 12 082 | 11 685 |
| NEP | | 9 048 | 8 409 | 8 610 | 8 866 |
| % NEP : GWP | | 68% | 67% | 71% | 76% |
| Net claims ratio | | 61% | 61% | 67% | 62% |
| Administration expenses (excl. impact of restructuring) | Rm | 1 933 | 1 581 | 1 275 | 1 567 |
| % GWP | | 15% | 13% | 11% | 13% |
| Underwriting profit | | 480 | 312 | 80 | 273 |
| Profit after tax | | 705 | 736 | 264 | 608 |

# Approach to value-creation

## As an independently listed entity, Old Mutual Limited is now a stronger business, with a clearer strategic focus and greater opportunities for sustainable growth.

Old Mutual Insure is steadily unlocking the value that lies within the Old Mutual customer base, while remaining true to its core capability of providing short-term insurance expertise. This enables us to effectively partner with our intermediary business partners and work together to make a significant difference to customers, communities and society as a whole.

Our philosophy in creating beneficial outcomes for customers and stakeholders is firmly grounded in our customer-led approach to short-term insurance. This also forms the basis of our strategy and business model.

Our commitment to being a leader in responsible business is demonstrated by embedding responsible business principles in all areas of the business, from our core operations to our day-to-day decisions.

# Stakeholder outcomes

Old Mutual Insure's Board of Directors aims to achieve high standards of effective corporate governance, integrity and ethics. The Board is assisted by senior management, enabling the business to comply with the regulatory landscape to ensure its sustainability. Governance processes are reviewed on a regular basis to reflect best practice.

Old Mutual Insure subscribes to a philosophy of providing meaningful, timely and accurate communication to its key stakeholders, based on transparency, accountability and integrity.

The following details reflect how we considered the needs, interests and expectations of its stakeholders, throughout the reporting year.

| STAKEHOLDER OBJECTIVES | NEEDS, INTERESTS, EXPECTATIONS AND ENGAGEMENTS |
|---|---|
| Offering compelling returns to the **shareholder** | Old Mutual Insure continuously engages with our shareholder. This happens on a monthly basis by presenting financial results, as well as through formal quarterly feedback on business performance, capital and risks. The Managing Director and Financial Director also meet with the shareholders on a regular basis. |
| Creating a great place to work for **employees**, while attracting, developing and retaining the required talent, as well as remunerating fairly | Old Mutual Insure believes that employees have an important role to play in delivering exceptional customer service, by effectively collaborating with their colleagues across the Old Mutual Group. It is only when employees are engaged and truly understand every part of the business that they will be empowered to satisfy customers.<br><br>Therefore, our human capital strategy is to attract, develop and retain the best talent to deliver value to stakeholders. Initiatives enabling the business strategy are:<br>• changes in the operating/business model to support delivery of exceptional service to customers<br>• building knowledge and skills in critical roles through the General Insurance Academy<br>• guiding business in the development of clear and integrated scorecards aligned with critical business deliverables<br>• embedding a new way of work, aligned with the Old Mutual Group's value proposition and with an increased focus on "We care", given the expected impact of the changes, and<br>• focusing on transformation, which includes promoting a culture that embraces diversity, equity and inclusion.<br><br>**General Insurance Academy (GIA)**<br>The GIA continues to build core and critical skills needed to turn our business performance around and bridge skills gaps in identified areas. This is measured through proficiency and workplace assessments, which track improvements across core areas like underwriting, claims and sales. Given the current economic climate, changes in the regulatory requirements and the ongoing skills shortage in the industry, adequate measures are implemented to attract, develop and retain the required skills.<br><br>Our remuneration philosophy aligns shareholder value and employee value creation. This is achieved through offering total guaranteed packages that are benchmarked in line with the industry. In addition, short- and long-term incentive schemes are based on company performance criteria being met, when individuals participate in these schemes linked to their own performance. |

| STAKEHOLDER OBJECTIVES | NEEDS, INTERESTS, EXPECTATIONS AND ENGAGEMENTS |
|---|---|
| Creating a great place to work for **employees**, while attracting, developing and retaining the required talent, as well as remunerating fairly<br><br>(Continued) | **Integrated Employee Wellness Programme (IEWP)**<br>Old Mutual Insure is committed to creating an employee experience that is aligned with the purpose of the IEWP – to optimise well-being, which is the cornerstone of a healthy company. A healthy workforce results in a more engaged workforce, with less absenteeism, lower spend on medical costs, and a greater overall social value. The company recognises the importance of employee wellness in the workplace to promote a caring and supportive working environment.<br><br>The IEWP is enhanced to support holistic wellness, through interventions that range from emotional, physical, financial and lifestyle wellbeing. Through the programme and external partnerships with healthcare service and counselling service providers, employees are able to access required healthcare services. In addition, financial wellness and supporting employees through financial education is delivered in partnership with Old Mutual Financial Advisers and Nedbank.<br><br>**Transformation**<br>Creating an environment that embraces diversity, equity and inclusion is an important focus for us. This includes working towards having a representative workforce across all levels and creating a culture where all employees have a sense of belonging, regardless of their differences. Operating in a South African context means that the issues that affect the country will also affect our employees and the company. This focus is even more important in the short-term insurance industry that has lagged in the transformation race. Old Mutual Insure's ambition is to lead the industry in this area. |
| Doing great things for **customers** every day | After the listing of Old Mutual Limited, Old Mutual Insure unveiled a vibrant new brand identity to reflect a fresh, customer-led approach. The company's role and relevance in customers' lives was strengthened. Increasingly, customers require their service providers to understand their needs and partner with them on a journey to successfully achieving these.<br><br>We believe that the integrity of our brand image and reputation is paramount. Therefore, we actively drive Treating Customers Fairly (TCF) initiatives, embedding an organisational customer-led culture. Customer-centricity is the best way to drive growth. This requires critical self-assessment to identify how we can make it easier for our intermediary business partners and customers to do business with us. To become the preferred short-term insurance provider, Old Mutual Insure aims to provide the best service across all the touch points with customers.<br><br>To ensure the sustainability of the business, we regularly engage with customers to understand and improve satisfaction levels, as well as gain insight into their needs. Our customer experience team have also launched an initiative that gives employees opportunities to do great things for customers every day, putting the personal touch back into customer service.<br><br>Finally, understanding that customer-centricity starts at home, Old Mutual Insure continues to focus on growing employees and building their knowledge, to become the learning school for the industry. |

| STAKEHOLDER OBJECTIVES | NEEDS, INTERESTS, EXPECTATIONS AND ENGAGEMENTS |
|---|---|
| Making it easier for **brokers and advisers** to do business with us | Despite the digital disruption, Old Mutual Insure believes that brokers and advisers continue to play a critical role in our success as an industry with their solid understanding of insurance, and the specific risk factors that they can effectively mitigate. The more uncertain the times, the more advice is required.<br><br>Our partnerships with these intermediary business partners are therefore a critical focus for us and we continue to engage regularly and collaborate to do great things for customers, every day. We continue to believe in the value of expert advice and how it can improve customer experience. Therefore, we continue working hard to make it easy for our intermediary business partners to do business with us. |
| Partnering with the right **suppliers** to help grow businesses | The Old Mutual Limited Group has procedures in place to make sure that it deals with ethical suppliers. The Group also interacts with its key suppliers to ensure that they have projects and processes in place to reduce their impact on the environment. |
| Complying with regulations and building closer relationships with the **Regulator** | Old Mutual Insure adheres to the latest regulations as set by the relevant South African regulatory authorities. To ensure compliance, Group company representatives interact with a wide spectrum of regulatory bodies, including the Financial Sector Conduct Authority (FSCA), Prudential Authority and the Johannesburg Stock Exchange. |
| Being a responsible corporate, involved in initiatives that support and uplift **communities** and enable positive futures | Old Mutual Insure's corporate social investment (CSI) programme focuses on activities that not only complement the business operations within the short-term insurance industry, but also align with our own transformation objectives, while addressing the hardships of communities in need. Our CSI initiatives are education-related, and address youth unemployment and agricultural socio-economic development, to make a sustainable difference in the lives of our beneficiaries. We developed a sustainable eco-system that aims to alleviate poverty and grant economic access from cradle to career.<br><br>There is a greater focus in promoting employee volunteerism, in terms of hands-on involvement and in identifying projects they want to support within their own communities.<br><br>The Old Mutual Limited Group is committed to reducing the direct and indirect impact its business activities have on the environment, especially claims suppliers. Various measures have been put in place to ensure that key suppliers reduce their impact on the environment. For example, 90% of paint used is waterborne, and most materials are recycled. Furthermore, all waste that cannot be recycled is removed daily to a landfill site (this constitutes roughly 18% of all waste generated by volume). |

# BUSINESS MODEL

HOW WE DO BUSINESS

Our business model is informed by our vision, purpose, values and governance, and supports the delivery of our strategic objectives

### PROFITABLE GROWTH

- Moderate distribution
- Product upgrade in Personal Lines and Commercial Lines
- Deliver on our direct strategy
- Restore the quality of our core commercial book
- Continuously improve/enhance claims processes
- Optimise procurement and cost-efficiency leadership
- Pursue inorganic growth opportunities

### INCREASE AND DIVERSIFY OUR LINES OF BUSINESS

- Increase and diversify Specialty and CGIC's lines of business

### IMPROVE CUSTOMER AND INTERMEDIARY EXPERIENCE

- Customer led – embed a customer service culture
- Refresh our technology offering
- Responsible business

### INVEST IN PEOPLE AND TALENT TO SUPPORT OUR BUSINESS INITIATIVES

- Win the war on talent
- Leadership and culture

OUTPUTS

OUTCOMES IN 2018

With an embedded culture of service excellence, we will deliver on our strategy and long-term key performance indicators while generating value for all our stakeholders. When making decisions on allocating capital, we consider the trade-offs, and seek to maximise positive outcomes and curb negative impacts.

## DEFINING CONCEPTS

- **Market leading** service proposition
- **Easy to do** business with us
- Deliver **differentiated and distinctive** customer experiences

- **Efficient** use of capital
- Upper end of **4% – 6% underwriting margin**
- **Sustainable growth** within our risk appetite

- Increased **market and portfolio understanding**
- **Data driven** decision-making culture
- Improved decision-making **speed and accuracy**
- Higher **agility, faster** turn-around times and **high volume change**
- Change delivered where it will have the **highest impact**
- **Efficiency** and **cost reduction**

- People are transformed, energised and able to deliver the **exciting upcoming growth phase**
- **Empowerment** of young leadership talent

**6%** GWP growth of
(2017: 3%)

**5.3%** Underwriting margin
(2017: 3.7%)

**2** new product lines rolled out
Corporate Travel, Elite (high net worth)

**4** new UMAs onboarded
Sintelum UMA (casualty and financial lines, Transition UMA (corporate property), Petrosure (motor trader), Frontline UMA (commercial and personal), Petrosure (motor trader) and Frontline

**R605m** Total dividend

**38%** Improved NPS
(2017: 33%)

**35%** Improved NES
(2017: 32%)

**20%** OSTI complaints overturn rate
(2017: 25%)

**One of the leading brands in customer satisfaction**

**Third place in the consumer category for short-term insurance (Sunday Times Top Brands survey)**

**Improved employee culture**

**Rated No. 1 for service by SBG Securities**

04

# OUR PERFORMANCE

# Managing director's report

On behalf of the Old Mutual Insure Executive Committee and all our employees, I am pleased to report that in 2018, Old Mutual Insure achieved a good financial result. This was realised with the ongoing commitment to our vision to be the short-term insurer of choice.

## Gross written premium growth

Old Mutual Insure achieved premium growth of 6% or R737 million in challenging market conditions, compared to 3% or R399 million growth in 2017.

- Premium increases were the main driver of topline growth in intermediated businesses, where profitable growth remains a challenge, reflecting the very competitive environment in our core South African market.
- The Specialty division, excluding Mutual & Federal Risk Financing (MFRF), achieved excellent growth of 44% or R483 million, driven mainly by new UMA initiatives and new inwards reinsurance treaty arrangements.
- Strong growth of 19% or R139 million was achieved by iWYZE, in highly competitive market conditions for non-intermediated general insurance players.
- CGIC reported topline growth of 5% or R55 million, despite the low real annual gross domestic product (GDP) growth, which is directly linked to CGIC's gross written premium (GWP) performance.

## Underwriting results

Old Mutual Insure achieved a 54% growth in underwriting profit of R480 million vs. R312 million in 2017, with an underwriting margin of 5.3%, compared to the 2017 net underwriting margin of 3.7%.

- The result is at the upper end of the long-term target range of between 4% and 6%.
- The Personal Lines business delivered excellent results in a year characterised by a relatively benign claims environment, with no significant catastrophe losses. The underwriting margin of the Personal Lines business was 11.6%, compared to 5.8% in 2017.
- The direct iWYZE business achieved a net underwriting margin of 7.1%, reflecting a steady increase from the 2.9% reported in 2017, which was also the first year since the start-up of this direct insurance channel that profitability was achieved.
- The Specialist business, excluding MFRF, improved from a loss of R101 million in 2017 to a loss of R46 million in 2018. The loss was due to a number of large property claims. The Specialist business delivered an improved underwriting margin due to improved reinsurance commissions on both treaty and facultative reinsurance business, as well as a reduced expense ratio.
- CGIC reported a net underwriting profit of R102 million, compared to R60 million in 2017. The large loss experience in the guaranteed bonds portfolio impacted the results negatively.

## Non-commission expenses

The Group continued with the turnaround strategy of the business through the focus on core processes hence the resultant increase in expenses which has and is expected to continue to yield increasing profits. Old Mutual Insure will continue to focus on the optimisation of the claims and procurement value chains to increase efficiency and to counter the impact of the weakening rand, as this will improve the management expense ratio in the future.

A more detailed report on the various business units follows:

## Commercial and Personal Lines

Despite subpar topline growth, the net underwriting result substantially exceeded the prior year result. This improvement shows the culmination benefits of work being done to improve the underlying risk of the portfolio, and relentless focus on claims cost-control initiatives that were put in place in 2017.

An improvement in the claims loss ratio of 0.7% to 60.7% (2017: 61.4%), displays the effect of a favourable attrition and large loss experience in the market, with lower attrition losses and no catastrophe losses, as well as the positive effect of added claims efficiencies across the division. The prior year ratios were severely impacted by the Western Cape fire and storm catastrophes, whereas no catastrophes were reported for the current year. The emphasis in the past year on optimising the claims process throughout the value chain, resulted in continued efficiency improvements.

Old Mutual Insure launched a new product within the Group, called "Elite". Elite Risk Acceptances is a wholly owned subsidiary of Old Mutual Insure and acts as a specialist underwriter, with specific focus on customised personal insurance solutions that will suit the high-net-worth market. Elite launched their innovative new offering to the market on 1 August 2018, thus contributing to topline growth. Old Mutual Insure is excited about the new relationship and is looking forward to seeing the benefits it will bring. The GWP growth is being monitored closely, as well as the accelerating development of a pipeline for future growth. The Commercial and Personal business segments will continue to focus on the delivery of an improved customer experience via the segmented intermediary value proposition and operational excellence.

## Specialty and cell captive business

The Specialty division continues to show progress in the execution of their strategy, with further improvements in premium growth in a competitive market. The Specialty division achieved strong GWP growth of 44%. The cell captive business reported an increase in GWP of 8%.

The cell captive business is pursuing new cell captive opportunities to add to the existing portfolio that will diversify the product range, which will aid future growth.

The construction industry is largely influenced by current economic conditions and more businesses are entering business rescue. Despite this, the engineering sector reported growth of 12%, compared to the prior year.

## iWYZE

The iWYZE division delivered strong growth of 19% in GWP on the back of new business offerings that were launched in the year, including direct life and other value-added product propositions. The positive result was further supported by accurate claims estimate management, claims cost containment and no catastrophe claims being reported for the year. Management remains focused in the exploration of various affinity partnerships, marketing channels and value-added products in the generation of sales. The result of these efforts is a positive underwriting ratio that underpins a solid long-term performance.

## Credit Guarantee Insurance Corporation (CGIC)

CGIC's GWP remained resilient with growth of 5% for the year. Growth in CGIC is supported by new business gaining traction, remedial action, the new fuel-guarantee product, as well as management interventions to de-risk the domestic portfolio, which include premium increases.

CGIC's underwriting performance for the year increased to R102 million, compared to the prior year profit of R60 million. CGIC's underwriting performance has been significantly impacted by large losses as a result of three construction entities being placed in business rescue. The domestic loss ratio reflects an increased trend, which can be attributed to the weak South African economic conditions.

## Outlook

Over the last year, we have made good progress on our journey to becoming the short-term insurer of choice for our partners and customers. In the year ahead, we will focus on:

1. Improving customer and intermediary service experience
2. Driving profitable growth
3. Restoring the profitability of our core insurance book
4. Diversifying our Speciality business
5. Investing in refreshing our technology offering
6. Winning the war for talent.

## Appreciation

- I want to congratulate and thank our management and all employees for their contribution to the performance of Old Mutual Insure during the year.
- A special thank you goes to Hannes Wilken who lead the organisation over the last 12 months – the leadership he provided was instrumental in Old Mutual Insure achieving these results.
- Naturally, we are also indebted to our customers and intermediary business partners for their ongoing support.
- Thank you to the Board of Directors for their timeless efforts and wise counsel during this rewarding year.
- I also extend my appreciation to the many intermediaries, old and new business partners, for their efforts in supporting us over the past year.

**Garth Napier**
*Managing Director*

26 March 2019

# Financial director's report

Old Mutual Insure reported a strong underwriting margin for the 2018 financial year. The result is at the upper end of the long-term target range of between 4% and 6%. The premium growth was satisfactory in challenging market conditions. However, the business was impacted by large losses towards the end of the financial year. Expenses were in line with expectations.

Net risk retention remained unchanged and in line with the risk appetite of Old Mutual Insure. Changes in the reinsurance structure achieved improved terms, while remaining neutral in terms of economic capital requirements.

## Financial results

Earnings attributable to equity holders declined to R671 million for the year, compared to the R719 million achieved in 2017. Underwriting profit continues to show improvement and has increased by R168 million year-on-year, supported by disciplined underwriting and efficient claims management. The investment return of R459 million has decreased substantially from the R611 million recorded in 2017 due to the weakening of the South-African equities market. Return on equity changed from 15.1% in 2017 to 17.7% in the current year due to the significant improvement in underwriting results.

## Financial results (Rm)

| OM INSURE GROUP | | 2018 | 2017 | % change |
|---|---|---|---|---|
| GWP | | 13,218 | 12,481 | 5.9% |
| Net claims ratio | | 60,7% | 61,4% | 70bps |
| Underwriting margin | 1 | 5.3% | 3.7% | 160bps |
| Net earned premium | | 9,048 | 8,409 | 7.6% |
| Underwriting results | 2 | 480 | 312 | 53.8% |
| Administration expenses (excl. impact of restructuring) | | (1,933) | (1,581) | 22.2% |
| Cost: Income ratio (GWP) | | (14.6%) | (12.7%) | (190bps) |
| ROE | | 17.7% | 15.1% | 260bps |

*[1] Underwriting margin: Net underwriting result as a percentage of net earned premium.*
*[2] The 2018 underwriting result and cost base exclude the R70 million negative effect of the accelerated vesting of Quilter and Nedbank shares due to the Old Mutual plc managed separation.*

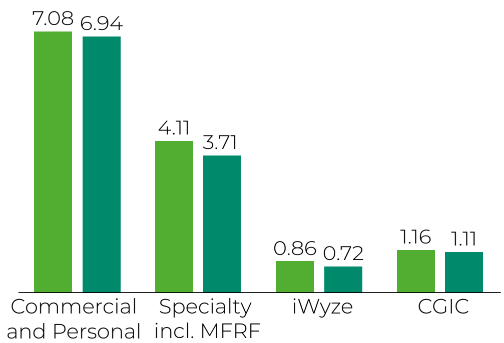
## Underwriting result

Old Mutual Insure Group achieved a net underwriting margin of 5.3% (R480 million) for the year under review, which records the highest underwriting surplus in the past five years.

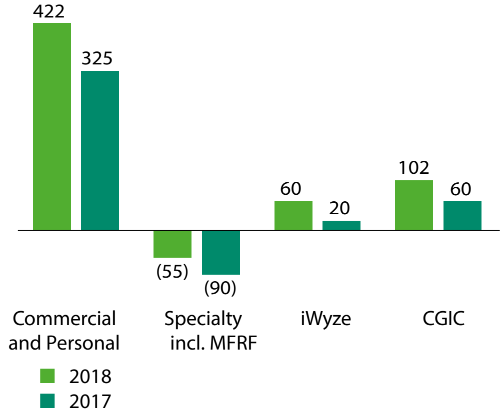
Gross written premium growth has increased by 5.9% year-on-year. This can largely be attributed to management's focused efforts to grow topline, as well as corporate actions. The growth was also attributable to rate increases during the year.

The Group continued with the turnaround strategy of the business through the focus on core processes hence the resultant increase in expenses which has and is expcted to continue to yield increasing profits.

GWP per business segment 2018 vs 2017 (R million)




Underwriting profit per business segment 2018 vs 2017 (R million)

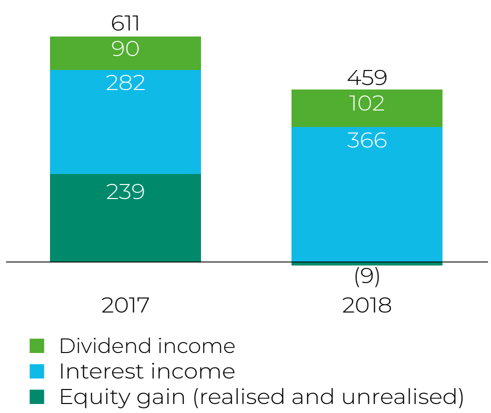



## Investment returns

The Old Mutual Insure Group's investments consist primarily of interest-bearing money market instruments and a protected equity portfolio. Interest return was negatively impacted by interest rate fluctuations. The average interest received on money market instruments during the year was 8.2% compared to 8.6% in 2017. However, interest income has increased as a result of improved cash management. Dividend income was in line with expectations.

Overall investment returns declined significantly during 2018, partly due to the decline in the equity markets. This was driven by a reduction in the protected equity portfolio of R1.7 billion in December 2017.

(R million)



## Regulatory capital

Old Mutual Insure has been calculating and tracking regulatory capital on three different regimes throughout the year.

The Financial Sector Conduct Authority (FSCA) interim measures applied during the first half of the year, and from 1 July 2018, the Prudential Authority's Solvency Assessment and Management (SAM) regulations came into effect. Prior to the Old Mutual managed separation and delisting from the LSE in June 2018, the Group was also required to calculate Solvency II capital, as required by the UK regulator.

The group met the requirements of these capital calculations.

## Capital management

The Old Mutual Insure Group capital target is 1.2 times using the SAM Deduction and Aggregation capital requirement. This implies that the Group holds a buffer over and above a 99.5% confidence level.

Old Mutual Insure Group capital is allocated to subsidiaries and lines of business, based on a combination of the risks associated with each line of business, and the SAM capital requirements for each line of business/subsidiary. Return on capital targets are set at 18% – 20%. Investment allocation and reinsurance programmes are largely based on the company's risk appetite and decisions are made considering the impact on the SAM capital requirements.

## Dividends

During the year, dividends of R229 million were paid to the shareholders from reserves. The board of directors approved a further R376 million to be paid after year-end.

## Corporate actions

During the year, the Group acquired the shareholding of Sintelum, previously Arch Underwriting Managers at Lloyd's (South Africa). The company strategically compliments the existing commercial property risks.

A non-mandated intermediary was incorporated into the group. Elite Risk Acceptances was launched in August 2018 and supports a new personal lines product for high-net-worth customers.

New underwriting managers were introduced to Old Mutual Insure during the year. These include Transition Risk Solutions, Petrosure and Frontline.

The Group is well placed to leverage off these relationships in the 2019 financial year.

The company has signed an agreement to sell its head office building in Johannesburg to a third party purchaser. The sale will be concluded in the new year once all suspensive conditions in the agreement are met.

Thuli Manyoha
*Financial Director*

26 March 2019


# CORPORATE GOVERNANCE


FRON
ADULT
43+KG

## Corporate Governance and King IV statement of commitment

The Old Mutual Insure Board of Directors is ultimately responsible for the effective governance and overall success of the Old Mutual Insure Group of companies. Its role is to provide entrepreneurial leadership for the Group within a framework of prudent and effective controls, which enables risks to be assessed and managed. The Board has to oversee insurance operations of the Group and needs to ensure compliance with all statutory and regulatory requirements. The Board confirms its commitment to achieving high standards of corporate governance within the Group.

Old Mutual Insure is a licensed short-term insurer and wholly-owned subsidiary of Old Mutual Limited, which is a JSE listed entity. During the year, ahead of its listing, Old Mutual Limited established a Group Governance Framework (GGF) which complies with King IV™. This framework outlines the governance requirements for the newly listed Group and its subsidiary entities. The Group is in compliance with King IV and requires that its subsidiaries comply with King IV governance outcomes through application of the principles as set out in the code.

The Old Mutual Insure board is satisfied that during 2018, it complied with the GGF, and has applied the King IV principles on the same basis as the Group. Refer to the full Governance Report 2018 on our corporate website for a full detail of the application and explanation of King IV requirements.

## Leading ethically and effectively

The governing members of Old Mutual Insure bring a diverse range of skills to the Board and have the integrity, skills to provide insight and strategic direction to the company. Only individuals with sound ethical reputations and business or professional acumen, and who have sufficient time to effectively fulfil their role as a Board member, are considered for appointment to the Board.

The purpose of committee work is derived from the Board's responsibility to all stakeholders to ensure that they comprise of individuals who are best able to exercise their responsibilities, having due regard to the law and the highest standards of governance. The Board and Board Committees consist of individuals with the necessary skills and experience to lead Old Mutual Insure.

The Board acts in good faith at all times and leads the company with integrity, fairness and transparency. The Chairman, who is a non-executive director, is principally responsible for the effective operation of the Board. To this end, Old Mutual Insure has appointed a lead independent director to meet its regulatory requirements and internal governance rules.

Specific functions have been delegated to committees to assist in meeting the Board's oversight responsibilities. The roles and responsibilities of each committee are set out in the terms of reference. Each committee will review and assess the adequacy of the terms of reference annually and recommend changes to the Board when necessary. All committees are chaired by independent non-executive directors.

Members of the Board regularly attend industry updates, training and seminars. Regular Board training is provided to members to keep them abreast of industry developments relevant to Old Mutual Insure.

## Board Charter

The Board operates in terms of a Board Charter, which defines its functions and responsibilities.

The Board's responsibility to ensure best practice in ethical governance is entrenched in the Board Charter. The charter delineates the powers of the Board, which ensures an appropriate balance of power and authority. A fundamental theme of the Charter is that the Board must provide effective leadership on an ethical foundation and ensure that the company is and is seen to be a responsible corporate citizen by having regard to not only the financial aspects of the business of the company, but also the impact that business operations have on the environment and the society within which it operates.

## Board and Board committee meetings

Director meeting attendance is as follows for Board and Board committee meetings.

| Director | | Board | Audit committee | Risk and compliance committee |
|---|---|---|---|---|
| Mr MJ Harper (former chairman) | 1 | 2/2 | | |
| Mr M Ilsley (Chairman) | 2 | 3/3 | | |
| Mr MP Moyo (Group chief executive) | | 3/4 | | |
| Mr G Napier (MD) | 3 | 1/1 | | |
| Ms NB Manyoha (FD) | | 4/4 | | |
| Mr M Mia | 4 | 2/2 | 2/2 | |
| Mr G Palser (acting lead independent director) | 5 | 1/1 | | 1/1 |
| Mr PC Rörich | | 4/4 | 4/4 | 4/4 |
| Mr PGM Truyens | | 4/4 | 4/4 | 4/4 |
| Ms TP Zondi | 6 | 2/2 | 2/2 | 2/2 |

*1 Mr MJ Harper resigned on 31 July 2018*
*2 Mr M Ilsley was appointed effective 1 April 2018*
*3 Mr Napier was appointed 5 November 2018*
*4 Mr Mia resigned 3 May 2018*
*5 Mr Palser was on approved sabbatical in the USA*
*6 Ms Zondi was appointed 1 June 2018*

*Note: JW Wilken was appointed interim Chief Financial Officer from 1 June 2017 to 30 November 2017, and was appointed as Acting Chief Executive Officer from 1 December 2017 to 31 October 2018.*

## Corporate governance

Governance is actively promoted at Board level and drives sustainable performance and value within Old Mutual Insure. The Board of Old Mutual Insure is responsible for providing leadership for corporate governance and is the ultimate custodian of corporate governance within the company.

Board appointments are effected in consultation and with pre-approval by the OML Corporate Governance and Nominations Committee (in the case of independent non-executive directors). As part of the implementation of the GGF, the Old Mutual Insure Board adopted the OML Board Appointment and Diversity Policy to ensure that there is adequate representation on the Board.

The Board is the focal point of corporate governance of an ethical culture, good organisational performance, effective control, and organisational legitimacy.

## Balance of knowledge, skills, experience, diversity and independence

The efficacy of the Board depends on its composition and an appropriate balance of skills, power and authority on the Board. The Board, through the Old Mutual Limited Corporate Governance and Nominations Committee, has assumed responsibility to independently review and monitor the integrity of the Group's non-executive director nomination and appointment processes. The Board determines its composition by setting the direction and approving the processes for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively execute its governance role and responsibilities.

The Governance and Nomination Committee considers the appropriate balance of knowledge, skills and experience, mix of executive, non-executive and independent non-executive directors, as well as the need for a sufficient number of members who qualify to serve on the committees of the Board. As at 31 December 2018, the Board comprised eight directors, six non-executive directors and two executive directors. Of the six non-executive directors, three are independent.

Appointments to the Board are formal and transparent and are a matter for the Board of Directors as a whole, in consultation with the Old Mutual Limited Corporate Governance and Nominations Committee. This committee makes recommendations to the Board for:

- plans for succession for the Managing Director (MD) and the direct reports of the MD,
- the appointment of any non-executive director, other than the Chairman, and
- membership of the committees of the Board, taking into consideration the relevant legal requirements and skills necessary to perform the delegated functions.

## Board delegation

The Board delegates functions to committees to assist in meeting its mandated duties and responsibilities. Formal terms of references exist for each committee. However, ultimate responsibility rests with the Board and the Board does not abdicate its responsibility to the committees. The committee chairpersons report back at quarterly meetings as to how the committees have carried out their responsibilities.

The Board ensures that each committee, as a whole, has the necessary knowledge, skill, experience and capacity to execute its duties effectively. Executive members and senior management are invited to attend committee meetings either by standing invitation or on an ad-hoc basis to provide feedback on their areas of responsibility.

## Board committees

The Remuneration and Nomination Committee as well as Social, Ethics and Transformation Committees were collapsed in 2018 and their functions delegated to the relevant Group committees, in line with the requirements of the GGF. The remaining Board committees are the Audit Committee and Risk and Compliance Committee.

### Audit Committee

The Audit Committee is chaired by Pieter Rörich, an independent non-executive director. The committee mandate primarily concerns the effectiveness of the company's internal system of control to ensure the integrity of internal and external financing reporting. It reviews the accounting policies and judgements used to prepare financial statements for compliance with the International Financial Reporting Standards (IFRS), legal requirements (Companies Act), and, when relevant, group accounting standards. The committee oversees and directs the work of internal audit and considers findings by the function and holds management accountable to address these. The appointment and remuneration of external audit is mandated to the committee, and part of its responsibility is to assess the independence of the function.

### Risk and Compliance Committee

The Risk and Compliance Committee is chaired by Paul Truyens, an independent non-executive director. This committee assists the Board in:

- ensuring the key risks facing the business are identified, managed and monitored on an ongoing basis, as well as
- setting risk appetite and tolerances (and monitoring adherence against these on a regular basis).

The solvency assessment and management (SAM) regulatory framework is consolidating many aspects of the committee's mandate in the own risk and solvency assessment report. This report deals with all aspects relevant to the committee's mandate, including risk appetite, risk monitoring and capital management.

The following committees are centralised at Group and perform specific functions on behalf of the Company. All committees are chaired by independent non-executive directors. The terms of reference of these committees can be found at https://www.oldmutual.com/about/governance/board-committees.

### Remuneration Committee

The Old Mutual Limited Remuneration Committee has oversight and ensures that all OML group companies comply with all remuneration and risk-related principles as set out in the adopted GGF.

### Corporate Governance and Nominations Committee

The Old Mutual Limited (OML) Corporate Governance and Nominations Committee was established to independently review and monitor the integrity of the overall Old Mutual Group's non-executive director nomination and appointment processes. The Committee reviews and monitors the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the Old Mutual group of companies, ensuring that the entities within OML over which it has oversight, comply with the Group Governance Framework.

### Responsible Business (incorporating Social and Ethics) Committee

The OML Responsible Business (incorporating Social and Ethics) Committee is constituted to, among other things, assist the Board in ensuring that Old Mutual and the other entities in the Old Mutual group of companies (the Group) are and remain committed, socially responsible corporate citizens by creating a sustainable business and having regard to the Company's economic, social and environmental impact on the communities in which it operates.

### Technology and Platforms Committee

The Technology and Platforms Committee was established to have strategic oversight and governance of the Company's strategic investment in IT, as well as data protection and information management.

## Company Secretary

The Company Secretary appointed to the Board is Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), a fellow subsidiary within the Group. The Company Secretary for OMLACSA is Ms Elsabé Kirsten. A representative of OMLACSA is always in attendance at all Board and committee meetings during the year. All directors have had unlimited access to the Company Secretary during the year.

## Board evaluation

The Board assumes responsibility for the evaluation of its own performance and that of its committees and members. In line with the Board Charter, the Board has absolute responsibility for the performance of the company and is accountable for such performance and, therefore, continually strives to improve its performance and effectiveness for the benefit of Old Mutual Insure.

## Leadership roles

The responsibilities of the Chairman and Managing Director are clearly defined and separated, as set out in our Board Charter. While the Board may delegate authority to the Chief Executive Officer, the separation of responsibilities is designed to ensure that no single person or group can have unrestricted powers and that appropriate balances of power and authority exist on the Board.

# 06

# ANNUAL FINANCIAL STATEMENTS

# GENERAL INFORMATION

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Nature of business and principal activities** | Short-term insurance |
| **Directors** | Mr M Ilsley (Chairman)<br>Mr MP Moyo (Group chief executive)<br>Mr G Napier (MD)<br>Ms NB Manyoha (FD)<br>Mr G Palser (acting lead independent director)<br>Mr PC Rörich<br>Mr PGM Truyens<br>Ms TP Zondi |
| **Registered office** | 19th Floor, Old Mutual Insure Centre<br>75 Helen Joseph Street<br>Johannesburg<br>2000 |
| **Postal address** | PO Box 1120<br>Johannesburg<br>2000 |
| **Holding company** | Mutual & Federal Investments Proprietary Limited incorporated in South Africa |
| **Ultimate holding company** | Old Mutual Limited incorporated in South Africa |
| **Auditor** | KPMG Inc.<br>Chartered Accountants (SA)<br>Registered Auditors |
| **Prepared by** | A van Heerden Chartered Accountant (SA)<br>Head of Finance Old Mutual Insure Limited |

# CONTENTS

# REPORT OF THE AUDIT COMMITTEE

## Introduction

The Old Mutual Insure Limited audit committee is a group audit committee. The audit committee acts as such for the following companies of the group where an audit committee is required in terms of the Companies Act: Old Mutual Insure Limited, Credit Guarantee Insurance Corporation of Africa Limited (CGIC) and Mutual and Federal Risk Financing Limited (MFRF).

## Composition and charter

The committee comprises three independent non-executive directors of the company. The current members are Mr PC Rörich (Chairperson), Mr PGM Truyens and Ms T Zondi. The qualifications of the members of the committee are listed on pages 18 and 19 of the governance report. The members possess the necessary expertise to direct the committee in the execution of its duties.

The committee has a charter, approved by the board, dealing, *inter alia*, with its membership, frequency of meetings and responsibilities. The committee reviews reports from the external and internal auditors and the chairman of the committee reports on the findings at board meetings.

## Role of the audit committee

The committee performed its function required in terms of the Companies Act and executed its responsibilities in accordance with its terms of reference. The committees performed among others, the following functions:

- Reviewed the procedures for identifying business risks and controlling their impact on the group.
- Reviewed the group policies and procedures for detecting and preventing fraud.
- Reviewed the operational effectiveness of the group policies, systems and procedures.
- Reviewed the results of the work performed by the internal audit function on financial reporting, corporate governance, internal control and any significant investigations and management's responses.
- Reviewed significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by the company or its employees as reported by management.
- Reviewed any other relevant matters referred to it by the board of directors.
- Reviewed the quality of financial information.
- Reviewed the financial statements taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and future viability of the group.
- Reviewed the external auditor's report.
- Discussed problems and reservations arising from the external audit, and any matters the external auditor wished to discuss (in the absence, where requested by the committee, of executive directors and any other person who is not a member of the committee).

## Effectiveness of internal financial controls

The audit committee has confirmed that effective systems of internal control and risk management are being maintained. There were no breakdowns in the functioning of the internal financial control systems during the year which had a material impact on the annual financial statements.

## Internal and external audit

The committee nominates the independent external auditor for appointment by the shareholders and approves the terms of engagement and remuneration for the external audit engagement. The audit committee is satisfied that KPMG and the audit partner are independent. The external auditors provided assurance that their internal governance processes within their audit firm support and demonstrate their claim to independence. KPMG has been the auditors of the group for 48 years and Mr M Danckwerts the audit partner for two years. The committee is satisfied with the quality of the external audit engagement.

There were no significant non-audit services performed by the external auditors in the current year.

The head of internal audit functionally reports to the chairman of the audit committee and the audit committee is responsible to review and approve the internal audit charter, the internal audit coverage as well as resource and financial plans of the internal audit department. The committee evaluates and promotes the independence of internal audit. The audit committee is satisfied with the effectiveness of the internal audit arrangements and function.

## Meetings

The committee held four scheduled meetings during the year under review. The required quorum was present at all meetings held.

Meetings of the year and attendance thereat:

| Name | 20 February 2018 | 25 April 2018 | 14 August 2018 | 23 November 2018 |
|---|---|---|---|---|
| PC Rörich | x | x | x | x |
| PGM Truyens | x | x | x | x |
| M Mia (resigned 3 May 2018) | x | x | | |
| T Zondi (appointed 1 June 2018) | | | x | x |

## Expertise and experience of the financial director and the finance team

The committee is satisfied that the expertise of the financial director is appropriate to meet the responsibilities of the position. The committee considered the expertise, resources and experience of the finance function and concluded that these are appropriate to meet the requirements of the group.

## Approval of the report

The audit committee reviewed the 2018 report and considered factors and risks that may impact on the integrity of the report. The committee has reviewed the annual financial statements and is satisfied that they are prepared in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied. The audit committee has considered the conclusions of independent assurance providers in reviewing the relevant sections of the financial statements. The committee is satisfied that the arrangements are in place for a combined assurance and that it was effective throughout the year.

The committee is satisfied that it had fulfilled its responsibilities in terms of its charter during the year under review and believes that it complied with its legal, regulatory and other responsibilities for the year.

On behalf of the audit committee

**PC Rörich**
*Chairman Audit Committee*

# DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the group and company annual financial statements and related financial information included in this report. It is their responsibility to ensure that the group and company annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the group and company financial statements.

The group and company financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the group and company annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's budget for the year ending 31 December 2019 and the group's business and capital plans for the three years ending 31 December 2021, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the group and company financial statements. The group and company financial statements have been examined by the group's external auditor and their report is presented on page 58.

The group and company annual financial statements set out on pages 1 to 155 which have been prepared on the going-concern basis, were approved by the board of directors on 26 March 2019 and were signed on their behalf by:

**Approval of annual financial statements**

| | |
|---|---|
| **Authorised Director** | **Authorised Director** |

# COMPANY SECRETARY'S CERTIFICATION

In terms of Section 88(2)(e) of the Companies Act, I certify that the group has lodged with the Commissioner all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

**Old Mutual Life Assurance Company (South Africa) Limited**

# DIRECTORS' REPORT

The directors have pleasure in submitting their report on the group and company annual financial statements of Old Mutual Insure Limited for the year ended 31 December 2018.

## 1. Nature of business

Old Mutual Insure Limited was incorporated in South Africa with interests in the insurance industry. The activities of the group are undertaken through the company and its principal subsidiaries, associates and joint arrangements. The group operates in South Africa, Zimbabwe and Mauritius.

There have been no material changes to the nature of the group's business from the prior year.

## 2. Review of financial results and activities

The group and company annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The accounting policies have been applied consistently compared to the prior year. New accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been adopted.

Full details of the financial position, results of operations and cash flows of the group are set out in these group and company annual financial statements.

## 3. Share capital

| Authorised | Number of shares 2018 | 2017 |
|---|---|---|
| Ordinary shares of R0.1 each | **350,000,000** | 350,000,000 |

| Issued | 2018 Rm | 2017 Rm | Number of shares 2018 | 2017 |
|---|---|---|---|---|
| Ordinary shares of R0.1 each | **32** | 32 | **319,823,465** | 319,823,465 |

There have been no changes to the authorised or issued share capital during the year under review.

## 4. Dividends

The company's dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the board of directors may consider a special dividend, where appropriate.

The board of directors recommended the approval of dividends of R229,000,000 (2017:R1,225,000,000). This was approved and paid during the year. The board of directors approved a final dividend of R376,000,000 to be paid after year end.

## 5. Directorate

The directors in office during the year and at the date of this report are as follows:

| Directors | Designation | Nationality | Changes |
|---|---|---|---|
| Mr MJ Harper (former chairman) | Non-executive | South African | Resigned 31 July 2018 |
| Mr M Ilsley (Chairman) | Non-executive | South African | Appointed 1 April 2018 |
| Mr MP Moyo (Group chief executive) | Non-executive | South African | |
| Mr G Napier (MD) | Executive | South African | Appointed 5 November 2018 |
| Ms NB Manyoha (FD) | Executive | South African | Appointed 1 January 2018 |

| Directors | Designation | Nationality | Changes |
|---|---|---|---|
| Mr M Mia | Non-executive | South African | Resigned 3 May 2018 |
| Mr G Palser (acting lead independent director) | Non-executive | South African | |
| Mr PC Rörich | Non-executive | South African | |
| Mr PGM Truyens | Non-executive | Dutch | |
| Ms TP Zondi | Non-executive | South African | Appointed 1 June 2018 |

## 6. Holding company

The group's holding company is Mutual & Federal Investments (Proprietary) Limited which holds 100% (2017: 100%) of the group's equity. Mutual & Federal Investments (Proprietary) Limited is incorporated in South Africa.

## 7. Ultimate holding company

The group's ultimate holding company is Old Mutual Limited which is incorporated in South Africa.

## 8. Events after the reporting period

No events have occurred after the reporting period that affect the results or financial position for the year ended 31 December 2018.

## 9. Going concern

The directors believe that the group has adequate financial resources to continue in operation for the foreseeable future and accordingly the group and company financial statements have been prepared on a going-concern basis. The directors have satisfied themselves that the group is in a sound financial position. The directors are not aware of any new material changes that may adversely impact the group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

## 10. Auditors

KPMG Inc. continued in office as auditors for the company and its subsidiaries for 2018.

# INDEPENDENT AUDITOR'S REPORT

To the shareholder of Old Mutual Insure Limited

## Report on the audit of the Consolidated and Separate Financial Statements

### Opinion

We have audited the consolidated and separate financial statements of *Old Mutual Insure* Limited (the group and company) set out on pages 58 to 154, which comprise the Statements of Financial Position as at 31 December 2018, and the Statements of Profit or Loss and Other Comprehensive Income, the Statements of Changes in Equity and the Statements of Cash Flows for the year then ended, and a summary of significant accounting policies and the notes to the financial statements.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Old Mutual Insure Limited as at 31 December 2018, and its consolidated and separate financial performance and 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.

### 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 are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter for the consolidated and separate financial statements is set out below:

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Valuation of the Incurred But Not Reported ('IBNR') liability<br>Refer to notes 1.18, 2, 4.1.2, 20 | |
| At each year-end, the group and company estimate insurance claims that have been incurred before year-end but will only be reported after year end. The total value of the group's gross IBNR liability is R958 million (company: R386 million), as disclosed in note 20.<br><br>The calculation of this IBNR liability is subject to inherent uncertainty and significant judgement is required. In determining the IBNR liability, the group and company used patterns established in prior years and assumed that the historical claims development pattern will occur again in future, adjusted for current year developments. The group and company used actuaries to interrogate the claims development data and to establish the percentages to be applied against premium to determine the IBNR liability. | The key procedures we undertook to address the valuation of the IBNR liability included:<br><br>– We evaluated the reasonableness of current year IBNR liability estimates by comparing them to prior years' estimates which we had evaluated as being reasonable based on a retrospective calculation of the actual IBNR liability;<br><br>– We used our actuarial specialists to evaluate the work of management's actuaries in determining the IBNR liability. This included the evaluation of the methodologies, models and key assumptions applied along with the consistency of the approach from the prior year;<br><br>– Our actuarial specialists independently recalculated the IBNR liability. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| This matter is a key audit matter due to the inherent uncertainty and significant judgements required in the actuarial modelling process. | – We tested the claims development data supporting the IBNR percentages used by management and our actuarial specialists, by agreeing the data in the actuarial reports to data on the underlying system; and<br>– Transactional claims data were agreed to claim files, on a sample basis. These files included third party correspondence which supported the initial insurance claim estimate and the changes thereto processed by management.<br>– We tested the operating effectiveness of the review control over the reconciliation of the liability data from the actuarial provisioning system to the general ledger. |

The key audit matter for the separate financial statements is set out below:

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Valuation of the investments in subsidiaries<br>Refer to 2, 4.2.4, 10 | |
| At each year-end, the company estimates the value of its investments in subsidiaries. The total value of the company's investment in subsidiaries is R1.592 million, as disclosed in note 10.<br>The valuation is subject to inherent uncertainty and significant judgement is required in deriving the assumptions used in the valuation model. In determining the estimated values of the subsidiaries, the company uses a discounted earnings model or net asset value if the net asset value approximates fair value. The valuation model used is sensitive to the projected business plans as well as the risk-adjusted discount rates used.<br>This matter is a key audit matter due to the significant judgements applied in the determination of the fair values of investments in subsidiaries. | The key procedures we undertook to address the valuation of investment in subsidiaries included:<br>– Our valuation specialists assessed the key assumptions underlying the estimates of these unlisted subsidiaries;<br>– We tested the inputs into the discounted earnings model by agreeing the data (e.g. cash flows, net working capital) to approved business plans of the subsidiaries and assessed the appropriateness of the business plan in the context of the South African market. Previous budgets prepared were compared to actual results, and the key drivers in the forecasts were compared to our independent expectations, which are based on historical experience.<br>– Using independent discount rates and assumptions, we compared our range of determined fair values to those used by management; and<br>– We assessed that the approach used by management to determine the values of the investments in subsidiaries has not changed from the prior year. |

## Other Information

The directors are responsible for the other information. The other information comprises the Company Secretary's Certification, the Report of the Audit Committee and the Directors' Report as required by the Companies Act of South Africa and the general information, Directors' Responsibilities and approval and the rest of the information contained in the Annual Report. Other information does not include the consolidated and 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 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's 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 the 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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 KPMG Inc. has been the auditor of Old Mutual Insure Limited for 48 years.

**KPMG Inc.**
*Registered Auditor*

**Per Mark Danckwerts**
*Chartered Accountant (SA)*
*Registered Auditor*
*Director*

29 March 2019

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|---|
| Gross written premiums | | **13,218** | 12,481 | **9,511** | 8,751 |
| *Less:* Reinsurance premiums | | **(4,148)** | (3,996) | **(1,320)** | (1,120) |
| Net written premiums | | **9,070** | 8,485 | **8,191** | 7,631 |
| Change in provision for unearned premiums | 21 | **(22)** | (76) | **(12)** | 16 |
| Gross amount | | **(175)** | (70) | **(156)** | 15 |
| Reinsurers' share | | **153** | (6) | **144** | 1 |
| Earned premiums | | **9,048** | 8,409 | **8,179** | 7,647 |
| Commission income | 29 | **792** | 667 | **236** | 159 |
| **Net income** | | **9,840** | 9,076 | **8,415** | 7,806 |
| Net claims incurred | 31 | **(5,495)** | (5,160) | **(4,941)** | (4,925) |
| Gross amount | | **(8,839)** | (9,024) | **(5,942)** | (6,604) |
| Reinsurers' share | | **3,344** | 3,864 | **1,001** | 1,679 |
| Acquisition costs | 32 | **(1,932)** | (2,023) | **(1,351)** | (1,496) |
| Administration expenses | 33 | **(2,003)** | (1,581) | **(1,815)** | (1,123) |
| **Profit before investment returns** | | **410** | 312 | **308** | 262 |
| Net investment returns | 30 | **459** | 611 | **10** | 686 |
| Investment returns | | **459** | 589 | **319** | 461 |
| Fair value adjustments and gains on disposal of subsidiaries | | **–** | 22 | **(309)** | 225 |
| Finance costs | | **(51)** | (1) | **(51)** | (9) |
| Share of profits from associates | 11 | **96** | 27 | **–** | – |
| **Profit before taxation** | | **914** | 949 | **267** | 939 |
| Taxation | 34 | **(209)** | (213) | **(143)** | (157) |
| **Profit for the year** | | **705** | 736 | **124** | 782 |
| **Other comprehensive income before taxation:** | | | | | |
| Property revaluation[#] | | **–** | (12) | **(5)** | – |
| Foreign currency translation reserve* | | **(36)** | (2) | **–** | – |
| Remeasurement on defined benefits plans* | | **6** | (5) | **1** | (4) |
| | | **(30)** | (19) | **(4)** | (4) |
| Income tax relating to items that are not reclassified | | **–** | 6 | **–** | – |
| **Total comprehensive income for the year** | | **675** | 723 | **120** | 778 |

| | Notes | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|---|
| **Profit attributable to:** | | | | | |
| Owners of the parent | | **671** | 719 | **124** | 782 |
| Non-controlling interest | | **34** | 17 | **–** | – |
| | | **705** | 736 | **124** | 782 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the company | | **641** | 706 | **120** | 778 |
| Non-controlling interest | | **34** | 17 | **–** | – |
| **Total comprehensive income for the year** | | **675** | 723 | **120** | 778 |
| **Earnings attributable to equity shareholders** | | | | | |
| **Earnings per share (cents)** | | | | | |
| Basic earnings per share | | **209** | 224 | **39** | 245 |
| Diluted earnings per share | | **209** | 224 | **39** | 245 |
| Weighted average number of ordinary shares (millions) | | **320** | 320 | **320** | 320 |
| Weighted average number of ordinary shares or diluted earnings per share (millions) | | **320** | 320 | **320** | 320 |
| **Headline earnings per share (cents)** | 39 | **210** | 228 | **40** | 244 |
| **Diluted earnings per share (cents)** | | **210** | 228 | **40** | 244 |
| **Dividends per share (cents)** | | **70** | 383 | **70** | 383 |

**Items are not reclassified into profit or loss.*
*#Items are reclassified into profit or loss.*

# STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| **Assets** | | | | | |
| Goodwill | 15 | **21** | – | **–** | – |
| Intangible assets | 16 | **162** | 161 | **162** | 161 |
| Property and equipment | 17 | **129** | 253 | **120** | 245 |
| Deferred taxation | 19 | **67** | 71 | **46** | 50 |
| Investments in subsidiaries | 10 | **–** | – | **1,548** | 1,836 |
| Investments in associates | 11 | **104** | 113 | **13** | 14 |
| Loans to share trusts | 13 | **7** | 7 | **84** | 84 |
| Interest in employee share trusts | 12 | **–** | – | **611** | 566 |
| Loans and advances | | **1** | 4 | **1** | 4 |
| Post-retirement benefit reimbursement assets | 22 | **223** | 235 | **160** | 170 |
| Deferred acquisition costs | 6 | **231** | 200 | **158** | 123 |
| Reinsurers' share of general insurance liabilities | 21 | **2,574** | 2,340 | **1,553** | 1,346 |
| Deposits with cedants | | **27** | 25 | **–** | – |
| Investments and securities | 14 | **6,297** | 5,539 | **3,508** | 3,463 |
| Amounts due from agents and reinsurers | 7 | **1,618** | 2,118 | **1,270** | 1,693 |
| Subrogation and salvage recoveries | 8 | **646** | 653 | **275** | 287 |
| Non-current assets held for sale | 20 | **243** | 38 | **243** | – |
| Taxation paid in advance | 35 | **122** | 24 | **112** | – |
| Other receivables | 9 | **604** | 938 | **322** | 546 |
| Cash and cash equivalents | 18 | **1,394** | 1,724 | **351** | 319 |
| **Total assets** | | **14,470** | 14,443 | **10,537** | 10,907 |
| **Equity and liabilities** | | | | | |
| **Liabilities** | | | | | |
| General insurance liabilities | 21 | **6,119** | 5,964 | **3,829** | 3,709 |
| Amounts payable to cell owners | 24 | **878** | 761 | **–** | – |
| Debt instrument | 26 | **500** | 500 | **500** | 500 |
| Deferred reinsurance commission revenue | 6 | **186** | 139 | **114** | 63 |
| Deposits owing to reinsurers | | **796** | 834 | **672** | 718 |
| Amounts due to agents and reinsurers | 7 | **514** | 1,272 | **355** | 871 |
| Post-retirement medical benefit liability | 22 | **254** | 272 | **191** | 210 |
| Share-based payment liability | 28 | **68** | 90 | **54** | 82 |
| Employee benefits | 23 | **213** | 175 | **201** | 151 |
| Deferred taxation | 19 | **103** | 107 | **–** | – |
| Taxation payable | 35 | **7** | 31 | **–** | 23 |
| Other payables | 25 | **543** | 303 | **359** | 219 |
| **Total liabilities** | | **10,181** | 10,448 | **6,275** | 6,546 |

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| **Equity** | | | | | |
| Share capital and share premium | 27 | **1,797** | 1,797 | **1,797** | 1,797 |
| Total reserves | | **62** | 58 | **90** | 84 |
| Property revaluation reserve | | **90** | 60 | **90** | 86 |
| Foreign currency translation reserve | | **(38)** | (2) | **–** | (2) |
| Other non-distributable reserves | | **10** | – | **–** | – |
| Retained income | | **2,162** | 1,906 | **2,375** | 2,480 |
| Equity holders' share of the company's capital and reserves | | **4,021** | 3,761 | **4,262** | 4,361 |
| Non-controlling interest | | **268** | 234 | **–** | – |
| **Total equity** | | **4,289** | 3,995 | **4,262** | 4,361 |
| **Total equity and liabilities** | | **14,470** | 14,443 | **10,537** | 10,907 |

# STATEMENTS OF CHANGES IN EQUITY

for the year 31 December 2018

| | Share capital and premium Rm | Foreign currency translation reserve Rm | Property revaluation reserve Rm |
|---|---|---|---|
| **GROUP** | | | |
| **Balance at 1 January 2017** | 1,797 | – | 113 |
| Profit for the year | – | – | – |
| **Total comprehensive income for the year** | – | – | – |
| Transfer from revaluation reserve to retained earnings | – | – | (41) |
| Property revaluation | – | – | (12) |
| Foreign currency translation reserve | – | (2) | – |
| Remeasurement on defined benefit plans | – | – | – |
| Dividends paid to shareholder | – | – | – |
| Dividends paid by share trusts | – | – | – |
| Sale of interest in a subsidiary | – | – | – |
| **Balance at 1 January 2018** | **1,797** | **(2)** | **60** |
| Profit for the year | – | – | – |
| Total comprehensive income for the year | – | – | – |
| Transfer between reserves | – | – | 30 |
| Foreign currency translation reserve | – | (36) | – |
| Dividends paid to shareholder | – | – | – |
| Capital distributions from the share trust | – | – | – |
| Other non-distributable reserves | – | – | – |
| **Total contributions by and distributions to owners of company recognised directly in equity** | – | (36) | 30 |
| **Balance at 31 December 2018** | **1,797** | **(38)** | **90** |
| Notes | 27 | | 38 |

| Other non-distributable reserve Rm | Total reserves Rm | Retained income Rm | Total attributable to equity holders of the group Rm | Non-controlling interest Rm | Total equity Rm |
|---|---|---|---|---|---|
| – | 113 | 2,111 | 4,021 | – | 4,021 |
| – | – | 719 | 719 | 17 | 736 |
| – | – | 719 | 719 | 17 | 736 |
| – | (41) | 41 | – | – | – |
| – | (12) | – | (12) | 3 | (9) |
| – | (2) | – | (2) | – | (2) |
| – | – | (5) | (5) | – | (5) |
| – | – | (1,225) | (1,225) | – | (1,225) |
| – | – | (15) | (15) | – | (15) |
| – | – | 280 | 280 | 214 | 494 |
| **–** | **58** | **1,906** | **3,761** | **234** | **3,995** |
| **–** | **–** | **671** | **671** | **34** | **705** |
| **–** | **–** | **671** | **671** | **34** | **705** |
| **–** | **30** | **(30)** | **–** | **–** | **–** |
| **–** | **(36)** | **–** | **(36)** | **–** | **(36)** |
| **–** | **–** | **(229)** | **(229)** | **–** | **(229)** |
| **–** | **–** | **(156)** | **(156)** | **–** | **(156)** |
| **10** | **10** | **–** | **10** | **–** | **10** |
| **10** | **4** | **(415)** | **(411)** | **–** | **(411)** |
| **10** | **62** | **2,162** | **4,021** | **268** | **4,289** |

# STATEMENTS OF CHANGES IN EQUITY

for the year 31 December 2018

| | Share capital and premium Rm | Foreign currency translation reserve Rm | Property revaluation reserve Rm |
|---|---|---|---|
| **COMPANY** | | | |
| **Balance at 1 January 2017** | 1,797 | – | 89 |
| Profit for the year | – | – | – |
| **Total comprehensive income for the year** | – | – | – |
| Foreign currency translation reserve | – | (2) | – |
| Transfer from revaluation reserve to retained earnings | – | – | (3) |
| Remeasurement on defined benefit plans | – | – | – |
| Dividends | – | – | – |
| **Total contributions by and distributions to owners of company recognised** | – | (2) | (3) |
| **Balance at 1 January 2018** | **1,797** | **(2)** | **86** |
| Profit for the year | **–** | **–** | **–** |
| Total comprehensive income for the year | **–** | **–** | **–** |
| Transfer from revaluation reserve to retained earnings | **–** | **–** | **4** |
| Foreign currency translation reserve | **–** | **2** | **–** |
| Dividends | **–** | **–** | **–** |
| **Total contributions by and distributions to owners of company recognised directly in equity** | **–** | **2** | **4** |
| **Balance at 31 December 2018** | **1,797** | **–** | **90** |
| Notes | 27 | | 38 |

| Other non-distributable reserve | Total reserves | Retained income | Total attributable to equity holders of the company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|
| Rm | Rm | Rm | Rm | Rm | Rm |
| – | 89 | 2,924 | 4,810 | – | 4,810 |
| – | – | 782 | 782 | – | 782 |
| – | – | 782 | 782 | – | 782 |
| – | (2) | – | (2) | – | (2) |
| – | (3) | 3 | – | – | – |
| – | – | (4) | (4) | – | (4) |
| – | – | (1,225) | (1,225) | – | (1,225) |
| – | (5) | (1,226) | (1,231) | – | (1,231) |
| **–** | **84** | **2,480** | **4,361** | **–** | **4,361** |
| **–** | **–** | **124** | **124** | **–** | **124** |
| **–** | **–** | **124** | **124** | **–** | **124** |
| **–** | **4** | **(4)** | **–** | **–** | **–** |
| **–** | **2** | **–** | **2** | **–** | **2** |
| **–** | **–** | **(225)** | **(225)** | **–** | **(225)** |
| **–** | **6** | **(229)** | **(223)** | **–** | **(223)** |
| **-** | **90** | **2,375** | **4,262** | **-** | **4,262** |

# STATEMENTS OF CASH FLOW

for the year 31 December 2018

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | Notes | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| **Cash flows generated from operating activities** | | | | | |
| Cash generated from operations | 36 | **823** | 343 | **542** | 244 |
| Interest income and realised gains | | **366** | 433 | **253** | 364 |
| Dividend received | | **102** | 90 | **25** | 49 |
| Finance costs | | **(51)** | (6) | **(9)** | (6) |
| Tax paid | 35 | **(344)** | (226) | **(272)** | (168) |
| **Net cash generated from operating activities** | | **896** | 634 | **539** | 483 |
| **Cash flows used in investing activities** | | | | | |
| Purchase of property and equipment | 17 | **(188)** | (52) | **(186)** | (47) |
| Sale of property and equipment | 17 | **10** | 4 | **10** | 3 |
| Purchase of other intangible assets | 16 | **(43)** | (36) | **(43)** | (36) |
| Proceeds from sale of shares in a subsidiary | | **–** | 494 | **–** | 494 |
| Amounts due to and from subsidiaries | | **–** | 248 | **–** | 70 |
| Acquisition of subsidiary | | **(21)** | (27) | **(21)** | (27) |
| Acquisition of associates | | **–** | (12) | **–** | (12) |
| Repayment of loans and advances | | **3** | (3) | **3** | (3) |
| Investments and securities | | **(758)** | – | **(45)** | – |
| **Net cash used in investing activities** | | **(997)** | 615 | **(282)** | 442 |
| **Cash flows used in financing activities** | | | | | |
| Proceeds from borrowings | 27 | **–** | 500 | **–** | 500 |
| Dividends paid | 37 | **(229)** | (1,240) | **(225)** | (1,225) |
| **Net cash used in financing activities** | | **(229)** | (740) | **(225)** | (725) |
| **Total cash movement for the year** | | **(330)** | 509 | **32** | 200 |
| Cash at the beginning of the year | | **1,724** | 1,227 | **319** | 119 |
| Effect of translation of foreign entities | | **–** | (12) | **–** | – |
| **Total cash at the end of the year** | 18 | **1,394** | 1,724 | **351** | 319 |

# ACCOUNTING POLICIES

## 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the South African Institute of Chartered Accountants Financial Reporting Guides and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, JSE requirements for financial statements and are in compliance with the Companies Act. Old Mutual Insure Limited ("the company") is domiciled in South Africa. The consolidated financial statements for the year ended 31 December 2018 comprise of the company and its subsidiaries (together referred to as the "group") and the group interest in associates.

### 1.1 Basis of preparation

These financial statements were approved and authorised for issue on 26 March 2019.

The financial statements are prepared on the historical cost basis, except for assets and liabilities which are carried at fair value through profit or loss or at amortised cost.

These accounting policies are consistent with the previous period, except for the following new IFRSs and/or IFRICs that were effective for the first time from 1 January 2018:

- Amendment to IFRS 2 – *Classification and measurement of share-based payment transactions*
- Amendments to IFRS 4 – Applying IFRS 9 *Financial instruments* with IFRS 4 *Insurance contracts*
- IFRS 9 – *Financial Instruments*
- IFRS 15 – *Revenue from contracts with customers*
- Amendment to IAS 40 – *Transfers of Investment Property*
- Annual improvements 2014 -16 cycle
- IFRIC 22 – *Foreign currency transactions and advance consideration*

Due to the transition methods chosen by the group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards. There was no material impact on the consolidated financial statements identified. Specifically regarding IFRS 9 and IFRS 15, the assessment of the impact of implementation is included in note 1.21.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 2 to the financial statements.

### 1.2 Segmental reporting

The segmental results are reported on a basis consistent with the manner in which the executive committee assesses performance of the underlying businesses and allocated resources. The group's reported segments are Commercial lines, Personal lines, Risk financing, Specialty lines and CGIC Guarantee Products. The performance of insurance activities is based on gross written premium as a measure of growth, with net underwriting result as measure of profitability. The reporting segments are described as follows:

- Commercial lines: The commercial business portfolio that serves small to large enterprises by providing commercial insurance solutions that suit the needs of entrepreneurs and businesses.

## 1. Significant accounting policies (continued)

### 1.2 Segmental reporting (continued)

- Personal lines: The personal business portfolio offers a multiproduct and multichannel distribution portfolio that provides individuals with cover through a wide range of products.
- Risk financing: Risk financing includes specialist cell captive business.
- Specialty: The specialty business portfolio focuses on the insurance of large and complex risks in niche market segments.
- CGIC Guarantee: The main business is that of trade credit insurance in both the domestic and export trade credit insurance market.

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the group's revenue that can be allocated on a reasonable basis. Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis.

The segmental information has been set out in note 5.

### 1.3 Consolidation

**Basis of consolidation**

The financial statements include assets, liabilities and results of the company and subsidiary undertakings.

The results of subsidiary undertakings acquired or disposed of in the year are included in the statement of profit or loss and other comprehensive income from commencement of control or until control over the subsidiary ceases.

For subsidiaries acquired that are under common control, the company recognises the difference between the consideration received and the net asset value of the subsidiaries acquired as previously recognised by the transferring entity in equity.

Intra-group balances and transactions, income and expenses, and all profits and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are only eliminated to the extent that there is no evidence of impairment.

**Investments in subsidiaries**

Subsidiary undertakings are those entities directly or indirectly controlled by the group. Subsidiaries are all entities over which the group has control. To consider if control exists, consideration must be given to how decisions about the relevant activities of the investee are made, whether the investor has power over the relevant activities of the investee and is able to use its power to affect returns for its benefit, and whether the investee is exposed to variability of returns relating to the investor. Control is assessed on a continuous basis and is reassessed as facts and circumstances change.

Subsidiaries are consolidated from the date on which the group obtains control. Subsidiaries are deconsolidated when control ceases.

On consolidation exchange differences arising from the translation of the net investment in foreign subsidiaries are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Investments in subsidiaries in the financial statements are designated as at fair value through profit or loss.

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss if this is allowed by IFRS.

**Business combinations**

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree. If, in the case of a bargain purchase, the result of this formula is negative, then the difference is recognised directly in profit or loss.

### 1.4 Investment in special purpose vehicles

Special purpose vehicles are those entities directly or indirectly controlled by the group and include share incentive trusts. To consider if control exists, consideration is given to how decisions about the relevant activities of the trusts are made. Control is assessed on a continuous basis and is reassessed as facts and circumstances change.

Special purpose vehicles are consolidated from the date on which the group obtains control and are deconsolidated when control ceases.

Investments in special purpose vehicles in the financial statements of the company are designated as at fair value through profit or loss.

The company determines at each reporting date whether there is any objective evidence that the investment in special purpose vehicles is impaired. If this is the case, the company calculates the amount of the impairment as the difference between the recoverable amount of the special purpose vehicle and its carrying value. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

### 1.5 Investments in associates

An associate is an entity over which the group and company has the ability to exercise significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee, generally accompanying a shareholding of between 20% and 50% of the voting rights. All the other factors, contractual or otherwise, are assessed in determining whether the group has the ability to exercise significant influence. The results, assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements initially at cost and subsequently using the equity method of accounting.

The equity method accounts for the investments initially at cost and subsequently adds the company's share of profit from the associates to the measurement.

The group and company determines at each reporting date whether there is any objective evidence that the investment in associates is impaired. If this is the case, the group calculates the amount of the impairment as the difference between the recoverable amount of the associate and its carrying value. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

## 1. Significant accounting policies (continued)

### 1.5 Investments in associates (continued)

Dividends declared by associates and joint ventures reduce the carrying value of the equity accounted investments in associates and joint ventures.

Where a group enterprise transacts with an associate of the group, unrealised profits are eliminated to the extent of the group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale. For the period of time that an investment in an associate is classified as held for sale, equity accounting ceases until the investment is sold or the classification is no longer applicable.

Step acquisitions of investments in associates and joint ventures are accounted for by measuring the previously held interest and the consideration paid for the additional interest at fair value. The fair value adjustment on the previously held interest is recognised in profit or loss.

### 1.6 Non-controlling interest

The group recognises any non-controlling interest in an acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

**Changes in ownership interests without change of control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

### 1.7 Property and equipment

Property and equipment are tangible assets which the group holds for its own use or for rental to others and which are expected to be used for more than one year. The consumption of the property and equipment is reflected through a depreciation charge designed to reduce the asset to its residual value.

The useful lives of items of property and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Buildings: Main structure | Straight line | 26 |
| Buildings: Electrical equipment | Straight line | 20 |
| Building: Internal finishes | Straight line | 15 |
| Motor vehicles | Straight line | 4-5 |
| Furniture and equipment | Straight line | 6 |
| Computer Equipment | Straight line | 3 |
| Land | Straight line | Not depreciated |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. When components of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

#### Initial recognition

Property and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition of the asset.

#### Measurement

Land and buildings are carried at the revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Furniture and equipment, computer equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

#### Subsequent costs

The cost of major renovations or other subsequent expenditure is included in the carrying amount of the asset when it is probable that the inflow of future economic benefits of the subsequent cost will flow to the entity and the costs can be reliably measured. Repairs and maintenance are recognised in profit or loss in the period in which it occurs.

#### Revaluation

Revaluation increases arising on the revaluation of property are recognised in other comprehensive income and accumulated in equity as a revaluation surplus. A decrease in the carrying amount arising on the revaluation of such property is recognised in profit or loss to the extent that it exceeds the existing property revaluation reserve. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Revaluations are performed once every three years by an independent valuator and internally every year.

#### Components

The amount initially recognised in respect of an item of property and equipment is allocated to its significant components and, where they have different useful lives, are recorded and depreciated separately. The remainder of the cost, being the parts of the item that are individually not significant or have similar useful lives, is grouped together and depreciated as one component.

#### Depreciation

Depreciation is calculated on a straight-line basis to the asset's residual value over the estimated useful life. The difference between depreciation of assets on a revalued basis and depreciation that would have been charged on a historic basis is transferred from the revaluation reserve to retained income.

#### Impairment

Where the carrying value of an asset is greater than its estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying value in line with its recoverable amount.

#### Disposals

Gains and losses on disposals of property and equipment are determined by comparing the proceeds received from disposal with the carrying amount of the assets and are included in profit or loss.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained income.

### 1.8 Intangible assets

An intangible asset is an identifiable, non-monetary asset that has no physical substance. An intangible asset is recognised when it is identifiable, the group has control over the asset, it is probable that economic benefits will flow to the group and the cost of the asset can be measured reliably.

## 1. Significant accounting policies (continued)

### 1.8 Intangible assets (continued)

Intangible assets consist of internally developed computer software. Costs include employee costs of the software development team and an appropriate portion of relevant overheads.

An intangible asset arising from development is recognised if an entity can demonstrate the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- Availability of adequate technical financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised internally generated software development costs are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. These intangible assets are amortised using the straight-line method over their expected useful lives, ranging between two to ten years and are expected to have a nil residual value. The amortisation charge is recognised in profit or loss. The amortisation method, period and residual values are reviewed at each reporting date.

Expenditure associated with research activities regarding developing computer software programs is recognised in profit or loss as an expense when incurred.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

The carrying value of intangible assets is reviewed for indicators of impairment annually. If indicators of impairment exist, the particular asset is tested for impairment. An intangible asset that is not yet available for use or has an indefinite useful life is tested for impairment on an annual basis.

### 1.9 Financial instruments

#### Initial recognition and measurement

#### Financial assets

The group recognises a financial asset when it becomes a party to the contractual provisions of the instrument. The group initially recognises trade and other receivables on the date of the transaction.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of a financial asset measured at fair value through profit or loss are recognised in profit or loss.

#### Financial liabilities

The group recognises financial debt when the group becomes a party to the contractual provisions of the instruments.

#### Classification

The group classifies financial assets and liabilities at initial recognition as financial assets and liabilities measured at amortised cost or financial assets and liabilities measured at fair value through profit or loss (FVPL).

### Financial assets

A financial asset that meets both the following conditions is classified as a financial asset measured at amortised cost.

- The financial asset is held within the group's business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortised cost is initially recognised at fair value plus transaction cost directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortised cost is determined using the effective interest method, net of impairment losses.

Loans and receivables as well as accrued interest, amounts due from subsidiaries, cash and cash equivalents, deposits with cedants and sundry debtors included in other receivables, previously measured at amortised cost, continue to be measured at amortised cost under IFRS 9 as the business model is hold to collect and their cash flows represent solely payments of principal and interest.

### Financial liabilities

A financial liability other than those measured at fair value through profit or loss is classified as a financial liability measured at amortised cost. A financial liability at amortised cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. After initial recognition, the financial liability is measured at amortised cost based on the effective interest rate method.

Other payables and debt instruments are measured at amortised cost under IFRS 9. For further detail regarding debt instruments please refer to note 1.22.

### Measured at fair value through profit and loss

### Financial assets

When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as "at fair value through profit or loss" and measured at fair value with changes in fair value recognised in profit or loss.

A financial asset measured at fair value through profit or loss is recognised initially at fair value and its transaction cost is recognised in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognised in profit or loss, and presented in investment returns or finance costs in the consolidated statement of profit or loss and other comprehensive income for the reporting period in which it arises.

The group does not designate any debt instrument as at fair value through profit or loss to remove or significantly reduce an accounting mismatch.

Investments and securities previously measured at FVPL, are also measured as FVPL under IFRS 9. Management has not taken the irrevocable election to present changes through FVOCI (fair value through other comprehensive income) for equities not held for trading.

### Financial liabilities

A financial liability measured at fair value through profit or loss is initially measured at fair value. After initial recognition, the financial liability is measured at fair value with subsequent changes recognised in profit or loss.

## 1. Significant accounting policies (continued)

### 1.9 Financial instruments (continued)

**Derecognition**

**Financial assets**

The group derecognises its financial assets if the contractual rights to the cash flows from the investments expire, or the group transfers substantially all the risks and rewards of ownership of the financial assets. Any interests in transferred financial assets that are created or continuously retained by the group are recognised as a separate asset or liability.

**Financial liabilities**

The group derecognises a financial liability when the financial liability is extinguished, i.e. when the contractual obligation is discharged, cancelled or expired.

**Impairment of financial assets**

The impairment model applies to financial assets measured at amortised cost (for example loans and advances and trade and other receivables). As a consequence of the adoption of IFRS 9, the group has revised its impairment methodology for each of these classes of assets.

The expected credit loss (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.

In the absence of sufficient depth of data, management applies judgment within a governance framework to determine the required parameters.

Forward-looking information includes, but is not limited to macro-economic conditions expected in the future. Forward-looking information used in the ECL calculation reflects the nature and characteristics of the credit risk exposures. All reasonable and supportable information that is available is used when incorporating forward-looking information into the ECL allowance. Forward-looking assessments are performed on an individual or collective basis. Forward-looking factors are aligned with risk factors used in risk assessments, stress testing, budgeting as well as strategy and pricing decisions. Relevant factors include factors intrinsic to the entity and its business or derived from external conditions.

Estimates regarding credit risk parameters and the impact of forward-looking information used in the calculation of the ECL loss amount is reviewed at each reporting date and updated if necessary.

**Presentation of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Impact of the new impairment model**

The most significant class of financial assets subject to an ECL impairment is loans and receivables. Applying the expected credit loss model to loans and receivables at amortised costs, did not result in material additional provisions for impairment.

All insurance and reinsurance receivables are recognised and measured in terms of IFRS 4 Insurance contracts and the group has not amended its policies for the measurement of IFRS 4. The insurance and reinsurance receivables are therefore excluded from the scope of IFRS 9's expected credit loss (ECL) impairment.

## 1.10 Tax

### Current tax assets and liabilities

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date in the countries where the company and its subsidiaries operate and generate taxable income, and any adjustment to tax payable in respect of previous years.

### Deferred tax assets and liabilities

Deferred tax is recognised using the balance sheet method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base determined according to the Income Tax Act. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax is charged to profit or loss, except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income. The effect on deferred tax of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in equity or other comprehensive income.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Tax expenses

Income tax expense represents the sum of current, withholding and deferred taxation for the year.

Withholding tax on dividends and invoices is measured at the amount expected to be paid to the relevant tax authorities in the country from which dividend income or services rendered originates. The tax rates and tax laws used to compute the amount are those that are enacted when the dividend was declared.

## 1.11 Leases

### Operating leases – lessee

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are expensed in profit or loss by straight-lining them over the period of the lease.

## 1.12 Non-current assets held for sale

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets are available for immediate sale in their present condition and management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

## 1. Significant accounting policies (continued)

### 1.12 Non-current assets held for sale (continued)

Immediately prior to being classified as held for sale, the carrying amount of the non-current assets is measured in accordance with the applicable accounting standard. After classification as held for sale, it is measured at the lower of the carrying amount or fair value less costs to sell. An impairment loss is recognised in profit or loss for any initial and subsequent write-down of the asset to fair value less costs to sell. A gain for any subsequent increase in fair value less costs to sell is recognised in profit or loss to the extent that it is not in excess of the cumulative impairment loss previously recognised.

Non-current assets that are classified as held for sale are not depreciated.

### 1.13 Impairment of non-financial assets

The carrying amount of non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that are largely independent from other assets. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. For other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 1.14 Share capital and equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised in equity as a deduction from the proceeds, net of tax. Transaction costs of an equity transaction are accounted for as a deduction from the proceeds to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

### 1.15 Cash-settled share-based payment transactions

The services received in cash-settled share-based payment transactions with employees are measured at the fair value of the instruments granted at each measurement date.

The fair value of equity instruments granted is measured on grant date using an appropriate valuation model, which takes into account the market price on grant date. The fair value on grant date is recognised in profit or loss on a straight-line basis over the vesting period of the equity instruments and is remeasured at each reporting date and at settlement date.

Any changes in the liability are recognised in profit or loss.

## 1.16 Employee benefits

### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The undiscounted cost of all short-term employee benefits is recognised in profit or loss during the period in which the employee renders the related service.

Short-term employee benefits are employee benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees rendered the related service and are accounted for in profit or loss. The accrual for employee entitlements to salaries, and annual and sick leave represent the amount which the group has a present obligation to pay, as a result of employees' services provided up to the reporting date. The obligation has been calculated at undiscounted amounts based on current salary rates.

### Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates:

- When the entity can no longer withdraw the offer of those benefits.
- When the entity recognises costs for a restructuring which involves the payment of termination benefits.

### Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other payables when at least one of the following conditions is met:

- There is a contractual agreement in place.
- Past practice has created a constructive obligation for payment.

When employees are paid retention bonuses in terms of the retention bonus plan and these beneficiaries are subject to retention periods, the costs associated with the retention bonus plan are recognised in the statement of profit or loss and other comprehensive income over the retention period.

### Post-employment benefits

The group contributes a fixed percentage of salary in respect of members of the defined contribution pension plans and this cost is recognised as an expense in profit or loss. The group has no constructive obligation to pay further contributions to the funds if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The group provides post-retirement medical benefits to qualifying employees who joined the group prior to 15 March 1999 by way of subsidising medical scheme contributions. The expected costs of these benefits are assessed in accordance with advice of qualified actuaries on an annual basis, using the projected unit credit method. The last valuation was performed at 31 December 2018. Service costs are recognised in profit or loss. Any actuarial gains or losses are recognised as incurred. Actuarial gains or losses are recognised in other comprehensive income.

## 1. Significant accounting policies (continued)

### 1.16 Employee benefits (continued)

**Defined benefit pension plans**

The group's obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior years. The benefits are discounted to determine the present value of the obligation, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method which is appropriate for a fund closed to new entrants and with less than 5% of the group's employees participating in the fund. The fund is valued at each reporting date. Any actuarial gains or losses are recognised as incurred. Remeasurements are recognised in other comprehensive income.

### 1.17 Provisions and contingencies

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs, if material.

Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement has a high probability of certainty.

Transactions are classified as contingencies where the group's obligations depend on uncertain future events. Items are classified as commitments where the group commits itself to future transactions with external parties. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the financial reporting date, that is, the amount that would rationally be paid to settle the obligation at the end of the financial reporting period or to transfer it to a third party. The estimate is made by management in light of all available evidence, including that received after the end of the financial reporting date, and may be supplemented by the evidence of independent experts.

### 1.18 Insurance contracts

**Classification**

Insurance contracts are classified into two main categories, namely general insurance and cell insurance. General insurance provides benefits under general insurance policies, which include engineering, marine, guarantee, liability, miscellaneous, motor, accident and health, property, transportation and crop policies, or a contract comprising a combination of any of those policies. General insurance contracts are further classified into the following categories:

- Personal insurance, consisting of insurance provided to individuals and their personal property
- Commercial insurance, providing cover on the assets and liabilities of business enterprises
- Corporate insurance, providing cover on the assets and liabilities of business enterprises exceeding a limit of R250 000 000
- Credit guarantees

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. Insurance risk is risk, other than financial risk, transferred from the holder of the contract to the issuer. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly more than the benefits payable if the insured event did not occur.

**Premiums**

Premiums exclude value added taxation and any other foreign indirect taxes. Premiums are earned from the date of attachment of risk, spread over the indemnity period by using an unearned premium provision, based on the pattern of risks underwritten and are recognised in profit or loss. This includes premiums received in terms of inward reinsurance arrangements. All premiums are shown before deduction of commission payable to intermediaries.

Premiums on reinsurance assumed are included in gross written premiums as if this was direct business taking into account the product classification of the reinsured business and are recognised in profit or loss.

**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, and an appropriate risk margin.

Adjustments to the amounts of claims provisions established in prior years are reflected in profit or loss for the period in which the adjustments are made and disclosed separately, if material. The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances.

Case estimates are therefore reviewed regularly and updated if new information becomes available.

The provisions for the notified claims are initially estimated at a gross level. Each notified claim is assessed on a separate, case-by-case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The provision for each notified claim includes value added taxation, where applicable.

**Claims incurred but not yet reported (IBNR)**

The IBNR provision is initially estimated at a gross level and incorporates future developments on the case estimates of notified claims (claims incurred but not enough reported or "IBNER") and claims reported after the reporting date (true IBNR claims). The IBNR provision consists of a best-estimate reserve and an explicit risk margin. The explicit risk margin for IBNR is to increase reserves to the 75th percentile level of confidence.

**Salvage and subrogation reimbursements**

Some insurance contracts permit the group to sell property acquired in settling a claim (salvage). The group also has the right to pursue third parties for payment on some or all costs (subrogation). After the occurrence of a cause of loss or payment of an indemnity the insured, at the request of the group, remains obligated to take all reasonable steps, including legal proceedings, in order to obtain recoveries from whatever source. Any salvage and subrogation collected by the insured or the group shall be shared in proportion to their respective interests. Estimates of salvage and subrogation receivables are raised as a separate asset and movements in the asset are recognised in profit or loss.

**Unexpired risk provision**

Provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premium provision in relation to such policies after the deduction of any deferred acquisition costs. Movements in the unexpired risk provision are recognised in profit or loss.

## 1. Significant accounting policies (continued)

### 1.18 Insurance contracts (continued)

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the total insurance liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the group recognises the deficiency in profit or loss for the year.

**Unearned premium provision**

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. The group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the group's insurance contracts have an even risk profile. Movement in the gross and reinsured earned premium provision is recognised in profit or loss.

**Low claims and no-claims bonus**

Included in the unearned premium provision is a provision made for probable future low claims and no claims cash bonus payments. The probability of paying out the provision is calculated based on claim frequency and lapse assumptions for active policies and based on the total number of event-free months.

A low claims or no-claims bonus is paid to policyholders based on a fixed calculation as per endorsements that form part of the insurance contract. The bonuses are paid upon the policyholder meeting certain criteria in terms of their policy for a specific underwriting year. The low-claims bonus is determined over a 12-month period and is calculated as a percentage of premium, less net claims paid during the bonus period. The no-claims bonus becomes payable after the 12-month period of the expired policy, provided that no indemnity has been paid and that a written confirmation has been received from the insured that no claim will be payable in respect of insurable transactions concluded during the period. A provision is made for unpaid bonuses at each reporting date and movements in the provision are recognised in profit or loss.

**Reinsurance**

The group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transfer of its risks. Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Reinsurance agreements that do not transfer significant insurance risk are accounted for as financial assets. Reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

A separate calculation is carried out to determine the estimated reinsurers' share of insurance liabilities. The calculation of these reinsurance recoveries considers the type of risk underwritten, the year the gross claim occurred and therefore under which reinsurance contract the recovery will be made, the size of the claim and whether the claim was an isolated incident or forms part of a catastrophe reinsurance claim. The asset is then estimated using similar methods to those used to estimate the gross provision. There is no risk margin added to the best estimate of reinsurance IBNR provisions, consistent with the treatment of other insurance assets.

Amounts recoverable under reinsurance contracts are recognised in the same year as the related claim and are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer. Movements in reinsurance assets are accounted for in profit or loss.

### Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred in order to secure new contracts and renewing of existing contracts and are deferred over the period in which the related premiums are earned, and recognised as an asset. Acquisition costs and the movement in deferred acquisition costs are recognised in profit or loss. All other costs are recognised as expenses when incurred.

### Commission income

Comprises commissions earned in respect of reinsurance contracts. Commission income is recognised on the effective commencement or renewal date of the reinsurance contract. A portion of the income is deferred when further servicing is required to be rendered. The amount deferred is that which will cover the expected future servicing costs, together with a reasonable profit thereon, and is recognised as a liability. Deferred income is recognised in profit or loss evenly over the period of the policy. Where commission income is earned on an indemnity basis, provision is made for the potential repayment of commissions.

### Agents' and reinsurers' balances

Agents' and reinsurers' balances are measured at transaction price when due, and the group is of the opinion that the carrying values of these receivables are a reasonable approximation of fair value. The amounts include amounts due to and from agents, brokers and insurance contract holders.

### Deposits with reinsurers and cedants

Deposits with reinsurers and cedants are cash held by the group on behalf of reinsurers and cedants.

### Amounts payable to cell owners

The group offers cell captive facilities to clients. A cell captive is a contractual arrangement entered into by the group with a cell shareholder, whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captives allow clients to purchase non-convertible preference shares in the registered insurance company which undertakes the professional insurance management of the cell, including underwriting, reinsurance, claims management, actuarial and statistical analysis, investment and accounting services. The terms and conditions are governed by the shareholders' agreement. There are currently two distinct types of cell captive arrangements.

First party cell captive arrangements, where the cell owner insures their own risk. First party cell captives arrangements are accounted for as financial liabilities.

Third party cell captive arrangements where the cell owner provides the opportunity to its own client base to purchase branded insurance products. The insurance company is the principal to the insurance contract, although the business is underwritten on behalf of the cell owner. The shareholder's agreement, however, determines that the cell owner remains responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell owner as the cell owner remains responsible for the solvency of the cell captive arrangement.

The cell shareholder's interest represents the cell shareholder's funds, in respect of the insurance business conducted in the cell structures, held by the insurer and is included in amounts payable to cell owners. The carrying value of amounts payable to cell owners is the consideration received for preference shares plus the accumulated funds in respect of business conducted in the cells less repayment to cells.

## 1. Significant accounting policies (continued)

### 1.19 Investments returns and cost

#### Investment returns

Investment returns comprises interest, dividends, as well as net fair value gains or losses on financial assets held at fair value through profit or loss.

Investment income is accounted for as follows:

- Interest income is recognised in profit or loss as it accrues, using the effective interest method.
- Dividend income is recognised in profit or loss when the right to receive payment is established.
- Net unrealised and realised profits and losses on financial assets held at fair value through profit or loss comprise of gains and losses on disposal or revaluation of assets to fair values and are recognised in profit or loss.

#### Finance costs

Finance costs are recognised in profit or loss in the period they are incurred using the effective interest method.

### 1.20 Translation of foreign currencies

#### Presentation currency

The consolidated financial statements are presented in Rand, which is the group's presentation currency. The functional currency of the separate financial statements of the group entities are in Rand, except for Mutual & Federal Company of Zimbabwe and Old Mutual Holdings (Mauritius) Limited and its subsidiaries which are presented in United States Dollars.

The assets and liabilities of foreign operations are translated from their respective functional currencies into the group presentation currency using the year-end exchange rates. The income and expenses are translated using the average exchange rates for the year. Cumulative unrealised gains or losses resulting from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity in the foreign currency translation reserve. The foreign currency differences are recognised through other comprehensive income. Upon the disposal of subsidiaries the cumulative amount of exchange differences deferred in shareholders' equity is recognised in profit or loss.

#### Functional currency

Transactions in foreign currencies are converted to South African Rand at the ruling rate of the exchange at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the ruling rates of exchange at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at ruling foreign exchange rates at the dates the fair values were determined.

Exchange gains and losses on the settlement of transactions and resulting from the translation of foreign currency assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the consolidated statement of other comprehensive income, and in profit or loss if the changes in the fair value of the non-monetary item are recognised in profit or loss.

### 1.21 New standards, amendments to standards, interpretations and interpretations adopted and not yet adopted

#### IFRS 15 *'Revenue from Contracts with Customers'*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations.

IFRS 15 Revenue from Contracts with Customers introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 does not apply to insurance contracts within the scope of IFRS 4 Insurance Contracts. Based on management's assessment, the impact on the net results was not material. The group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying the standard recognised at the date of initial application on 1 January 2018. Accordingly, the information presented for 2017 has not been restated. It is presented as previously reported under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

OM Insure is acting in the capacity as an agent for Sasria SOC Limited, the commission for which is within the scope of IFRS 15. The accounting policy for commission income is stated in note 1.18.

**IFRS 9 *Financial instruments***

IFRS 9 replaces the provisions of IAS 39 'Financial instruments: Recognition and measurement' that relate to the recognition, classification and measurement of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies. The new accounting policies are set out in note 1.9.

On 1 January 2018 (the date of initial application of IFRS 9), the group's management had assessed which business models apply to the financial assets held by the group and classified its financial instruments into the appropriate IFRS 9 categories. The group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements. The transitional impact was not material as the application used in terms of IAS 39 remained unchanged on adoption of IFRS 9.

In addition management considered the impact of implementation of the expected credit loss model for financial assets measured at amortised cost as well as any 'fair value option' designation adjustments. Please refer to note 3 in the accompanying notes that explain the original measurement categories under IAS 39 and the new measurement categories and carrying values under IFRS 9 for each class of the group's financial assets and financial liabilities as at 1 January 2018.

**IFRS 17 *Insurance Contracts***

The new insurance accounting standard, 'IFRS 17: Insurance Contracts', was issued on 18 May 2017. IFRS 17 replaces an interim standard – 'IFRS 4: Insurance Contracts' and becomes effective on 1 January 2021. The IASB made a tentative decision to defer to 2022 subject to due process.

The standard combines current measurement of the future cash flows with the recognition of profit over the services period under the contract. The standard looks at the presentation of insurance revenue separately from insurance finance income or expenses and requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

An IFRS 17 programme has been set up across Old Mutual Limited to facilitate an effective transition to the new standard for all subsidiaries within the group. The group has performed an initial gap analysis to determine the impact IFRS 17 will have on its current processes and disclosures in the financial statements. Training has been provided to the actuarial and finance teams. The group is in the process of doing a quantitative impact analysis and assessing the transitional provisions. An optional simplified model is available for short duration contracts which approximates the recognition of profit over the services period. The group expects to use the simplified model for the majority of its insurance contracts.

**IFRS 16 *Leases***

IFRS 16 'Leases' (IFRS 16) was issued in January 2016 and replaces IAS 17 Leases and its related interpretations for reporting periods beginning on or after 1 January 2019. All of the Group's businesses will be impacted by the adoption of IFRS 16.

## 1. Significant accounting policies (continued)

### 1.21 New Standards, amendments to standards, interpretations and interpretations adopted and not yet adopted (continued)

The group as lessee: IFRS 16 introduces a 'right of use' model whereby the lessee recognises a right-of-use asset and an associated financial obligation to make lease payments for all leases with a lease term of more than 12 months. The 'right of use' asset will be amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit or loss using the effective interest rate method.

The group as lessor: IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify and account for its leases as operating leases or finance leases.

**Transition**

The group has elected to apply the modified retrospective approach as allowed in the Standard. Under this approach, the group does not restate its comparative figures.

On transition to IFRS 16 Leases the group expects that it will recognise an amount of R284 million in right-of-use assets and a corresponding amount of lease liabilities.

When measuring lease liabilities, the group discounted lease payments using its incremental borrowing rate at 1 January 2019, of 9%.

**Other standards**

The following other new standards are effective from 1 January 2018 but they do not have a material impact on the group's financial statements:

- Amendment to IFRS 2 'Share-based payments', regarding the classification and measurement of share-based payment transactions;
- Amendment to IFRS 4 'Insurance contracts', applying IFRS 9 Financial instrument with IFRS 4 Insurance Contracts;
- Amendment to IAS 40 'Investment Property', regarding the transfer of property to, or from, investment property;
- Annual improvements 2014-2016 made to IAS 28 'Investments in associates and joint ventures' and IFRS 1 'First-time adoption of IFRS'; and
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

### 1.22 Debt instrument

Debt instruments issued by the group comprise subordinated debt instruments held at amortised cost. Interest accruals are recognised as investment costs in the statement of profit or loss and other comprehensive income. Financial liabilities are derecognised when all obligations have been met.

### 1.23 Dividends

Dividends payable are recorded in the group's financial statements in the period in which shareholder's rights to receive payment have been established. When dividends in respect of the financial year are approved by the board of directors after year-end but before the issuing of the financial statements, they are recorded as a liability in the financial statements.

## 2. Accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group and company's accounting policies. Actual results in the future could differ from these estimates which may be material to the financial statements. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are highlighted below:

**Valuation of insurance policy liabilities and assets**

**Claims incurred**

The group's estimates for reported and unreported claims are continually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process relies upon the assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Refer to note 21.

**Incurred but not reported claims (IBNR)**

The IBNR provision comprises the group's estimate at a 75% confidence level of the undiscounted cost of settling all claims incurred but not yet reported at the reporting date and related claims handling expenses.

**Subrogation and salvage recoveries**

An asset is raised for expected subrogation and salvage recoveries that have occurred, whether reported or not based on past experience. The ultimate amounts recovered will vary as a result of subsequent information and events and may result in significant adjustments to the amounts estimated. The methods used to determine the expected amounts are reviewed regularly by management.

**Defined post-employment benefits**

Assumptions are made regarding the discount rates, inflation rates and retirement ages in calculating the group's post– retirement medical benefits. Details of these assumptions are set out in note 22.

**Investments in subsidiaries, associates, unlisted shares and share trusts**

Investments in subsidiaries and associates are valued using a discounted earnings model or shown at net asset value, if net asset value approximates fair value. An annual valuation is performed by management. The Old Mutual Insure Capital Management Committee approves the assumptions and inputs applied in the calculation.

The valuation model used to determine the value of the subsidiaries is sensitive to the inputs (the projected business plans) as well as the assumptions (risk-adjusted discount rates) used. Judgement is applied in deriving these inputs and assumptions.

The interest in employee share trusts in the financial statements of the group is accounted for at fair value through profit or loss and presented as interest in employee share trusts on the statement of financial position.

**Share-based payment liability**

The judgement applied in valuing the cash-settled share-base payment liability for employee share trusts relates to the assumption of the expected staff attrition and the associated vesting that is expected for each tranche of shares issued.

**Impairment testing**

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 3. Categorisation of assets and liabilities

| GROUP<br>2018 | Notes | Total<br>R million | Mandatorily at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | 15 | 21 | – |
| Intangible assets | 16 | 162 | – |
| Property and equipment | 17 | 129 | – |
| Deferred taxation | 19 | 67 | – |
| Investments in associates | 11 | 104 | – |
| Loans to share trusts | 13 | 7 | – |
| Loans and advances | | 1 | – |
| Post-retirement benefit reimbursement assets | 22 | 223 | – |
| Non-current assets held for sale | 20 | 243 | – |
| Deferred acquisition costs | 6 | 231 | – |
| Reinsurers' share of general insurance liabilities | 21 | 2,574 | – |
| Deposits with cedants | | 27 | – |
| Investments and securities | 14 | 6,297 | – |
| Amounts due from agents and reinsurers | 7 | 1,618 | – |
| Subrogation and salvage recoveries | 8 | 646 | – |
| Taxation paid in advance | 35 | 122 | – |
| Other receivables | 9 | 604 | – |
| Cash and cash equivalents | 18 | 1,394 | – |
| | | 14,470 | – |

| GROUP<br>2018 | Notes | Total<br>R million | Mandatorily at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Liabilities** | | | |
| General insurance liabilities | 21 | 6,119 | – |
| Amounts payable to cell owners | 24 | 878 | – |
| Debt instrument | 26 | 500 | – |
| Deferred reinsurance commission revenue | 6 | 186 | – |
| Deposits owing to reinsurers | | 796 | – |
| Amounts due to agents and reinsurers | 7 | 514 | – |
| Post-retirement medical benefit liability | 22 | 254 | – |
| Share-based payment liability | 28 | 68 | – |
| Employee benefits | 23 | 213 | – |
| Deferred taxation | 19 | 103 | – |
| Taxation payable | 35 | 7 | – |
| Other payables | 25 | 543 | – |
| | | 10,181 | – |

| Designated fair value through profit or loss R million | Financial assets at amortised cost R million | Financial liabilities at amortised cost R million | Non-financial assets and liabilities at fair value R million | Non-financial assets and liabilities at other than fair value R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|---|---|
| – | – | – | – | 21 | – | 21 |
| – | – | – | – | 162 | – | 162 |
| – | – | – | – | 129 | – | 129 |
| – | – | – | – | 67 | – | 67 |
| – | – | – | – | 104 | – | 104 |
| – | 7 | – | – | – | – | 7 |
| – | 1 | – | – | – | – | 1 |
| 223 | – | – | – | – | – | 223 |
| – | – | – | 243 | – | – | 243 |
| – | – | – | – | 231 | 231 | – |
| – | – | – | – | 2,574 | 2,096 | 478 |
| – | 27 | – | – | – | 27 | – |
| 6,297 | – | – | – | – | 6,297 | – |
| – | – | – | – | 1,618 | 1,618 | – |
| – | – | – | – | 646 | 646 | – |
| – | – | – | – | 122 | 122 | – |
| – | 604 | – | – | – | 604 | – |
| – | 1,394 | – | – | – | 1,394 | – |
| 6,520 | 2,033 | – | 243 | 5,674 | 13,035 | 1 435 |

| Designated fair value through profit or loss R million | Financial liabilities at amortised cost R million | Non–financial assets and liabilities at other than fair value R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|
| – | – | 6,119 | 4,982 | 1,137 |
| – | – | 878 | 878 | – |
| – | 500 | – | – | 500 |
| – | – | 186 | 186 | – |
| – | 796 | – | 796 | |
| – | – | 514 | 514 | – |
| 254 | – | – | – | 254 |
| – | – | 68 | – | 68 |
| – | – | 213 | 213 | – |
| – | – | 103 | – | 103 |
| – | – | 7 | 7 | – |
| – | 542 | 1 | 543 | – |
| 254 | 1,838 | 8,089 | 8,119 | 2,062 |

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 3. Categorisation of assets and liabilities (continued)

| GROUP<br>2017 | Notes | Total<br>R million | Financial asset at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 16 | 161 | – |
| Property and equipment | 17 | 253 | – |
| Deferred taxation | 19 | 71 | – |
| Investments in associates | 11 | 113 | – |
| Loans to share trusts | 13 | 7 | 7 |
| Loans and advances | | 4 | – |
| Post-retirement benefit reimbursement assets | 22 | 235 | – |
| Deferred acquisition costs | 6 | 200 | – |
| Reinsurers' share of general insurance liabilities | 21 | 2,340 | – |
| Deposits with cedants | | 25 | – |
| Investments and securities | 14 | 5,539 | 5,539 |
| Amounts due from agents and reinsurers | 7 | 2,118 | – |
| Subrogation and salvage recoveries | 8 | 653 | – |
| Non-current assets held for sale | 20 | 38 | 38 |
| Taxation paid in advance | 35 | 24 | – |
| Other receivables | 9 | 938 | – |
| Cash and cash equivalents | 18 | 1,724 | – |
| | | 14,443 | 5,584 |

| GROUP<br>2017 | Notes | Total<br>R million | Financial asset at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Liabilities** | | | |
| General insurance liabilities | 21 | 5,964 | – |
| Amounts payable to cell owners | 24 | 761 | – |
| Debt instrument | 26 | 500 | – |
| Deferred reinsurance commission revenue | 6 | 139 | – |
| Deposits owing to reinsurers | | 834 | – |
| Amounts due to agents and reinsurers | 7 | 1,272 | – |
| Post-retirement medical benefit liability | 22 | 272 | – |
| Share-based payment liability | 28 | 90 | – |
| Employee benefits | 23 | 175 | – |
| Deferred taxation | 19 | 107 | – |
| Taxation payable | 35 | 31 | – |
| Other payables | 25 | 303 | – |
| | | 10,448 | – |

| Loans and receivables at amortised cost R million | Other non-financial assets and liabilities R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|
| – | 161 | – | 161 |
| – | 253 | – | 253 |
| – | 71 | – | 71 |
| – | 113 | – | 113 |
| – | – | – | 7 |
| 4 | – | – | 4 |
| – | 235 | – | 235 |
| – | 200 | 200 | – |
| – | 2,340 | 1,844 | 496 |
| – | 25 | 25 | – |
| – | – | 5,539 | – |
| 2,118 | – | 2,118 | – |
| – | 653 | 653 | – |
| – | – | 38 | – |
| – | 24 | 24 | – |
| 938 | – | 938 | – |
| 1,724 | – | 1,724 | |
| 4,784 | 4,075 | 13,103 | 1,340 |

| Loans and receivables at amortised cost R million | Financial liabilities at amortised cost R million | Other non-financial assets and liabilities R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|
| – | – | 5,964 | 4,701 | 1,263 |
| – | 761 | – | 761 | – |
| – | 500 | – | – | 500 |
| – | – | 139 | 139 | – |
| – | 834 | – | 834 | – |
| – | 1,272 | – | 1,272 | – |
| – | – | 272 | – | 272 |
| – | – | 90 | – | 90 |
| – | – | 175 | 175 | – |
| – | – | 107 | – | 107 |
| – | – | 31 | 31 | – |
| – | 303 | – | 303 | – |
| – | 3,670 | 6,778 | 8,216 | 2,232 |

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 3. Categorisation of assets and liabilities (continued)

| COMPANY<br>2018 | Notes | Total<br>R million | Mandatorily at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 16 | 162 | – |
| Property and equipment | 17 | 120 | – |
| Deferred taxation | 19 | 46 | – |
| Investments in subsidiaries | 10 | 1,548 | 1,548 |
| Investments in associates | 11 | 13 | 13 |
| Loans to share trusts | 13 | 84 | – |
| Interest in employee share trusts | 12 | 611 | 611 |
| Loans and advances | | 1 | – |
| Post-retirement benefit reimbursement assets | 22 | 160 | – |
| Non-current assets held for sale | 20 | 243 | – |
| Deferred acquisition costs | 6 | 158 | – |
| Reinsurers' share of general insurance liabilities | 21 | 1,553 | – |
| Investments and securities | 14 | 3,508 | – |
| Amounts due from agents and reinsurers | 7 | 1,270 | – |
| Subrogation and salvage recoveries | 8 | 275 | – |
| Taxation paid in advance | 35 | 112 | – |
| Other receivables | 9 | 322 | – |
| Cash and cash equivalents | 18 | 351 | – |
| | | 10,537 | 2,172 |

| COMPANY<br>2018 | Notes | Total<br>R million | Designated fair value through profit or loss<br>R million |
|---|---|---|---|
| **Liabilities** | | | |
| General insurance liabilities | 21 | 3,829 | – |
| Debt instrument | 26 | 500 | – |
| Deferred reinsurance commission revenue | 6 | 114 | – |
| Deposits owing to reinsurers | | 672 | – |
| Amounts due to agents and reinsurers | 7 | 355 | – |
| Post-retirement medical benefit liability | 22 | 191 | 191 |
| Share-based payment liability | 28 | 54 | – |
| Employee benefits | 23 | 201 | – |
| Other payables | 25 | 359 | – |
| | | 6,275 | 191 |

| Designated fair value through profit or loss R million | Financial assets at amortised cost R million | Non-financial assets and liabilities at fair value R million | Non-financial assets and liabilities at other than fair value R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|---|
| – | – | – | 162 | – | 162 |
| – | – | – | 120 | – | 120 |
| – | – | – | 46 | – | 46 |
| – | – | – | – | – | 1,548 |
| – | – | – | – | – | 13 |
| – | 84 | – | – | – | 84 |
| – | – | – | – | – | 611 |
| – | 1 | – | – | – | 1 |
| 160 | – | – | – | – | 160 |
| – | – | 243 | – | – | 243 |
| – | – | – | 158 | 158 | – |
| – | – | – | 1,553 | 1,208 | 345 |
| 3,508 | – | – | – | 3,508 | – |
| – | – | – | 1,270 | 1,270 | – |
| – | – | – | 275 | 275 | – |
| – | – | – | 112 | 112 | – |
| – | 322 | – | – | 322 | – |
| – | 351 | – | – | 351 | – |
| 3,668 | 759 | 243 | 3,696 | 7,204 | 3,333 |

| Financial assets at amortised cost R million | Financial liabilities at amortised cost R million | Non-financial assets and liabilities at fair value R million | Non-financial assets and liabilities at other than fair value R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|---|
| – | – | – | 3,829 | 2,981 | 848 |
| – | 500 | – | – | – | 500 |
| – | – | – | 114 | 114 | – |
| – | 672 | – | – | 672 | – |
| – | – | – | 355 | 355 | – |
| – | – | – | – | – | 191 |
| – | – | – | 54 | – | 54 |
| – | – | – | 201 | 201 | – |
| – | 359 | – | – | 359 | – |
| – | 1,531 | – | 4,553 | 5,037 | 1,593 |

## 3. Categorisation of assets and liabilities (continued)

| COMPANY<br>2017 | Notes | Total<br>R million | Financial assets at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 16 | 161 | – |
| Property and equipment | 17 | 245 | – |
| Deferred taxation | 19 | 50 | – |
| Investments in subsidiaries | 10 | 1,836 | 1,836 |
| Investments in associates | 11 | 14 | 14 |
| Loans to share trusts | 13 | 84 | 84 |
| Interest in employee share trusts | 12 | 566 | 566 |
| Loans and advances | | 4 | – |
| Post-retirement benefit reimbursement assets | 22 | 170 | – |
| Deferred acquisition costs | 6 | 123 | – |
| Reinsurers' share of general insurance liabilities | 21 | 1,346 | – |
| Investments and securities | 14 | 3,463 | 3,463 |
| Amounts due from agents and reinsurers | 7 | 1,693 | – |
| Subrogation and salvage recoveries | 8 | 287 | – |
| Other receivables | 9 | 546 | – |
| Cash and cash equivalents | 18 | 319 | – |
| | | 10,907 | 5,963 |

| COMPANY<br>2017 | Notes | Total<br>R million | Financial assets at fair value through profit or loss<br>R million |
|---|---|---|---|
| **Liabilities** | | | |
| General insurance liabilities | 21 | 3,709 | – |
| Debt instrument | 26 | 500 | – |
| Deferred reinsurance commission revenue | 6 | 63 | – |
| Deposits owing to reinsurers | | 718 | – |
| Amounts due to agents and reinsurers | 7 | 871 | – |
| Post-retirement medical benefit liability | 22 | 210 | – |
| Share-based payment liability | 28 | 82 | – |
| Employee benefits | 23 | 151 | – |
| Taxation payable | 35 | 23 | – |
| Other payables | 25 | 219 | – |
| | | 6,546 | – |

* *Current assets and liabilities refer to amounts that are expected to be recovered or settled within 12 months from the reporting date and non-current assets and liabilities refer to amounts that are expected to be recovered or settled after 12 months from the reporting date.*

| Loans and receivables at amortised cost R million | Financial liabilities at amortised cost R million | Other non-financial assets and liabilities R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|
| – | – | 161 | – | 161 |
| – | – | 245 | – | 245 |
| – | – | 50 | – | 50 |
| – | – | – | – | 1,836 |
| – | – | – | – | 14 |
| – | – | – | – | 84 |
| – | – | – | – | 566 |
| 4 | – | – | – | 4 |
| – | – | 170 | – | 170 |
| – | – | 123 | 123 | – |
| – | – | 1,346 | 1,062 | 284 |
| – | – | – | 3,463 | – |
| – | – | 1,693 | 1,693 | – |
| – | – | 287 | 287 | – |
| 546 | – | – | 546 | – |
| 319 | – | – | 319 | – |
| 869 | – | 4,075 | 7,493 | 3,414 |

| Loans and receivables at amortised cost R million | Financial liabilities at amortised cost R million | Other non-financial assets and liabilities R million | Current assets and liabilities* R million | Non-current assets and liabilities* R million |
|---|---|---|---|---|
| – | – | 3,709 | 2,927 | 782 |
| – | 500 | – | – | 500 |
| – | – | 63 | 63 | – |
| – | 718 | – | 718 | – |
| – | – | 871 | 871 | – |
| – | – | 210 | – | 210 |
| – | – | 82 | – | 82 |
| – | – | 151 | 151 | – |
| – | – | 23 | 23 | – |
| – | 219 | – | 219 | – |
| – | 1,437 | 5,109 | 4,972 | 1,574 |

## 4. Management of risk and capital

### 4.1 General

The Board has overall responsibility for the group's systems of internal control and risk management. The executive management is responsible for the management and implementation of the group enterprise risk management framework and governance frameworks.

To assist the Board in the execution of its fiduciary duties in regard to risk management, legal and compliance accountabilities, the group Risk Committee has the following responsibilities:

- assisting the Board in setting risk strategy policies in liaison with management and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting;
- assisting the Board in overseeing the group's compliance with applicable legal and regulatory requirements and industry standards;
- monitoring external developments relating to the practice of corporate accountability and the reporting of specifically associated risk;
- providing an independent and objective oversight and view of the information presented by management on corporate accountability and specifically associated risk, also taking account of reports by management and the group Audit Committee to the Board on all categories of identified risks;
- recommending the risk policy and framework to the Board for approval; and
- ensuring the establishment of an independent risk management control function and reviewing its effectiveness;

The Board has delegated to the group Audit Committee an oversight role of financial reporting, accounting, the external auditor, appropriate internal controls and the internal auditors, and regulatory compliance, *inter alia*, to ensure the integrity of reporting and financial controls. The internal control systems continue to be enhanced and developed to safeguard the assets of the group and to ensure timely and reliable monitoring and reporting. The group Audit Committee has the following responsibilities:

- ensure compliance with all statutory duties imposed in terms of the Companies Act and, where appropriate, the recommendations of the King Code with regard to the auditors of the group;
- oversee the preparation of an integrated report annually that conveys adequate information about the operations of the group and its integrated sustainability and financial reporting;
- review the expertise, resources and experience of the group's finance function, and disclose the results of the review in the integrated report;
- oversee internal audit and consider the effectiveness of internal audit at least annually and report to the Board on the assessment from internal audit on the adequacy of the internal controls;
- oversee the financial reporting risks; internal financial controls; IT risks as it relates to financial reporting; and fraud and corruption risk management;
- deal with all aspects of the annual financial statements of the group and ensure compliance with relevant legislation and, where appropriate, the King Code;
- review the accounting policies of the group on an annual basis; and
- ensure compliance with all statutory requirements in relation to the external auditors including to review the quality and effectiveness of the audit process and assess whether the external auditors have performed the audit as planned.

The risk identification process is used to build an aggregated view of all significant risks faced by the group. The risk appetite framework governs how the risks should be managed within the group. It is within this risk appetite framework that the group has selected its asset allocation and reinsurance programme which are among the most important determinants of risk and capital requirements within the group.

The following control functions within the group are responsible for discharging the operations of risk management:

Risk management

- direct and assist in the co-ordination and monitoring of risk management activities;
- maintain and update the risk methodology and risk management system for the group. This includes the identification, assessment, monitoring, mitigation and reporting of the key risks;
- monitor and report progress on corrective action plans for risks that require mitigating actions;
- drive risk management by promoting awareness of risk management to both management and staff;
- ensure effective risk management training programmes are established;
- assist management with the embedding of risk management in the day-to-day business activities of the group; and
- ensure that risk management is considered when setting strategic goals and objectives.

Compliance

- monitors and reports on compliance with regulatory requirements;
- monitors that systems and controls are in place to ensure that the group's exposure is minimised;
- coordinates the company's relationship with its regulators;
- evaluates the impact of forthcoming legislative regulatory changes and provides advice on potential process and control changes required and whether the proposed control will be adequate; and
- reports to the group Risk Committee on the status of compliance of the group.

**Actuarial control**

The purpose of the actuarial control function is the following:

- Review and report on the reliability and adequacy of the prudential valuation and solvency results;
- review and report on the adequacy of the reinsurance and other risk transfer arrangements;
- review and report on the appropriateness of the risk policies relating to the actuarial scope of work, including particularly the Underwriting Policy and the Reinsurance Policy;
- advise on actuarial matters relating to prudential risk reporting relating to the Own Risk and Solvency Assessment (ORSA);
- advice regarding the long-term solvency of the companies in the group, allowing for possible scenarios; and
- advise on product development and design, including the terms and conditions of insurance contracts and pricing and estimations of the capital required to underwrite the product.

## 4. Management of risk and capital (continued)

### 4.1 General (continued)

**Internal audit**

The purpose of Group Internal Audit is to help the Board and executive management to protect the assets, reputation and sustainability of the group. This is done by:

- assessing whether all significant risks, both current and emerging, are identified and appropriately reported by management and the risk function to the Board;
- assessing whether the risks identified are adequately controlled; and
- by challenging executive management to improve the effectiveness of governance, risk management and internal controls.

Group Internal Audit is strategically well positioned to achieve its objectives. The Head of Audit is accountable to the Chairman of the Audit Committee and has access to the Chairman of the Board. Further to this:

- The internal audit function has financial independence through the Group Audit Committee (Old Mutual Limited) approving a budget to allow Group Internal Audit to meet the requirements of its mandate.
- Internal Audit is functionally independent from the activities it audits and from the day-to-day internal control processes of the group.
- Internal Audit can conduct assignments on its own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the organisation, including the activities of branches and subsidiaries and outsourced activities.
- Internal Audit meets with the Group Audit Committee at least once a year without management being present, and has frequent interactions with the Chairman of the Audit Committee.
- Functional independence of the head of internal audit and the internal audit function is further maintained by not directly reporting into executive management. Internal audit does, however, have unrestricted access to the Group executive committee as individuals and are present in key meetings and forums, to provide input and feedback.

**Underwriting risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

#### 4.1.1 Types of insurance contracts

The types of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

| Types of insurance contracts | Commercial | Personal |
|---|---|---|
| Accident and personal accident | * | * |
| Crop | * | |
| Engineering | * | |
| Liability | * | * |
| Marine | * | * |
| Motor | * | * |
| Trade credit (guarantee) | * | |
| Property | * | * |

The commercial division underwrites the risks of enterprises from small businesses to large corporates, where standard wordings are used. The specialty division underwrites large risks in excess of R250 million and any risk that requires non-standard wordings. The personal division provides insurance to the general public in their personal capacities.

Accident – Provides indemnity for loss of, or damage to, mainly movable property for losses caused by crime, certain accidental damage, such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third-party property or accidental death or injury to a third party caused by the insured.

Personal accident – Provides compensation arising out of the death, permanent or temporary total disability of the insured, the family of the insured or possibly the employees of a business. Such death or disability is restricted to certain accidents and does not provide the wider cover available from the life insurance industry.

Crop – Provides indemnity for crops, while still on the field, against hail, drought and excessive rainfall. The cover ceases as soon as harvesting has taken place.

Engineering – Provides indemnity for loss sustained through the use of machinery and equipment or the erection of buildings or structures. This type of contract includes contract works, removal of support, project delay, construction plant, machinery breakdown, loss of profits, deterioration of stock, dismantling, transit and erection, works damage and electronic equipment.

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.

Marine – Provides indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo, with a project delay option. Hull covers loss or damage to pleasure craft or commercial vessels as a result of accidents and also includes legal liability as a result of the accident.

Motor – Provides indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all risks basis providing a wide scope of cover following an accident or a theft of the vehicle, but the insured can select restricted forms of cover, such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third-party property or death or injury to a third party are also covered under this class of business.

Trade credit – This business is predominantly written through Credit Guarantee Insurance Corporation of Africa Limited, a subsidiary company. This is an insurance product for business entities wishing to protect their accounts receivable from loss due to credit risks such as protected default, insolvency or bankruptcy.

Property – Provides indemnity for loss of, or damage to, immovable and movable property caused by perils, such as fire, lightning, explosion, weather, water, earthquake and malicious damage. The fire classes also include business interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

The return to shareholders under the above products arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the company. There is also scope for the group to earn investment income owing to the time delay between the receipt of premiums and the payment of claims.

Mutual and Federal Risk Financing Limited underwrites insurance policies that fall within the abovementioned categories, through the use of cell structures.

## 4. Management of risk and capital (continued)

### 4.1 General (continued)

#### 4.1.2 Risk that arises from insurance contracts

*Insurance risk and policies for mitigating insurance risk*

The primary activity of the group relates to the assumption of the risk of loss from events involving persons or organisations. Such risks may relate to any of the abovementioned classes of business. As such, the group is exposed to the uncertainty surrounding the timing and severity of claims under insurance contracts.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts.

The principal risk is that the frequency or severity of claims is greater than expected and that the group does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, uncertain, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The group manages its insurance risk through the underwriting strategy, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues. The group also employs staff experienced in claims handling and rigorously applies standardised policies and procedures around claims assessment. These actions are described below:

**Underwriting strategy**

The group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan and risk appetite that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the group is prepared to accept exposure. Adherence to the underwriting delegated authorities is managed through the underwriting portfolio management and quality assurance processes.

Pricing of the group's insurance products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the group's principal cost, the group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of capital.

Underwriting limits are set to ensure that the underwriting policy is consistently applied. Underwriting performance is monitored continuously and the pricing policy is revised accordingly. Risk factors considered as part of the review would typically include factors such as age of the insured person, past loss experiences, past insurance history, type and value of the asset covered, security measures taken to protect the asset and major use of the covered item.

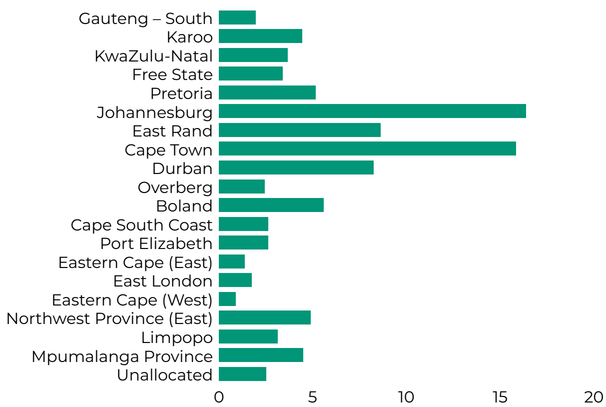
**Reinsurance strategy**

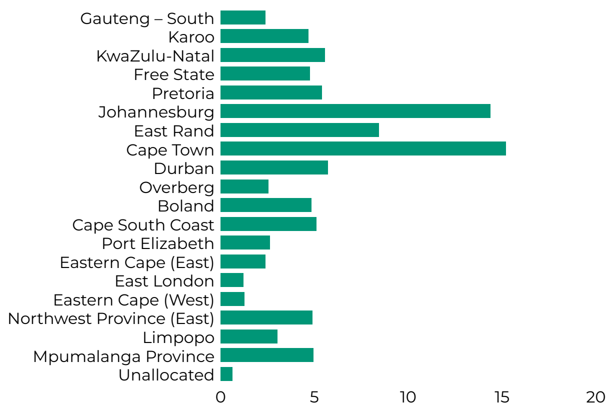
Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the group's risk management strategy and objectives. The group reinsures a portion of most of the risks it underwrites in order to control its exposures to losses and protect capital resources. The group buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure on any one risk to less than 1.0% (2017: 1.0%) of group equity. Variable commissions, loss participation and reinstatement premiums on reinsurance contracts mean that one large loss can, however, result in a 2.2% (2017: 2.4%) loss of capital.

*Concentrations of insurance risk and policies mitigating the concentrations*

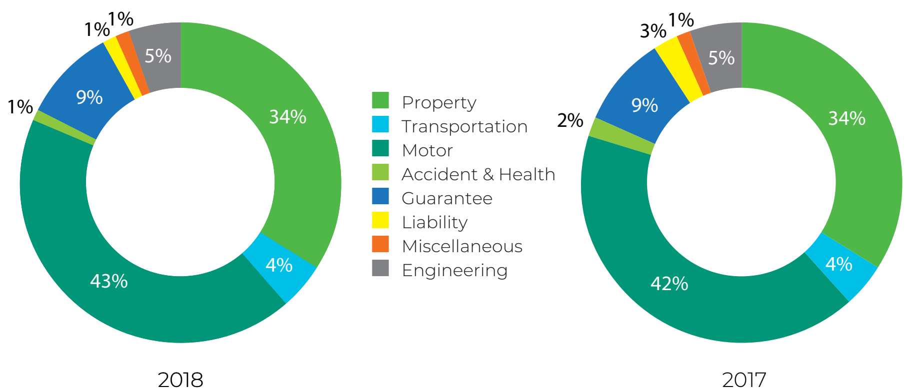
Within the insurance business, concentrations of risk may arise where a particular event or series of events could impact heavily upon the group's resources. The group monitors the concentration risk by geographical area and class of business. Business is mainly carried out in South Africa. The group has exposure to all major lines of insurance business, but the bulk of exposure is to property and motor risks.

### Sum insured by geographical area for the group

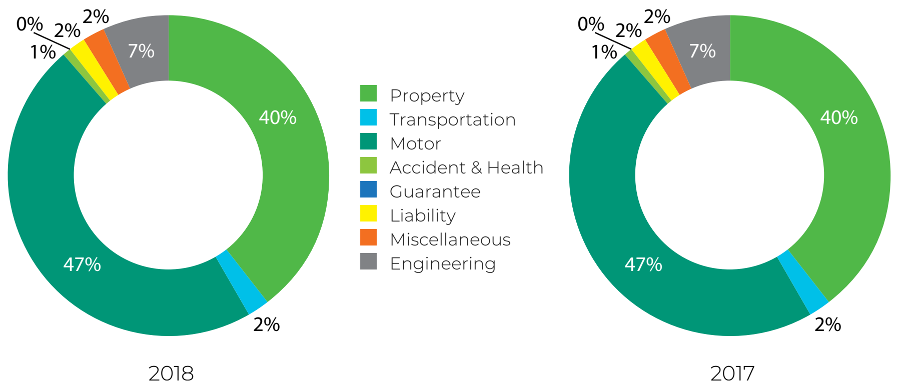



### Gross premium by class of business for the group




### Gross premium by class of business for the company



## 4. Management of risk and capital (continued)

### 4.1 General (continued)

#### 4.1.2 Risk that arises from insurance contracts (continued)

**Exposure relating to catastrophe events**

The group sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events, such as natural catastrophes. The aggregate position is reviewed annually. The group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of the group.

The group considers that its most significant single loss would arise in the event of an earthquake in Gauteng. However, exposure to multiple storms in a single year or a severe recession can give rise to a higher net retained loss in severe years (1 in 200). The group's policies for mitigating catastrophe, risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake in Gauteng, the net retained loss would represent 1.9% of capital (2017: 1.3%). The additional reinstatement premiums, variable commissions, loss participation and inclusion of large individual losses within the catastrophe could increase this to 3.4% (2017: 6.9%) or more of the group's capital.

*Measurement of insurance liabilities*

The best estimate reserve represents the expected value of the insurance liabilities, essentially the mean in a range of possible outcomes in the development of unreported claims and the future development of notified claims. The explicit risk margins are added to the best estimate to reflect the uncertainty of the ultimate cost of claims. The risk margins are determined statistically such that the level of confidence on the adequacy of the reserves is 75%. The levels of the IBNR provisions and the risk margins are assessed annually by management against the company's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate. The aggregate of the best estimate reserve and risk margin is expressed as a percentage of premiums earned.

The methods applied by the group use historical claims development information and therefore the underlying bases assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

There were no changes to these assumptions from the prior year.

*Claims development*

The group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to predetermined time scales dependent on the nature of the insurance contract. The group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims (run-off risk). To manage run-off risk the group takes all the reasonable steps to ensure that it has appropriate information regarding its claims exposures and adopts sound reserving practices. Consequently, the group has a history of positive claims development, i.e. the reserves created over time proved to be sufficient to fund the actual claims paid.

The majority of the group's insurance contracts are classified as "short-tailed", meaning that any claim is settled within a year after the loss date. This contrasts with the "long-tailed" classes where the claims cost takes longer to materialise and settle. The group's long-tailed business is generally limited to liability, personal accident, third-party motor liability and certain engineering classes.

*Other risks and policies mitigating these risks*

Insurance risk is further mitigated by ensuring that reserve and reinsurance risk is adequately managed. Reserve risk relates to the risk that the claim provisions held for both reported and unreported claims as well as their associated expenses may prove insufficient.

The group is exposed to the risk of false, invalid and exaggerated claims. Sophisticated software and fraud detection measures are also in place to improve the group's ability to proactively detect fraudulent claims.

## 4.2 Financial risk

The group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance policy liabilities. The most important components of this financial risk are market risk (including equity price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the group manages these risks.

### 4.2.1 Market risk

Market risk can be described as the risk of a change in the fair value or future cash flows of a financial instrument brought about by changes in interest rates, equity prices and foreign exchange rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on assets.

## 4. Management of risk and capital (continued)

### 4.2 Financial risk (continued)

#### 4.2.1 Market risk (continued)

*Equity price risk – unlisted equities*

The group has investments in unlisted equities that are exposed to market risk. These include strategic investments in insurance-related undertakings and subsidiaries. The unlisted equities are selected by management after consideration of the benefits and corresponding risk related to the investment. Please refer to page 115.

*Equity price risk – listed equities*

The group has investments in listed equities that are exposed to market risk. The exposure to listed equities is protected from severe drops in equity markets by using hedging derivatives selected by management after consideration of the benefits and corresponding risk related to the investment where this is possible. Please refer to note 14 for more information on the protected equity portfolio.

| **Group – Impact on profit or loss as a result of changes in equity prices** | Current carrying value | 10% up | 20% up | 10% down | 20% down |
|---|---|---|---|---|---|
| **Sensitivity analysis** | R million | R million | R million | R million | R million |
| Protected equity | 502 | 50 | 100 | 50 | 100 |
| Old Mutual Limited shares and other listed shares | 612 | 61 | 122 | 61 | 122 |
| Total impact | | 111 | 222 | 111 | 222 |

*Interest rate risk*

Assets subject to interest rate fluctuations include cash instruments, including unlisted money market funds.

*Interest rate sensitivity*

An increase or decrease of 1% in the interest rate on investments and securities as well as cash and cash equivalents would result in a change of R3,7 million (2017: R2,9 million) to the profit after tax of the group and a resultant increase or decrease in retained earnings.

*Foreign currency risk*

The group is exposed to foreign currency risk for transactions that are denominated in foreign currencies, with transactions in United States Dollar being the main currency impacting the group. This exposure is limited to the underwriting operations in foreign currencies, credit insurance, transactions with foreign reinsurers and equity investments in foreign companies. The group does not take on cover on foreign currency transactions and balances as the net exposure is considered minimal.

| | 2018 Assets R million | 2018 Liabilities R million | 2018 Net R million | 2017 Assets R million | 2017 Liabilities R million | 2017 Net R million |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| South African Rand (ZAR) | **14,170** | **10,150** | **4,020** | 14,290 | 10,326 | 3,963 |
| United States Dollar (USD) | **300** | **31** | **269** | 153 | 122 | 32 |
| | **14,470** | **10,181** | **4,289** | 14,443 | 10,448 | 3,995 |
| **Company** | | | | | | |
| South African Rand (ZAR) | **10,471** | **6,236** | **4,235** | 10,777 | 6,424 | 4,353 |
| United States Dollar (USD) | **66** | **39** | **27** | 130 | 122 | 8 |
| | **10,537** | **6,275** | **4,262** | 10,907 | 6,546 | 4,361 |

The following table represents the exchange rates used for foreign currency transactions:

| | 2018 Average ZAR | 2017 Average ZAR | 2018 Closing ZAR | 2017 Closing ZAR |
|---|---|---|---|---|
| United States Dollar | **14.3467** | 13.3214 | **13.2501** | 12.5389 |
| United States Dollar – for Zimbabwe | **10.7300** | 4.1600 | **4.3500** | 6.2690 |

*Foreign currency sensitivity analysis*

An increase or decrease of 10% in the currency rate would result in a change of R26 million (2017: R3 million) to the profit after tax and a resultant increase or decrease in retained earnings.

### 4.2.2 Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries and third-party recoveries;
- investments and cash and cash equivalents;
- reinsurers' share of general insurance liabilities; and
- amounts due from reinsurers and third parties in respect of claims already paid.

Exposures to individual policyholders, groups of policyholders and third parties are monitored as part of the credit control process.

Reputable financial institutions are used for investing and cash-handling purposes. In excess of 61% of money market instruments and cash and cash equivalents are placed with institutions that have a national long-term credit rating of at least A.

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 4. Management of risk and capital (continued)

### 4.2 Financial risk (continued)

#### 4.2.2 Credit risk (continued)

*Analysis of the credit quality and maximum exposure to credit risk of the financial assets*

| R million | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2018** | | | | | | |
| Loans and advances | – | – | – | – | 1 | 1 |
| Loans to share trusts | – | – | – | – | 7 | 7 |
| Investments and securities | | | | | | |
| Long-term loans | – | – | – | – | 3 | 3 |
| Unlisted empowerment private equity fund | – | – | – | – | 100 | 100 |
| Unlisted ordinary shares | – | – | – | – | 137 | 137 |
| Listed ordinary shares | – | – | – | – | 1,114 | 1,114 |
| Unlisted money market funds | 696 | 4,215 | 32 | – | – | 4,943 |
| Other receivables | – | – | – | – | 604 | 604 |
| Cash and cash equivalents | – | 1,393 | – | – | 1 | 1,394 |
| | 696 | 5,608 | 32 | – | 1,967 | |

| R million | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2017** | | | | | | |
| Loans and advances | – | – | – | – | 4 | 4 |
| Loans to share trusts | – | – | – | – | 7 | 7 |
| Investments and securities | | | | | | |
| Long-term loans | – | – | – | – | 3 | 3 |
| Unlisted empowerment private equity fund | – | – | – | – | 5 | 5 |
| Unlisted ordinary shares | – | – | – | – | 100 | 100 |
| Listed ordinary shares | – | – | – | – | 1,163 | 1,163 |
| Unlisted money market funds | 608 | 2,205 | 1,383 | 54 | 18 | 4,268 |
| Other receivables | – | – | – | – | 938 | 938 |
| Cash and cash equivalents | – | 1,706 | – | – | 18 | 1,724 |
| | 608 | 3,911 | 1,383 | 54 | 2,256 | |

| R million | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2018** | | | | | | |
| Loans and advances | – | – | – | – | 1 | 1 |
| Loans to share trusts | – | – | – | – | 84 | 84 |
| Investments and securities | | | | | | |
| Unlisted empowerment private equity fund | – | – | – | – | 100 | 100 |
| Unlisted ordinary shares | – | – | – | – | 8 | 8 |
| Listed ordinary shares | – | – | – | – | 468 | 468 |
| Unlisted money market funds | 696 | 2,198 | 32 | – | 6 | 2,932 |
| Other receivables | – | – | – | – | 322 | 322 |
| Cash and cash equivalents | – | 350 | – | – | 1 | 351 |
| | 696 | 2,548 | 32 | – | 990 | |

## 4. Management of risk and capital (continued)

### 4.2 Financial risk (continued)

#### 4.2.2 Credit risk (continued)

| R million | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2017** | | | | | | |
| Loans and advances | – | – | – | – | 4 | 4 |
| Loans to share trusts | – | – | – | – | 84 | 84 |
| Investments and securities | | | | | | |
| Long-term loans | – | – | – | – | 9 | 9 |
| Unlisted empowerment private equity fund | – | – | – | – | 67 | 67 |
| Listed ordinary shares | – | – | – | – | 502 | 502 |
| Unlisted money market funds | 608 | 2,205 | – | 54 | 18 | 2,885 |
| Other receivables | – | – | – | – | 546 | 546 |
| Cash and cash equivalents | – | 314 | – | – | 5 | 319 |
| | **608** | **2,519** | **–** | **54** | **1,235** | |

The assets analysed above are based on external credit ratings obtained from Fitch Ratings Inc and Moodys. The rating scales are based on long-term investment horizons under the following broad investment grade definitions:

**AAA** The financial instrument is judged to be of the highest quality, with minimal credit risk and indicates the best quality issuers that are reliable and stable.

**AA** The financial instrument is judged to be of high quality and is subject to very low credit risk and indicates quality issuers.

**A** The financial instrument is considered upper-medium grade and is subject to low credit risk although certain economic situations can more readily affect the issuers' financial soundness adversely than those rated AAA or AA.

**BBB** The financial instrument is subject to moderate credit risk and indicates medium-class issuers which are currently satisfactory.

**Not rated** This is where the exposure is not risk-rated in an active market, such as loans and advances and unlisted ordinary shares

*Reinsurance*

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that a gross claim is paid. Consequently, the group is exposed to the credit risk of the reinsurer.

When selecting a reinsurer the group considers its security. This is assessed from public rating information and from internal investigations. The group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The group has a Capital Management Committee that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria.

The group held deposits of R796 million (2017: R834 million) and the company held deposits of R672 million (2017: R718 million) as security for reinsurers' share of insurance contract provisions at the reporting date.

### 4.2.3 Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts and in respect of financial liabilities.

The group sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

| | Maturity in less than 3 months R million | Maturity between 3 months and 1 year R million | Maturity between 1 and 5 years R million | Total R million |
|---|---|---|---|---|
| **Group** | | | | |
| **2018** | | | | |
| General insurance liabilities | **2,585** | **2,397** | **1,137** | **6,119** |
| Amounts payable to cell owners | **–** | **–** | **878** | **878** |
| Debt instrument | **–** | **–** | **500** | **500** |
| Deposits owing to reinsurers | **669** | **127** | **–** | **796** |
| Post-retirement medical benefit liability | **–** | **–** | **254** | **254** |
| Employee benefits | **153** | **60** | **–** | **213** |
| Taxation payable | **–** | **7** | **–** | **7** |
| Other payables | **543** | **–** | **–** | **543** |
| Amounts due to agents and reinsurers | **471** | **43** | **–** | **514** |
| | **4,421** | **2,634** | **2,769** | **9,824** |
| **Group** | | | | |
| **2017** | | | | |
| General insurance liabilities | 2,705 | 1,996 | 1,263 | 5,964 |
| Amounts payable to cell owners | – | – | 761 | 761 |
| Debt instrument | – | – | 500 | 500 |
| Deposits owing to reinsurers | 709 | 125 | – | 834 |
| Post-retirement medical benefit liability | – | – | 272 | 272 |
| Employee benefits | 120 | 55 | – | 175 |
| Taxation payable | – | 31 | – | 31 |
| Other payables | 303 | – | – | 303 |
| Amounts due to agents and reinsurers | 1,170 | 102 | – | 1,272 |
| | **5,007** | **2,309** | **2,796** | **10,112** |

## 4. Management of risk and capital (continued)

### 4.2 Financial risk (continued)

| | Maturity in less than 3 months R million | Maturity between 3 months and 1 year R million | Maturity between 1 and 5 years R million | Total R million |
|---|---|---|---|---|
| **Company** | | | | |
| **2018** | | | | |
| General insurance liabilities | **1,717** | **1,264** | **848** | **3,829** |
| Debt instrument | **–** | **–** | **500** | **500** |
| Deposits owing to reinsurers | **564** | **108** | **–** | **672** |
| Post retirement medical benefit liability | **–** | **–** | **–** | **191** |
| Employee benefits | **150** | **51** | **–** | **201** |
| Other payables | **359** | **–** | **–** | **359** |
| Amounts due to agents and reinsurers | **334** | **21** | **–** | **355** |
| | **3,124** | **1,444** | **1,348** | **6,107** |
| **Company** | | | | |
| **2017** | | | | |
| General insurance liabilities | 1,698 | 1,229 | 782 | 3,709 |
| Debt instrument | – | – | 500 | 500 |
| Deposits owing to reinsurers | 603 | 115 | – | 718 |
| Post retirement medical benefit liability | – | – | – | 210 |
| Employee benefits | 104 | 47 | – | 151 |
| Taxation payable | – | 23 | – | 23 |
| Other payables | 219 | – | – | 219 |
| Amounts due to agents and reinsurers | 819 | 52 | – | 871 |
| | 3,443 | 1,466 | 1,282 | 6,401 |

**Maturity analysis of general insurance liabilities**

Based on actuarial modelling of historical and future expected trends, the group has estimated the probable cash outflows associated with gross general insurance liabilities. The maturity profile of the related reinsurance assets is expected to be similar to the profile of the liabilities. The group acknowledges that the unearned premium provision, that will be recognised as earned premium in the future, will most likely not lead to claim cash outflows equal to this provision. The group has, however, adopted a conservative approach in estimating future cash outflows associated with unearned premium by assuming a 100% combined ratio. The assumption is not necessarily indicative of the group's future expectation regarding claim levels.

### 4.2.4 Fair value hierarchy of assets carried at fair value

| | Notes | Level 1 R million | Level 2 R million | Level 3 R million | Total R million |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2018** | | | | | |
| Property | 17 | **–** | **–** | **2** | **2** |
| Investment in associates | 11 | **–** | **–** | **104** | **104** |
| Non-current asset held for sale | 20 | **–** | **243** | **–** | **243** |
| Post-retirement medical benefit asset | 22 | **–** | **223** | **–** | **223** |
| Investments and securities | 14 | **2,789** | **3,306** | **202** | **6,297** |
| Unlisted ordinary shares | | **–** | **35** | **102** | **137** |
| Long-term loans | | **–** | **3** | **–** | **3** |
| Unlisted empowerment private equity fund | | **–** | **–** | **100** | **100** |
| Listed ordinary shares | | **1,114** | **–** | **–** | **1,114** |
| Unlisted money market funds | | **1,675** | **3,268** | **–** | **4,943** |
| **Financial assets at fair value** | | **2,789** | **3,772** | **308** | **6,869** |
| **Group** | | | | | |
| **2017** | | | | | |
| Property | 17 | – | – | 161 | 161 |
| Investment in associates | 11 | – | – | 113 | 113 |
| Non-current assets held for sale | 20 | – | 38 | – | 38 |
| Post-retirement medical benefit asset | | – | 235 | – | 235 |
| Investments and securities | 14 | 2,155 | 3,279 | 105 | 5,539 |
| Unlisted ordinary shares | | – | – | 100 | 100 |
| Long-term loans | | – | 3 | – | 3 |
| Unlisted empowerment private equity fund | | – | – | 5 | 5 |
| Listed ordinary shares | | 1,163 | – | – | 1,163 |
| Unlisted money market funds | | 992 | 3,276 | – | 4,268 |
| **Financial assets at fair value** | | **2,155** | **3,552** | **379** | **6,086** |

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 4. Management of risk and capital (continued)

### 4.2 Financial risk (continued)

#### 4.2.3 Fair value hierarchy of assets carried at fair value (continued)

| R million | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Company** | | | | | |
| **2018** | | | | | |
| Property | 17 | **–** | **–** | **2** | **2** |
| Investment in subsidiaries | 10 | **–** | **–** | **1,548** | **1,548** |
| Investment in associates | 11 | **–** | **–** | **13** | **13** |
| Interest in employee share trusts | | **–** | **611** | **–** | **611** |
| Non-current asset held for sale | 20 | **–** | **243** | **–** | **243** |
| Post-retirement medical benefit asset | | **–** | **160** | **–** | **160** |
| Investments and securities | 14 | **1,146** | **2,254** | **108** | **3,508** |
| Unlisted ordinary shares | | **–** | **–** | **8** | **8** |
| Unlisted empowerment private equity fund | | **–** | **–** | **100** | **100** |
| Listed ordinary shares | | **468** | **–** | **–** | **468** |
| Unlisted money market funds | | **678** | **2,254** | **–** | **2,932** |
| **Financial assets at fair value** | | **1,146** | **3,268** | **1,671** | **6,085** |
| **Company** | | | | | |
| **2017** | | | | | |
| Property | 17 | – | – | 159 | 159 |
| Investment in subsidiaries | 10 | – | – | 1,836 | 1,836 |
| Investment in associates | 11 | – | – | 14 | 14 |
| Interest in employee share trusts | | – | 566 | – | 566 |
| Non-current asset held for sale | 20 | – | 38 | – | 38 |
| Post-retirement medical benefit asset | | – | 170 | – | 170 |
| Investments and securities | 14 | 841 | 2,546 | 76 | 3,463 |
| Unlisted ordinary shares | | – | – | 9 | 9 |
| Unlisted empowerment private equity fund | | – | – | 67 | 67 |
| Listed ordinary shares | | 502 | – | – | 502 |
| Unlisted money market funds | | 339 | 2,546 | – | 2,885 |
| **Financial assets at fair value** | | **841** | **3,320** | **2,085** | **6,246** |

**Definitions**

**Level 1:** Quoted market price in an active market for an identical instrument.

**Level 2:** Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs which reflect assumptions that market participants would use when pricing an asset or liability). Unobservable inputs are developed using best available data.

*Movement analysis of level 3 instruments*

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **Investments and securities and property** | | | | |
| Opening balance | **266** | 334 | **235** | 255 |
| Movement in valuation of property | **–** | (53) | **(157)** | (1) |
| Transfer between levels | **(159)** | – | **–** | – |
| Revaluation of investments to fair value through profit or loss | **10** | (15) | **–** | 41 |
| Revaluation of money market instruments | **87** | – | **32** | (60) |
| **Closing balance** | **204** | 266 | **110** | 235 |
| **Investments in subsidiaries and associates** | | | | |
| Opening balance | **113** | 74 | **1,850** | 2,078 |
| Subsidiary fair value adjustment through profit or loss | **–** | – | **(309)** | 227 |
| Movement in associate through profit or loss | **99** | 27 | **–** | – |
| Disposal of investment in associate | **(1)** | – | **(1)** | – |
| Sale of interest in subsidiary | **–** | – | **–** | (494) |
| Acquisition of subsidiary | **–** | – | **21** | 27 |
| Acquisition of associate | **–** | 12 | **–** | 12 |
| Devaluation of investment in associates | **(107)** | – | **–** | – |
| **Closing balance** | **104** | 113 | **1,561** | 1,850 |

*Sensitivity analysis for investments and securities*

The unlisted ordinary shares are valued at fair value using discounted cash flows.

Material subsidiary companies are valued using the discounted cash flow method and net asset value is used as a proxy for the valuation of less material subsidiaries.

If the interest rate associated with the unlisted money market investments changed by 10% the impact on profit or loss would be R5 million.

The unlisted empowerment private equity fund consists of cash and unlisted ordinary shares. The unlisted ordinary shares are shown at fair value which is calculated by reference to expected future cash flows, discounted by an applicable risk-adjusted discount rate for similar equity securities. A 2.5% difference in earnings before interest, tax, depreciation and amortisation (EBITDA) would impact the profit or loss by R3 million (2017: R2.5 million).

## 4. Management of risk and capital (continued)

### 4.2 Financial risk (continued)

#### 4.2.3 Fair value hierarchy of assets carried at fair value (continued)

A sensitivity analysis performed on the investment in subsidiaries indicates that an increase of 10% in the discount rate will result in a maximum movement of 36% or R559 million impact on profit or loss (2017: 6% or R69 million) in the calculated fair value.

Further information relating to investments and securities is contained in note 14 of the financial statements.

*Sensitivity analysis for property*

The material assumptions, observable inputs and the valuation technique applied for the valuation of the buildings have been included within note 17. Upward/downward movements in the rental rates of 5% will impact the value of the building by a corresponding amount.

### 4.3 Capital management

The company targeted the higher of a multiple of 1.3 time the solvency assessment and management's (SAM) solvency capital requirement and 1.4 times the interim measures capital requirement before spreading during the year.

The group capital target is 1.2 times using the SAM group Deduction and Aggregation capital requirement. This is expected to be replaced by a target of 1.3 times using the SAM Accounting Consolidation capital requirement once this option is approved by the Prudential Authority (PA).

This implies that the group holds a buffer over and above a 99.5% level of sufficiency.

The group capital is allocated to subsidiaries and lines of business based on a combination of the risks associated with each line of business and the SAM capital requirements for each line of business/subsidiary. Return on capital targets are set at 18% – 20%. Investment allocations and reinsurance programmes are largely based on the group's risk appetite and decisions are made considering the impact on the SAM capital requirements.

**Operational risk**

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risk is inherent in the group and company's operations. Major sources of operational risk can include operational process reliability, information security, outsourcing of operations, dependence on key suppliers, implementation of strategic and operational change, integration of acquisitions, fraud, human error such as not placing the necessary facultative reinsurance, client service quality, inadequacy of business continuity arrangements, recruitment, training and retention of employees, and the social and environmental impact of the group.

The group and company manage operational risk by a comprehensive system of internal controls. From a risk governance perspective, the three lines of defence approach are used to identify the various levels of controls, oversight and assurance, including consideration of role-player independence. The group has developed a number of contingency plans including Business Continuity Plans.

Regulatory compliance risk is the risk that the group will be negatively impacted by a change in regulations or will fall foul of regulations or non-compliance with internal policies which are already in place resulting in either penalties or fines and significantly impacting the group's reputation.

The Board of directors and management are actively monitoring the changes in the regulatory and compliance business landscape. The possible implications for the business plans and governance structures going forward are analysed on a continuous basis and the necessary changes are implemented where deemed reasonable. The group seeks constructive engagement with the various regulators and policymakers.

Conduct risk is the risk that a firm's behaviour may result in unfair treatment of its clients. To this end the regulator has introduced the Treating Customers Fairly (TCF) initiative as a precursor to conduct risk. Structures are in place to report on TCF initiatives to the Risk Committee.

## 5. Segmental information

The segmental results are reported on a basis consistent with the practice that the chief operating decision-maker (executive committee) assesses performance of the underlying businesses and allocated resources. The group has identified its reportable segments based on a combination of products and services offered to customers and the location of the markets served.

### Segmental revenue and results

The segment information provided to the executive committee is presented below. The information presented includes a reconciliation of the group's earnings before interest, tax, depreciation and amortisation to net profit before tax and discontinued operations.

### Statement of profit or loss

| | INSURANCE LINE OF BUSINESS | | | | | |
|---|---|---|---|---|---|---|
| **2018** | **Commercial R million** | **Personal R million** | **Risk financing R million** | **Specialty R million** | **CGIC Guarantee R million** | **Total R million** |
| **Business activity** | | | | | | |
| Gross written premium | 4,261 | 3,677 | 2,840 | 1,275 | 1,165 | 13,218 |
| Net written premium | 3,891 | 3,637 | 42 | 662 | 838 | 9,070 |
| Net earned premium | 3,882 | 3,638 | 39 | 660 | 829 | 9,048 |
| Net claims incurred | (2,239) | (2,119) | (1) | (503) | (633) | (5,495) |
| Net acquisition expenses | (662) | (362) | – | (93) | (23) | (1,140) |
| Total expenses | (879) | (777) | (47) | (110) | (71) | (1,884) |
| Central expenses | | | | | | (49) |
| Segment result | 102 | 380 | (9) | (46) | 102 | 480 |
| Investment returns and share of profit from associates | – | – | – | – | – | 504 |
| Impact of restructuring (included in administration expenses) | – | – | – | – | – | (70) |
| **Profit before taxation** | | | | | | **914** |

## 5. Segmental information (continued)

| 2017 | Commercial R million | Personal R million | Risk financing R million | Specialty R million | CGIC Guarantee R million | Total R million |
|---|---|---|---|---|---|---|
| | Insurance line of business | | | | | |
| **Business activity** | | | | | | |
| Gross written premium | 4,216 | 3,444 | 2,629 | 1,082 | 1,110 | 12,481 |
| Net written premium | 3,850 | 3,362 | 99 | 419 | 755 | 8,485 |
| Net earned premium | 3,866 | 3,359 | 53 | 422 | 709 | 8,409 |
| Net claims incurred | (2,294) | (2,058) | (27) | (331) | (450) | (5,160) |
| Net acquisition expenses | (774) | (472) | (1) | (91) | (18) | (1,356) |
| Total expenses | (632) | (650) | (14) | (101) | (181) | (1,578) |
| Central expenses | | | | | | (3) |
| Segment result | 166 | 179 | 11 | (101) | 60 | 312 |
| Investment returns and share of profit from associates | – | – | – | – | – | 637 |
| **Profit before taxation** | | | | | | 949 |

Investment income and expenditure attributable to equity holders are not allocated to the segments as this type of activity is primarily driven by the central finance function which manages the cash position of the group.

Whilst the company has subsidiaries and investments located in Zimbabwe, Swaziland and Mauritius, the results of these foreign entities are not material to the group. As the asset base represents approximately 1.76% in 2018 (2017: 1.06%) of the groups total assets, no further information is provided in these financial statements.

The chief operating decision-maker (Executive Committee) reviews the segment's revenue and underwriting result to assess the performance of a segment and make decisions about resources to be allocated to a segment.

The group's insurance activities are spread over various classes of general insurance.

| | GROSS WRITTEN PREMIUM | |
|---|---|---|
| | **2018 R million** | 2017 R million |
| Property | **4,516** | 4,247 |
| Transportation | **590** | 549 |
| Motor | **5,352** | 5,188 |
| Accident and health | **177** | 213 |
| Guarantee | **1,215** | 1,161 |
| Liability | **197** | 317 |
| Engineering | **670** | 657 |
| Miscellaneous | **501** | 149 |
| **Total** | **13,218** | 12,481 |

## 6. Deferred acquisition costs and reinsurance commission revenue

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **Analysis of movements** | | | | |
| **Deferred acquisition costs** | | | | |
| Balance at the beginning of the year | **200** | 207 | **123** | 129 |
| Change in statement of comprehensive income | **31** | (7) | **35** | (6) |
| **Balance at the end of the year** | **231** | 200 | **158** | 123 |
| **Reinsurance commission revenue** | | | | |
| Balance at the beginning of the year | **139** | 134 | **63** | 58 |
| Change in statement of comprehensive income | **47** | 5 | **51** | 5 |
| **Balance at the end of the year** | **186** | 139 | **114** | 63 |

The net deferred acquisition costs relate to annual contracts and will be released into the statement of profit or loss and other comprehensive income within the next 12 months.

## 7. Amounts due (to)/from agents and reinsurers

Agents' and reinsurers' balances represent receivables and payables from brokers and reinsurance companies. These receivables and payables are measured at amortised cost which approximates fair value.

| | | | | |
|---|---|---|---|---|
| **Assets** | | | | |
| Agents' balances | **1,050** | 1,498 | **702** | 1,073 |
| Reinsurance balances | **568** | 620 | **568** | 620 |
| | **1,618** | 2,118 | **1,270** | 1,693 |
| **Liabilities** | | | | |
| Agents' balances | **(113)** | (921) | **(100)** | (705) |
| Reinsurance balances | **(401)** | (351) | **(255)** | (166) |
| | **(514)** | (1,272) | **(355)** | (871) |

**Portfolio impairment allowance**

Included in the agents' and reinsurance balances are a portfolio impairment allowance and specific allowances for possible losses.

| | | | | |
|---|---|---|---|---|
| **Analysis of portfolio impairment allowance** | | | | |
| Balance at the beginning of the year | **(8)** | (8) | **(5)** | (5) |
| Movement for the year | **(19)** | – | **(16)** | – |
| **Balance at the end of the year** | **(27)** | (8) | **(21)** | (5) |

## 8. Subrogation and salvage recoveries

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| Balance at the beginning of the year | **653** | 656 | **287** | 292 |
| Change in statement of profit or loss and other comprehensive income | **(7)** | (3) | **(12)** | (5) |
| **Balance at the end of the year** | **646** | 653 | **275** | 287 |

## 9. Other receivables

| | | | | |
|---|---|---|---|---|
| Accrued interest | **116** | 98 | **89** | 97 |
| Prepayments | **62** | 39 | **34** | 32 |
| Amounts due from subsidiaries | **–** | – | **10** | 34 |
| Amounts due from related parties | **17** | – | **17** | 49 |
| Value added taxation | **45** | 320 | **2** | 271 |
| Sundry debtors | **364** | 481 | **170** | 63 |
| | **604** | 938 | **322** | 546 |

## 10. Investment in subsidiaries

| | | |
|---|---|---|
| Shares at cost less impairment | **693** | 1,167 |
| – Mutual and Federal Risk Financing Limited | **9** | 9 |
| – Credit Guarantee Insurance Corporation of Africa Limited | **501** | 1,001 |
| – Cougar Investment Holding Company (Proprietary) Limited | **156** | 156 |
| – Old Mutual Holdings (Mauritius) Limited | **27** | – |
| – Mutual & Federal Company of Zimbabwe (Private) Limited | **–** | – |
| – Platinum Underwriting Managers Proprietary Limited | **–** | 1 |
| Acquisition of equity interest in subsidiary | **22** | – |
| Acquisition of subsidiary | **–** | 27 |
| Sale of equity interest in subsidiary | **–** | (494) |
| Adjustment to fair value | **833** | 1,136 |
| | **1,548** | 1,836 |
| Amounts due from subsidiaries (included in other receivables) | **10** | 34 |
| Amounts due to subsidiaries (included in other payables) | **(90)** | (74) |
| | **1,468** | 1,796 |

The amounts owing by or to the company are not subject to interest. The amounts owing are unsecured and do not have fixed repayment terms.

The company classifies all its investments in subsidiaries at fair value through profit or loss. Investments in subsidiaries are managed and evaluated in terms of a documented investment strategy.

**Formation of Elite Risk Acceptances Proprietary Limited – 2018**

The group formed a new company Elite Risk Acceptances Proprietary Limited on 1 September 2018.

**Purchase of subsidiary Sintelum Proprietary Limited formally known as Arch Underwriting Managers at Lloyds (South Africa) (Proprietary) Limited – 2018**

The company acquired a 100% equity stake in Sintelum Proprietary Limited previously known as Arch Underwriting Managers at Lloyds (South Africa) Proprietary Limited from Arch Underwriting Managers at Lloyds, with effect from 1 October 2018.

**Purchase of subsidiary Old Mutual Holdings (Mauritius) Limited – 2017**

The company acquired a 100% equity stake in Old Mutual Holdings (Mauritius) Limited from Old Mutual Group (UK) Limited, with effect from 31 May 2017.

| | |
|---|---|
| Purchase price | (27) |
| Less cash on acquisition | 27 |
| **Net cash purchase price** | – |

**Sale of shares in subsidiaries – 2017**

Credit Guarantee Insurance Corporation of Africa Limited (CGIC)

The company disposed of a 25% equity stake in CGIC to Atradius Insurance Company Limited. The sale resulted in the company owning 75% of the share capital in CGIC, with effect from 1 April 2017.

**Investment in Mutual & Federal Company of Zimbabwe (Private) Limited**

Entities in Zimbabwe have been operating in a multi-currency regime since the adoption of multiple currencies by the Zimbabwean Government in 2009. The US dollar and South African Rand were initially used the most, however, over time the US dollar was designated as the functional and presentation currency for the Zimbabwe subsidiary. The continued dollar shortages experienced in Zimbabwe have led to the increased use of electronic and plastic money through the Real Time Gross Settlement (RTGS) system, giving rise to parallel market activities and multiple pricing mechanisms where bond notes and RTGS balances have been trading at a discount to the official US dollar exchange rate. The increased reliance on RTGS bank balances, which was introduced as a settlement mechanism, effectively resulted in RTGS becoming a de facto currency.

On 1 October 2018, the Reserve Bank of Zimbabwe (RBZ) directed all banks to ring-fence Nostro foreign currency accounts (FCAs) by separating them into two categories, namely Nostro FCAs and RTGS FCAs. In line with industry consensus on the matter, this event has led to a change in functional currency to RTGS for the group's entity operating in Zimbabwe, with effect from 1 October 2018. This is further evidenced as the vast majority of premiums and fees from our customers are received and settled in Bond Notes and RTGS.

On 20 February 2019, the RBZ announced that the RTGS would be recognised as an official currency and that an inter-bank foreign exchange market would be established to formalise trading in RTGS balances with other currencies. However, pre the implementation of this formalised trading mechanism, authorities maintained that the US Dollar represented in the RTGS system were at a 1:1 exchange rate. IFRS requires that the exchange rate used should reflect the true economic reality of the underlying economic conditions and transactions as such, an assessment of the impact that various factors have on inflation has been performed and based on this, an estimated RTGS US dollar exchange rate of 3.3 to 1 (RTGS rate) has been calculated. The inputs considered in this estimate include the recent announcement to increase the fuel price and the official inflation rate. Another observable input taken into consideration was the premium at which the Old Mutual and PPC share prices trade on the Zimbabwe stock exchange.

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 10. Investment in subsidiaries (continued)

The application of the change in functional currency has been applied prospectively in our financial results for the period. For inclusion in the consolidated income statement and cash flow statement of the group, Zimbabwe results have been translated at the average US dollar exchange rate for the period up to 30 September 2018 and at the estimated RTGS rate for the remaining three months of the financial year. For inclusion in the statement of financial position, Zimbabwe results have been translated at the estimated RTGS rate.

The table below summarises the exchange rates at which the group's entity operating in Zimbabwe have been translated into South African Rand:

| Period | Functional currency | Average rate | Closing rate |
|---|---|---|---|
| 1 January 2018 to 30 September 2018 | US dollar | 12.89 | n/a |
| 1 October 2018 to 31 December 2018 | RTGS | 4.321[1] | 4.352[2] |

[1] *Calculated using the average US dollar to Rand exchange rate of R14.24 for the period 1 October 2018 to 31 December 2018 divided by the RTGS rate of 3.3 : 1 US dollar.*

[2] *Calculated using the closing US dollar to Rand exchange rate of R14.35 at 31 December 2018 divided by the RTGS rate of 3.3 : 1 US dollar.*

The RTGS rate is sensitive to a number of variables. The sensitivity table below outlines the impact to IFRS profit or loss and net asset value for changes in the RTGS rate:

| Metric | RTGS: USD 2.5 : 1 | As reported 3.3 : 1 | RTGS : USD 5 : 1 |
|---|---|---|---|
| Profit after tax attributable to equity holders of the parent | R121 | R118 | R114 |
| Equity attributable to equity holders of the parent | R121 | R118 | R114 |

The fair value of any financial assets or liabilities was based on the unadjusted quoted prices as the Group believes the traded prices represent fair value in an active and orderly market. The Group has evidenced this through reviewing the volume and value of trades conducted on the Zimbabwe Stock Exchange (ZSE).

## 11. Investments in associates

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| Investment at cost | **74** | 74 | **14** | 2 |
| Share of profits from associates | **96** | 27 | **–** | – |
| Acquisition of an associate | **–** | 12 | **–** | 12 |
| Sale of equity interest in associate | **(1)** | – | **(1)** | – |
| Adjustment to fair value | **(65)** | – | **–** | – |
| | **104** | 113 | **13** | 14 |

**Mercury Administrator and Underwriter Agency Proprietary Limited**

The 25% interest in Mercury Administrator and Underwriter Agency Proprietary Limited was carried at cost, which approximated the fair value of the investment at 31 December 2017. The company disposed of 15% of the interest in Mercury Administrator and Underwriter Agency Proprietary Limited for no value during the year.

**Merx Underwriting Managers Proprietary Limited**

The company acquired a 45% interest in Merx Underwriting Managers Proprietary Limited effective 4 August 2017 at a cost of R12 million.

**RM Insurance Holdings Limited (incorporated in Zimbabwe)**

The 41% interest in RM Insurance Holdings Proprietary Limited is carried at cost, which approximates the fair value of the investment at 31 December 2018. In the prior year, the investment was impaired by 50%.

## 12. Share trusts

**Interest in employee share trusts**

The Mutual & Federal Management Incentive Trust, The Mutual & Federal Senior Black Management Trust, Employee Incentive Trust and Broad-Based Economic Empowerment Employment scheme (the staff share trusts) were set-up for the benefit of employees. Legally all shares are in the name of the trusts. The statement of financial position of the staff share trusts is set out below:

Financial information from the statement of financial position of employee share trusts:

| | Closing market value per share R | The Mutual and Federal Manage-ment Incentive Trust R million | The Mutual and Federal Senior Black Manage-ment Trust R million | The Mutual and Federal Develop-ment Trust R million | Employee Incentive Trust R million | Broad-Based Economic Empower-ment Employee Scheme R million | Total R million |
|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | |
| **Company** | | | | | | | |
| Investment in Old Mutual Limited shares | 22.40 | 241 | 84 | 81 | 24 | 47 | 477 |
| Allocated | | 59 | 74 | 81 | 23 | 45 | 282 |
| Unallocated | | 182 | 10 | – | 1 | 2 | 195 |
| Other assets | | 31 | 79 | 8 | 1 | 3 | 122 |
| Investment in Quilter Plc | | 59 | 2 | – | – | – | 61 |
| Investment in Nedbank Limited | | 72 | 5 | – | 9 | 19 | 105 |
| Loan from Old Mutual Insure Limited | | (63) | – | (14) | – | – | (77) |
| Other liabilities | | (58) | (1) | (18) | – | – | (77) |
| **Total net asset value** | | 282 | 169 | 57 | 34 | 69 | 611 |

## 12. Share trusts (continued)

| | Closing market value per share R | The Mutual and Federal Management Incentive Trust R million | The Mutual and Federal Senior Black Management Trust R million | Total R million |
|---|---|---|---|---|
| **2017** | | | | |
| **Company** | | | | |
| Investment in OM Residual UK Limited shares | 37.99 | 440 | 138 | 578 |
| Allocated | | 154 | 49 | 203 |
| Unallocated | | 286 | 89 | 375 |
| Other assets | | 13 | 107 | 120 |
| Loan from Old Mutual Insure Limited | | (63) | – | (63) |
| Other liabilities | | (60) | (9) | (69) |
| **Total net asset value** | | 330 | 236 | 566 |

*Valuation techniques and inputs*

The value of these employee trusts is calculated using net asset value, as the net asset value approximates fair value. The listed ordinary Old Mutual Limited shares are the majority investment in these trusts. The fair value of the shares is obtained from an active market.

*Restructure*

As part of the restructuring process, a share scheme participant who held Old Mutual Plc share awards under the Old Mutual Insure share plans was entitled to receive a distribution of Quilter Plc shares and a share swop to Old Mutual Limited shares.

The shares were allocated as follows for every three Old Mutual Plc Shares held:

- one ordinary share in Quilter Plc; and
- three ordinary shares in Old Mutual Limited,

The group unbundled the majority stake in Nedbank Limited during 2018. A share scheme participant who had Old Mutual shares awarded prior to September 2018 were entitled to receive approximately 3.2 Nedbank Limited shares for every 100 Old Mutual Limited shares held.

## 13. Loans to share trusts

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| The Mutual & Federal Management Incentive Trust | **–** | – | **63** | 63 |
| The Mutual & Federal Black Broker Trust | **–** | – | **14** | 14 |
| The Mutual & Federal Management Incentive Trust (Namibia) | **7** | 7 | **7** | 7 |
| | **7** | 7 | **84** | 84 |

The loans carry no interest and have no fixed repayment terms and are secured by the underlying ordinary Old Mutual Limited shares. The loans are neither past due nor impaired.

## 14. Investments and securities

The group classifies all its investments and securities at fair value through profit or loss (2017: Fair value through profit or loss). The investments are managed and their performance is evaluated and reported internally on a fair value basis in terms of a documented investment strategy.

Summary of investments and securities

| | GROUP 2018 | GROUP 2017 | COMPANY 2018 | COMPANY 2017 |
|---|---|---|---|---|
| Unlisted ordinary shares[1] | **137** | 100 | **8** | 9 |
| Unlisted long-term loans[2] | **3** | 3 | **–** | – |
| Unlisted empowerment private equity fund[3] | **100** | 5 | **100** | 67 |
| Listed ordinary shares[4] | **1,114** | 1,163 | **468** | 502 |
| Unlisted money market funds[5] | **4,943** | 4,268 | **2,932** | 2,885 |
| | **6,297** | 5,539 | **3,508** | 3,463 |

[1] *The carrying value of the unlisted ordinary shares is based on a valuation of their net assets and, where appropriate, an adjustment for systemic and non-systemic risk.*

[2] *The long-term loans treated as investments are repayable annually until 2021. All such loans, however, have been and will be impaired for the 2017 and 2018 financial years with the exception of a R3 million loan issued by the Mutual & Federal Development Trust as part of its Enterprise Social Development Programme. There are, however, continued efforts to recover amounts payable from the loan recipients.*

[3] *The unlisted empowerment private equity fund represents black economic empowerment development investment policies with the Old Mutual Investment Group Proprietary Limited.*

[4] *The fair value of the listed ordinary shares is based on a quoted market price in an active market of an identical instrument. The Protected Equity Portfolio comprises two components: a protective derivative overlay portfolio and an underlying equity tracker portfolio that is intended to be passively managed relative to the SWIX benchmark. R500 million has been invested in an underlying tracker portfolio and a protective derivative structure to limit downside risk (put structure only).*

[5] *The average interest on money market instruments earned during the year was 8.20% (2017: 8.59%) per annum.*

*Unconsolidated structured entities*

The group has investments in collective schemes to diversify its pool of assets. These vehicles are financed through the issue of units to investors. Some schemes are managed entities in the Old Mutual Limited group, which generate fees from managing the assets on behalf of third party investors. The carrying value of the interest held by the group in the unit trusts, which are included in the unlisted money market accounts, is R741 million (2017: R421 million) which equates to 2.7% (2017: 1.55%) of the value of the total unit trust. These investments are therefore not considered to be structured entities that would need to be included in the group consolidation.

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 14. Investments and securities (continued)

*Maturity profile for short-term funds*

| | Maturity in less than 3 months R million | Maturity of 3 months to 1 year R million | Maturity between 1 to 5 years R million | Total R million |
|---|---|---|---|---|
| **Group** | | | | |
| **2018** | | | | |
| Unlisted money market funds | **1,621** | **2,492** | **830** | **4,943** |
| **2017** | | | | |
| Unlisted money market funds | 1,033 | 2,941 | 294 | 4,268 |
| **Company** | | | | |
| **2018** | | | | |
| Unlisted money market funds | **764** | **1,495** | **673** | **2,932** |
| **2017** | | | | |
| Unlisted money market funds | 1,033 | 1,558 | 294 | 2,885 |

| | Maturity in less than 3 months R million | Maturity of 3 months to 1 year R million | Maturity between 1 to 5 years R million | Total R million |
|---|---|---|---|---|
| **Group** | | | | |
| **2018** | | | | |
| Listed ordinary shares | **1,114** | **–** | **–** | **1,114** |
| **2017** | | | | |
| Listed ordinary shares | 1,163 | – | – | 1,163 |
| **Company** | | | | |
| **2018** | | | | |
| Listed ordinary shares | **468** | **–** | **–** | **468** |
| **2017** | | | | |
| Listed ordinary shares | 502 | – | – | 502 |

## 15. Goodwill

| Group | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost R million | Accumulated impairment R million | Carrying value R million | Cost R million | Accumulated impairment R million | Carrying value R million |
| Goodwill | **21** | **–** | **21** | – | – | – |

Reconciliation of goodwill – Group – 2018

| | Opening balance R million | Additions through business combinations R million | Total R million |
|---|---|---|---|
| Goodwill | – | **21** | **21** |

The company acquired a 100% equity stake in Sintelum Proprietary Limited previously known as Arch Underwriting Managers at Lloyds (South Africa) Proprietary Limited with effect 1 October 2018.

## 16. Intangible assets

| | 2018 (R million) | | | 2017 (R million) | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated amortisation | Carrying value | Cost | Accumulated amortisation | Carrying value |
| **Group** | | | | | | |
| Software | **804** | **(642)** | **162** | 836 | (675) | 161 |
| **Company** | | | | | | |
| Software | **804** | **(642)** | **162** | 836 | (675) | 161 |

**Reconciliation of intangible assets**

| | Opening balance R million | Additions R million | Written off R million | Amortisation R million | Total R million |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2018** | | | | | |
| Software | **161** | **43** | **(10)** | **(32)** | **162** |
| **2017** | | | | | |
| Software | 150 | 36 | 7 | (32) | 161 |
| **Company** | | | | | |
| **2018** | | | | | |
| Software | **161** | **43** | **(10)** | **(32)** | **162** |
| **2017** | | | | | |
| Software | 150 | 36 | 7 | (32) | 161 |

## 17. Property and equipment

| | 2018 (R million) | | | 2017 (R million) | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation | Accumulated depreciation | Carrying value | Cost or revaluation | Accumulated depreciation | Carrying value |
| **Group** | | | | | | |
| Land and buildings | **3** | **(1)** | **2** | 210 | (49) | 161 |
| Furniture and fixtures | **45** | **(41)** | **4** | 42 | (36) | 6 |
| Motor vehicles | **16** | **(7)** | **9** | 20 | (6) | 14 |
| Computer equipment | **504** | **(390)** | **114** | 397 | (325) | 72 |
| **Total** | **568** | **(439)** | **129** | 669 | (416) | 253 |
| **Company** | | | | | | |
| Land and buildings | **3** | **(1)** | **2** | 173 | (14) | 159 |
| Furniture and fixtures | **41** | **(39)** | **2** | 40 | (36) | 4 |
| Motor vehicles | **8** | **(3)** | **5** | 13 | 1 | 14 |
| Computer equipment | **470** | **(359)** | **111** | 391 | (323) | 68 |
| **Total** | **522** | **(402)** | **120** | 617 | (372) | 245 |

**Reconciliation of property and equipment**

| | Opening balance R million | Additions R million |
|---|---|---|
| **Group** | | |
| **2018** | | |
| Land and buildings | **161** | **89** |
| Furniture and equipment | **6** | **2** |
| Motor vehicles | **14** | **3** |
| Computer equipment | **72** | **94** |
| | **253** | **188** |
| **2017** | | |
| Land and buildings | 215 | 9 |
| Furniture and equipment | 26 | 2 |
| Motor vehicles | 14 | 3 |
| Computer equipment | 87 | 38 |
| | 342 | 52 |

| Disposals R million | Classified as held for sale R million | Revaluations R million | Adjustments R million | Depreciation R million | Impairment loss R million | Total R million |
|---|---|---|---|---|---|---|
| **–** | **(243)** | **5** | **–** | **(10)** | **–** | **2** |
| **–** | **–** | **–** | **–** | **(4)** | **–** | **4** |
| **–** | **–** | **–** | **–** | **(3)** | **(5)** | **9** |
| **(10)** | **–** | **–** | **1** | **(43)** | **–** | **114** |
| **(10)** | **(243)** | **5** | **1** | **(60)** | **(5)** | **129** |
| – | (38) | (15) | 2 | (12) | – | 161 |
| (4) | – | – | – | (7) | (11) | 6 |
| – | – | – | (1) | (2) | – | 14 |
| – | – | – | – | (53) | – | 72 |
| (4) | (38) | (15) | 1 | (74) | (11) | 253 |

## 17. Property and equipment (continued)

**Reconciliation of property and equipment**

| | Opening balance R million | Additions R million |
|---|---|---|
| **Company** | | |
| **2018** | | |
| Land and buildings | **159** | **88** |
| Furniture and equipment | **4** | **1** |
| Motor vehicles | **14** | **3** |
| Computer equipment | **68** | **94** |
| | **245** | **186** |
| **2017** | | |
| Land and buildings | 160 | 8 |
| Furniture and equipment | 12 | – |
| Motor vehicles | 10 | 3 |
| Computer equipment | 84 | 36 |
| | 266 | 47 |

*Valuation techniques and inputs – 2017*

The discounted cash flow (DCF) method was used to value the land and buildings. The valuation method takes into account the time value of money between the valuation date and the date when the income stream theoretically reverts to prevailing market levels. The property is valued by an external professional valuator discounting the expected future net income for a specific period at an appropriate discount rate (or total rate of return) to give the present value (PV) of the expected net income cash flow. To this figure, an applicable final discounted residual or reversionary value is added. The net income is determined by taking into account the gross income, vacancies and lease obligations less normalised operating expenditure. Refer to the key valuation assumptions in the table below:

| Description | Fair value at 31 December 2017 | Observable inputs | Weighted average costs of capital |
|---|---|---|---|
| Owner-occupied fixed property | R161 million | Long-term net operating rate (%) | 16.50 |
| | | Capitalisation rate (%) | 10.50 |

*Valuation techniques and inputs – 2018*

Since the company had received an offer to purchase shortly before the year-end which was deemed to be market related and determined at arms' length, the offer price in the offer to purchase was determined to be the most appropriate value of the land and buildings.

These valuations reflect the highest and best use of the property.

| Disposals R million | Classified as held for sale R million | Revaluations R million | Adjustments R million | Depreciation R million | Impairment loss R million | Total R million |
|---|---|---|---|---|---|---|
| **–** | **(243)** | **5** | **2** | **(9)** | **–** | **2** |
| **–** | **–** | **–** | **–** | **(3)** | **–** | **2** |
| **–** | **–** | **–** | **(5)** | **(2)** | **(5)** | **5** |
| **(10)** | **–** | **–** | **1** | **(42)** | **–** | **111** |
| **(10)** | **(243)** | **5** | **(2)** | **(56)** | **(5)** | **120** |
| | | | | | | |
| – | – | – | – | (9) | – | 159 |
| (35) | – | – | 31 | (4) | – | 4 |
| (9) | – | – | 12 | (2) | – | 14 |
| (26) | – | – | 24 | (50) | – | 68 |
| (70) | – | – | 67 | (65) | – | 245 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |

## 18. Cash and cash equivalents

| | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|
| Cash at bank and on hand | **1,393** | 1,723 | **350** | 318 |
| Short-term bank deposits | **1** | 1 | **1** | 1 |
| | **1,394** | 1,724 | **351** | 319 |

The average interest rate is 6.09% for 2018 (2017: 6.39%).

The closing interest rate for 2018 is 6.25% (2017: 6.25%).

## 19. Deferred taxation

| | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|
| **Reconciliation of deferred tax asset/(liability)** | | | | |
| At beginning of year | **(36)** | (41) | **50** | 32 |
| Recognised in profit or loss | **–** | 5 | **(4)** | 18 |
| | **(36)** | (36) | **46** | 50 |
| **Analysis of major temporary differences** | | | | |
| Post-retirement medical aid provision | **26** | 29 | **8** | 11 |
| Other provisions and impairments | **(156)** | 57 | **(33)** | 48 |
| Prepayment | **3** | 15 | **3** | 15 |
| Amortisation of software | **14** | (11) | **14** | (12) |
| Smoothed operating leases | **–** | 3 | **–** | 3 |
| Urban development zone allowance | **13** | (14) | **13** | (14) |
| Motor vehicle residual value | **(1)** | (2) | **(1)** | (2) |
| Capital gains taxation | **8** | (102) | **(15)** | (1) |
| Investments and securities | **(8)** | (11) | **(8)** | 2 |
| Cashback, salvages and subrogation | **65** | – | **65** | – |
| | **(36)** | (36) | **46** | 50 |

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction. Therefore, they are presented in the statement of financial position as follows:

| | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|
| Deferred tax liability | **(103)** | (107) | **–** | – |
| Deferred tax asset | **67** | 71 | **46** | 50 |
| **Total net deferred tax (liability) asset** | **(36)** | (36) | **46** | 50 |

## 20. Non-current assets held for sale

On 3 November 2018 Old Mutual Insure Limited entered into a sale agreement for its head office property, ERF 5230, 75 Helen Joseph Street, as well as its investment in the FirstRand parking construction to Bayete Capital (Pty) Ltd, a third party purchaser for the purchase price of R259 million.

The sale of the property is conditional on Old Mutual Insure Limited obtaining unconditional approval from the Competition Commission in terms of the Competition Act by 1 April 2019.

An asset is available for immediate sale in its present condition if there is an expectation that the sale will be completed and transferred within the first quarter of 2018, therefore the building is classified as a non-current asset held for sale in the annual financial statements. The building was valued at the sale price, less costs to sell.

**Assets and liabilities**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| The carrying value of the asset to be disposed of: | | | | |
| Property and equipment | **243** | 38 | **243** | – |

## 21. General insurance liabilities

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross R million** | **Reinsurance R million** | **Net R million** | Gross R million | Reinsurance R million | Net R million |
| **Group** | | | | | | |
| Unearned premiums | **1,515** | **800** | **715** | 1,340 | 647 | 693 |
| Outstanding claims (including IBNR) | **4,604** | **1,774** | **2,830** | 4,624 | 1,693 | 2,931 |
| | **6,119** | **2,574** | **3,545** | 5,964 | 2,340 | 3,624 |
| **Company** | | | | | | |
| Unearned premiums | **955** | **463** | **492** | 799 | 319 | 480 |
| Outstanding claims (including IBNR) | **2,874** | **1,090** | **1,784** | 2,910 | 1,027 | 1,883 |
| | **3,829** | **1,553** | **2,276** | 3,709 | 1,346 | 2,363 |

## 21. General insurance liabilities (continued)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross R million | Reinsurance R million | Net R million | Gross R million | Reinsurance R million | Net R million |
| **Analysis of movements in outstanding claims including IBNR** | | | | | | |
| **Group** | | | | | | |
| Balance at beginning of year | **4,624** | **1,693** | **2,931** | 4,364 | 1,252 | 3,112 |
| Current year claims incurred | **8,308** | **3,344** | **4,964** | 9,178 | 3,864 | 5,314 |
| Change in previous year claims estimates | **(342)** | **(107)** | **(235)** | (260) | 288 | (548) |
| Current year claims paid | **(5,517)** | **(1,910)** | **(3,607)** | (5,939) | (2,090) | (3,849) |
| Previous year claims paid | **(2,469)** | **(1,246)** | **(1,223)** | (2,719) | (1,621) | (1,098) |
| **Balance at end of year** | **4,604** | **1,774** | **2,830** | 4,624 | 1,693 | 2,931 |
| **Company** | | | | | | |
| Balance at beginning of year | **2,910** | **1,027** | **1,883** | 2,994 | 963 | 2,031 |
| Current year claims incurred | **5,411** | **1,001** | **4,410** | 6,756 | 1,679 | 5,077 |
| Change in previous year claims estimates | **(276)** | **(410)** | **133** | (752) | 2 | (754) |
| Current year claims paid | **(3,786)** | **2** | **(3,787)** | (4,330) | (654) | (3,676) |
| Previous year claims paid | **(1,385)** | **(530)** | **(855)** | (1,758) | (963) | (795) |
| **Balance at end of year** | **2,874** | **1,090** | **1,784** | 2,910 | 1,027 | 1,883 |
| **Analysis of movements in unearned premiums** | | | | | | |
| **Group** | | | | | | |
| Balance at beginning of year | **1,340** | **647** | **693** | 1,270 | 650 | 620 |
| Change to unearned premium provision | **175** | **153** | **22** | 70 | (6) | 76 |
| Foreign currency translation | **–** | **–** | **–** | – | 3 | (3) |
| **Balance at end of year** | **1,515** | **800** | **715** | 1,340 | 647 | 693 |
| **Company** | | | | | | |
| Balance at beginning of year | **799** | **319** | **480** | 814 | 318 | 496 |
| Change to unearned premium provision | **156** | **144** | **12** | (15) | 1 | (16) |
| **Balance at end of year** | **955** | **463** | **492** | 799 | 319 | 480 |

A sensitivity analysis has been performed on some of the material assumptions made in calculating the components of the gross IBNR provisions and subrogation asset based on the data as at end of December 2018.

*IBNR Reserve Sensitivity analysis*

The analysis was conducted for the material insurance contract types including Motor and Property (Commercial division segment only). The IBNR provisions are derived by taking into account the way in which historical claims develop to their final settled cost over time. The sensitivity analysis was performed to test the effect of using more or fewer historical years to estimate the IBNR provision. These are set out in the table below.

For the Motor Commercial and Property Commercial contracts, the sensitivity analysis is performed on the weighted averages (i.e. the number of historical periods to which the development pattern is based) used for the incurred claims projection. For the Motor Personal contracts the sensitivity analysis as calculated on the weighted averages used for the paid claims projection. The selected base scenarios are considered appropriate for a best estimate basis.

**Gross Best Estimate IBNR Reserve Assumptions**

| | Best Estimate Gross IBNR R million | Best estimate Gross IBNR % | Increase/ (Decrease) in profit or loss R million |
|---|---|---|---|
| **Motor Commercial Gross of salvages and recoveries** | | | |
| *Selected (Base): Incurred claims projection – using the weighted average of two most recent years to derive the development pattern* | (43.0) | 6,23% | |
| Incurred claims projection – using the weighted average of the four most recent years | (36.3) | 5,27% | (6.7) |
| Incurred claims projection – using the weighted average of the five most recent years | (31.3) | 4,55% | (11.7) |
| Incurred claims projection – using the weighted average of the three most recent years | (39.1) | 5,68% | (3.9) |
| **Motor Personal Gross of salvages and recoveries** | | | |
| *Selected (Base): Paid claims projection – using the weighted average of the two most recent years to derive the development pattern* | (4.3) | (0.36%) | – |
| Paid claims projection – using the weighted average of the three most recent years | (3.5) | (0.29%) | (0.8) |
| **Property Commercial Net of salvages and recoveries** | | | |
| *Selected (Base): Incurred claims projection – using the weighted average of the four most recent years to derive the development pattern* | (9.9) | (1.64%) | – |
| Incurred claims projection – using the weighted average of the three most recent years | (10.3) | (1.70%) | (0.4) |
| Incurred claims projection – using the weighted average of the five most recent years | (17.1) | (2.82%) | (7.2) |

*Sensitivity analysis for the Salvage and Recovery Asset*

The below table indicates the sensitivity analysis that have been performed on the significant assumptions made for the most material classes of business contributing to the salvage and recovery asset.

## 21. General insurance liabilities (continued)

| Salvage and Recovery Asset Assumptions | Asset Amount R million | Increase/ (Decrease) in profit or loss R million |
|---|---|---|
| **Motor Commercial Recovery Asset** | | |
| *Selected (Base): recovery ratio weighting towards the most recent accident year* | 25 | – |
| Increased recovery ratio assumption to 6.60% from 5.60% for 2018 | 28 | 3 |
| Reverted back to the September 2018 data valuation selections | 29 | 4 |
| **Motor Personal Recovery Asset** | | – |
| *Selected (Base): recovery ratio weighting towards the most recent accident year* | 51 | – |
| Increased recovery ratio assumption to 6.8% and 6.90% from 6.04% and 6.20% for 2017 and 2018 respectively. | 56 | 47 |
| Reverted back to the September 2018 data valuation selections | 56 | 5 |

* *Recovery ratio is the amount the company expects to recover from third parties expressed as a percentage of the corresponding claims.*

For the Motor Commercial and Motor Personal contracts, the recovery sensitivity calculation was performed on the recovery ratio assumption for the 2018 year.The selected base scenarios are believed to be appropriate on a best estimate basis.

### Assumptions

Actuarial methods are used to estimate the ultimate cost of claims and there are underlying assumptions within these methods. These include the assumption that past experience is a reasonable guide for the future development of claims. In some classes of business, where processes/systems change, adjustments are made in order to estimate the ultimate claims. Judgement is applied where needed, but the methods are reviewed by the statutory actuary and external auditors for reasonability.

### Gross claims payment development (R'mil)

| | CLAIM PAYMENT IN RESPECT OF | | | | | | |
|---|---|---|---|---|---|---|---|
| Reporting year | Total R million | 2018 R million | 2017 R million | 2016 R million | 2015 R million | 2014 R million | 2013 R million |
| **Group** | | | | | | | |
| **2018** | **7,986** | **5,517** | **2,230** | **148** | **54** | **(7)** | **11** |
| 2017 | 8,658 | – | 5,939 | 2,521 | 113 | 49 | 18 |
| 2016 | 8,074 | – | – | 5,795 | 1,936 | 249 | 53 |
| 2015 | 6,724 | – | – | – | 4,970 | 1,600 | 122 |
| **Total** | 31,442 | 5,517 | 8,169 | 8,464 | 7,073 | 1,891 | 204 |
| **Company** | | | | | | | |
| **2018** | **5,171** | **3,786** | **1,177** | **121** | **44** | **7** | **9** |
| 2017 | 6,088 | – | 4,330 | 1,557 | 112 | 52 | 16 |
| 2016 | 5,741 | – | – | 4,391 | 1,190 | 75 | 42 |
| 2015 | 5,344 | – | – | – | 4,094 | 1,157 | 55 |
| **Total** | 22,344 | 3,786 | 5,507 | 6,069 | 5,440 | 1,291 | 122 |

| | 2012 R million | 2011 R million | 2010 R million | 2009 R million | 2008 and prior R million |
|---|---|---|---|---|---|
| | **13** | **2** | **–** | **4** | **14** |
| | 16 | 4 | – | (3) | 1 |
| | (1) | 13 | 15 | 1 | 13 |
| | 15 | 3 | 3 | 3 | 8 |
| | 43 | 22 | 18 | 5 | 36 |
| | **11** | **2** | **–** | **4** | **10** |
| | 13 | 4 | 1 | 1 | 2 |
| | 9 | 10 | 12 | 2 | 10 |
| | 19 | 4 | 3 | 4 | 8 |
| | 52 | 20 | 16 | 11 | 30 |

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 21. General insurance liabilities (continued)

**Net claims payment development (R'mil)**

| | CLAIM PAYMENT IN RESPECT OF | | | | | | |
|---|---|---|---|---|---|---|---|
| Reporting year | Total R million | 2018 R million | 2017 R million | 2016 R million | 2015 R million | 2014 R million | 2013 R million |
| **Group** | | | | | | | |
| **2018** | **4,831** | **3,608** | **1,192** | **(17)** | **15** | **2** | **22** |
| 2017 | 4,947 | – | 3,849 | 1,080 | (3) | 3 | 6 |
| 2016 | 5,786 | – | – | 4,256 | 1,351 | 130 | 31 |
| 2015 | 5,016 | – | – | – | 3,918 | 1,012 | 68 |
| **Total** | 20,580 | 3,608 | 5,041 | 5,319 | 5,281 | 1,147 | 127 |
| **Company** | | | | | | | |
| **2018** | **4,642** | **3,787** | **786** | **4** | **21** | **6** | **24** |
| 2017 | 4,471 | – | 3,676 | 749 | 15 | 8 | 7 |
| 2016 | 5,061 | – | – | 4,010 | 931 | 57 | 31 |
| 2015 | 4,729 | – | – | – | 3,842 | 836 | 23 |
| **Total** | 18,903 | 3,787 | 4,462 | 4,763 | 4,809 | 907 | 85 |

**Gross outstanding claims provision development (R'mil)**

The below tables illustrate the development of the provisions in the Statement of Financial Position.

| | FINANCIAL YEAR IN WHICH CLAIM OCCURRED | | | | | | |
|---|---|---|---|---|---|---|---|
| Reporting year | Total R million | 2018 R million | 2017 R million | 2016 R million | 2015 R million | 2014 R million | 2013 R million |
| **Group** | | | | | | | |
| **2018** | **4,604** | **4,017** | **427** | **64** | **14** | **(19)** | **(5)** |
| 2017 | 4,624 | – | 3,674 | 471 | 177 | 2 | 51 |
| 2016 | 4,049 | – | – | 2,870 | 575 | 184 | 109 |
| 2015 | 3,714 | – | – | – | 2,727 | 383 | 199 |
| **Company** | | | | | | | |
| **2018** | **2,874** | **2,190** | **366** | **82** | **67** | **37** | **36** |
| 2017 | 2,910 | – | 2,063 | 319 | 181 | 71 | 69 |
| 2016 | 2,677 | – | – | 1,773 | 431 | 132 | 90 |
| 2015 | 2,697 | – | – | – | 1,819 | 300 | 161 |

| 2012<br>R million | 2011<br>R million | 2010<br>R million | 2009<br>R million | 2008 and prior<br>R million |
|---|---|---|---|---|
| **(4)** | **1** | **–** | **2** | **10** |
| 10 | 2 | 1 | (2) | 1 |
| (4) | 6 | 8 | – | 8 |
| 5 | 5 | 2 | 1 | 5 |
| 7 | 14 | 11 | 1 | 24 |
| **(2)** | **2** | **1** | **3** | **10** |
| 10 | 3 | 1 | – | 2 |
| 8 | 6 | 9 | 1 | 8 |
| 11 | 6 | 3 | 2 | 6 |
| 27 | 17 | 14 | 6 | 26 |

| 2012<br>R million | 2011<br>R million | 2010<br>R million | 2009<br>R million | 2008 and prior<br>R million |
|---|---|---|---|---|
| **8** | **89** | **6** | **2** | **1** |
| 87 | 114 | 11 | 11 | 26 |
| 109 | 121 | 21 | 15 | 45 |
| 141 | 144 | 44 | 20 | 56 |
| **17** | **72** | **5** | **1** | **1** |
| 76 | 92 | 9 | 9 | 21 |
| 87 | 98 | 17 | 12 | 37 |
| 121 | 121 | 38 | 17 | 120 |

## 21. General insurance liabilities (continued)

**Net outstanding claims provision development (R'mil)**

| Reporting year | Total R million | 2018 R million | 2017 R million | 2016 R million | 2015 R million | 2014 R million | 2013 R million |
|---|---|---|---|---|---|---|---|
| | | FINANCIAL YEAR IN WHICH CLAIM OCCURRED | | | | | |
| **Group** | | | | | | | |
| **2018** | **2,830** | **2,769** | **107** | **5** | **(29)** | **(45)** | **(29)** |
| 2017 | 2,931 | – | 2,560 | 279 | 53 | (86) | (7) |
| 2016 | 2,827 | – | – | 2,095 | 362 | 117 | 65 |
| 2015 | 2,809 | – | – | – | 2,075 | 286 | 149 |
| **Company** | | | | | | | |
| **2018** | **1,784** | **1,363** | **226** | **51** | **41** | **23** | **22** |
| 2017 | 1,883 | – | 1,358 | 198 | 112 | 44 | 43 |
| 2016 | 1,745 | – | – | 1,156 | 281 | 86 | 59 |
| 2015 | 1,990 | – | – | – | 1,380 | 227 | 122 |

## 22. Defined benefit plan – Post-retirement medical benefit

| | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|
| **Balance at 31 December:** | | | | |
| Present value of defined benefit obligation | **254** | 272 | **191** | 210 |
| Fair value of plan assets | **(223)** | (235) | **(160)** | (170) |
| **Net (asset)/liability** | **31** | 37 | **31** | 40 |

**Defined benefit plan obligation**

The group has an obligation to staff employed before 15 March 1999 for post-retirement medical aid subsidies in respect of retired and existing staff members. Per this plan the group has an obligation in respect of the post retirement medical aid costs of the following members:

- Current continuation members (i.e. members who retired from the service of the employer or whose service was terminated by the employer on account of age, ill-health or other disability, and dependants of members who have died in service or after retirement).
- Future continuation members (i.e. current in-service members who are eligible for an employer subsidy that are employees of Old Mutual Insure Limited group and joined prior to 15 March 1999).

This defined benefit plan exposes the group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

The obligation is calculated using the projected unit credit method. The valuation date is 31 December 2018.

| 2012 R million | 2011 R million | 2010 R million | 2009 R million | 2008 and prior R million |
|---|---|---|---|---|
| **(2)** | **49** | **3** | **1** | **1** |
| 41 | 64 | 6 | 6 | 15 |
| 66 | 73 | 13 | 9 | 27 |
| 104 | 106 | 33 | 15 | 41 |
| **10** | **44** | **3** | **1** | **–** |
| 47 | 57 | 6 | 5 | 13 |
| 56 | 64 | 11 | 8 | 24 |
| 92 | 92 | 28 | 13 | 36 |

## 22. Defined benefit plan – Post-retirement medical benefit (continued)

*Sensitivity analysis*

The table below shows how the defined benefit obligation as at 31 December 2018 would be impacted by changes to these assumptions:

| In-service and continuation members | Impact on Profit and loss | % increase |
|---|---|---|
| Discount rate – increase by 1% | (7) | (10) |
| Discount rate – reduce by 1% | 52 | 12 |
| Medical inflation – increase by 1% | 51 | 12 |
| Medical inflation – reduce by 1% | (8) | (10) |

**Defined benefit plan asset**

This plan is administered by a single medical fund that is legally separated from the group.

The group has provided for this liability towards the retired members by purchasing a group annuity policy from Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), with the medical scheme being the beneficiary of the policy. The annuity policy is effectively an insurance policy with the following characteristics:

- The annuity guarantees the present value of the liability using the consumer price index as the base for the escalating benefits in respect of existing retirees only;
- The policy will take on the liability in respect of the in-service members employed before 15 March 1999 and members of the designated fund, as and when they retire;
- The company will take on the shortfall between the actual subsidy increases and the CPI escalation that is declared each year; and to cater for the above shortfalls, additional premiums will be payable by the company in the future.

| | DEFINED BENEFIT OBLIGATION | | FAIR VALUE OF REIMBURSEMENT ASSETS | | NET POST-RETIREMENT MEDICAL BENEFIT LIABILITY | |
|---|---|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **Group** | | | | | | |
| Balance at the beginning of the year | **272** | 268 | **(235)** | (233) | **37** | 35 |
| **Included in profit or loss:** | **26** | 25 | **(24)** | (24) | **2** | 1 |
| Current service cost | **2** | 2 | **–** | – | **2** | 2 |
| Interest cost/(income) | **24** | 23 | **(24)** | (24) | **–** | (1) |
| Actuarial (gain)/loss | **(27)** | (1) | **19** | 6 | **(8)** | 5 |
| Benefits paid | **(17)** | (20) | **17** | 16 | **–** | (4) |
| **Balance as at 31 December** | **254** | 272 | **(223)** | (235) | **31** | 37 |
| **Company** | | | | | | |
| Balance at the beginning of the year | **210** | 200 | **(170)** | (165) | **40** | 35 |
| **Included in profit or loss:** | **19** | 19 | **(18)** | (19) | **1** | – |
| Current service cost | **1** | 1 | **–** | – | **1** | 1 |
| Interest cost/(income) | **18** | 18 | **(18)** | (19) | **–** | (1) |
| Actuarial (gain)/loss | **(23)** | 4 | **13** | – | **(10)** | 5 |
| Benefits paid | **(15)** | (13) | **15** | 14 | **–** | – |
| **Balance as at 31 December** | **191** | 210 | **(160)** | (170) | **31** | 40 |

Key actuarial assumptions

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 %** | 2017 % | **2018 %** | 2017 % |
| Discount rate – in-service members | **10.0** | 9.7 | **10.0** | 10.4 |
| Discount rate – continuation members | **9.3** | 8.8 | **9.3** | 9.6 |
| Medical inflation rate – in-service members | **7.8** | 8.2 | **7.8** | 8.6 |
| Medical inflation rate – continuation members | **7.3** | 7.0 | **7.3** | 8.0 |
| Expected investment return | **9.4** | 9.0 | **9.4** | 9.9 |
| Retirement ages | **62 – 65** | 62 – 65 | **62** | 62 |

## 22. Defined benefit plan – Post-retirement medical benefit (continued)

| Mortality rates | 2018 | 2017 |
|---|---|---|
| Mortality rate of in-service members | In accordance with SA 85 – 90 (Light) ultimate table | In accordance with SA 85 – 90 (Light) ultimate table |
| Mortality rate of continuation members | PA90, adjusted for the company's experience and mortality improvements | PA90, adjusted for the company's experience and mortality improvements |

## 23. Employee benefits

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| Leave accrual | **60** | 55 | **51** | 47 |
| Bonus accrual | **153** | 120 | **150** | 104 |
| | **213** | 175 | **201** | 151 |

## 24. Amounts payable to cell owners

| | | | | |
|---|---|---|---|---|
| Retained income reserve | **497** | 428 | **–** | – |
| Preference shares | **78** | 71 | **–** | – |
| Cell captives reinsurance technical reserves | **303** | 262 | **–** | – |
| | **878** | 761 | **–** | – |
| Balance at the beginning of the year | **761** | 734 | **–** | – |
| Capital contribution | **4** | 5 | **–** | – |
| Net increase in cell owners' interest | **113** | 22 | **–** | – |
| Underwriting and investment income attributable to cell owners | **220** | 186 | **–** | – |
| Dividend payments to cell owners | **(107)** | (164) | **–** | – |
| **Balance at the end of the year** | **878** | 761 | **–** | – |

## 25. Other payables

| | | | | |
|---|---|---|---|---|
| Trade creditors | **68** | 39 | **65** | 35 |
| Value added taxation | **1** | – | **–** | – |
| Amounts due to subsidiaries | **–** | – | **90** | 74 |
| Other creditors | **474** | 264 | **204** | 110 |
| | **543** | 303 | **359** | 219 |

Other payables are measured at amortised cost, which approximates fair value.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R million | 2017 R million | 2018 R million | 2017 R million |

## 26. Debt instrument

| | | | | |
|---|---|---|---|---|
| Unsecured subordinated callable floating rate note | **500** | 500 | **500** | 500 |

The JSE Securities Exchange granted the company approval for the listing of its unsecured subordinated callable notes programme during November 2017. The programme allows for the listing of R1 billion in notes. Following the approval being obtained, the company issued notes to the value of R500 million to investors in November 2017. The notes are 10-year notes, not callable for the first five years, and are priced at JIBAR plus 209 bps.

The holders of the instrument are:

1. MMI Holdings Limited – 50%
2. Standard Bank of South Africa In Trust For – 27%
3. EDGE Financial Group – 10%
4. Other bond holders (hold less than 5% each) – 13%

## 27. Share capital and share premium

| | | | | |
|---|---|---|---|---|
| **Authorised** | | | | |
| 350 000 000 ordinary shares of R0.1 each | **35** | 35 | **35** | 35 |
| **Issued** | | | | |
| Premium | **1,765** | 1,765 | **1,765** | 1,765 |
| 319 823 465 ordinary shares of R0.1 each | **32** | 32 | **32** | 32 |
| **Share capital and share premium** | **1,797** | 1,797 | **1,797** | 1,797 |

## 28. Share-based payments

| | | | | |
|---|---|---|---|---|
| **Share-based payment expense** | | | | |
| Employee share awards | **139** | 59 | **133** | 53 |
| **Share-based payment liability** | | | | |
| Employee share awards | **68** | 90 | **54** | 82 |

**Overview of the employee incentive programmes**

*The Mutual & Federal Management Incentive Scheme and the Employee Incentive Trust*

The primary purpose of these schemes is to attract, reward and retain senior and middle management.
Restricted shares

# NOTES TO THE GROUP AND COMPANY FINANCIAL STATEMENTS (CONTINUED)

## 28. Share-based payments (continued)

(RSP) are awarded to management for retention and attraction purposes.

- Bonus Plan

  Of an employee's before tax bonus 40% is invested in ordinary Old Mutual Limited shares. The RSP shares are not subject to corporate performance targets (CPTs) and will vest immediately, subject to the condition that the employee remains in the company's employment for a period of three years from grant date. Participants are paid dividends in respect of the RSP share awards and are entitled to exercise the voting rights in respect of the ordinary Old Mutual Limited shares.
- Long-term incentive plan (LTIP)

  A long-term incentive plan is awarded to key employees who are critical to the company achieving its strategic and financial objectives over the next three years. The share awards are subject to employees meeting CPTs and will be determined at the time of vesting based on multiples of the employees' total guaranteed pay.

*The Mutual & Federal Senior Black Management Incentive Scheme and the Broad-Based Economic Empowerment Employee Scheme*

These schemes operate for the benefit of selected senior black management of the company for retention and attraction purposes.

- Bonus Plan

  The RSP shares are not subject to corporate performance targets ("CPTs") and will vest immediately, subject to the condition that the employee remains in the company's employment for a period of three years from grant date. Participants are paid dividends in respect of the RSP share awards and are entitled to exercise the voting rights in respect of the ordinary Old Mutual Limited shares. Of an employee's before tax bonus 40% is invested in ordinary Old Mutual Limited shares.
- Retention plan

  RSP share awards are not subject to corporate performance targets ("CPTs") and will vest immediately, subject to the resolutive condition that the participant remains in employment for a period of time. Participants are paid dividends in respect of RSP share awards and are entitled to exercise the voting rights in respect of the ordinary Old Mutual Limited shares. Participants may only take delivery of the shares at the following intervals: four years (one- third), five years (one-third) and six years (one-third).

All the above are cash-settled plans.

| **Group and company** | The Mutual and Federal Management Incentive Trust | The Mutual and Federal Senior Black Management Trust | Employee Incentive Trust | Broad-Based Economic Empowerment Employee Scheme |
|---|---|---|---|---|
| At 1 January 2017 | 3,260,586 | 1,945,495 | – | – |
| Number of shares granted | 1,369,991 | 1,280,638 | – | – |
| Number of shares vested/settled | (483,538) | (163,618) | – | – |
| Forfeited due to resignations | (1,182,290) | (361,470) | – | – |
| At 31 December 2017 | 2,964,749 | 2,701,045 | – | – |
| Number of shares granted | 1,047,690 | 1,495,087 | 1,493,110 | 2,926,258 |
| Number of shares vested/settled | (1,136,440) | (531,689) | (1,008) | (1,344) |
| Forfeited due to resignations | (309,678) | (468,312) | (5,376) | (51,425) |
| **Total number of shares in issue at 31 December 2018** | **2,566,321** | **3,196,131** | **1,486,726** | **2,873,489** |

| | **2018 R** | 2017 R |
|---|---|---|
| Fair value of ordinary Old Mutual Limited/OM Residual UK Limited shares | **22.40** | 37.99 |

The share price at grant date was used to determine the fair value of the RSPs. Expected dividends were not considered when the fair value of the RSPs were determined as the holders of the RSPs are entitled to dividends throughout the vesting period of the shares.

## 29. Commission income

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| Commission received from reinsurers | **858** | 672 | **287** | 164 |
| Change in deferred reinsurance revenue liability | **(47)** | (5) | **(51)** | (5) |
| Prepaid expense adjustment – binder fee | **(19)** | – | **–** | – |
| | **792** | 667 | **236** | 159 |

## 30. Investment returns

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **Dividend income from group entities:** | | | | |
| Subsidiaries – Local | **–** | – | **12** | – |
| **From investments in financial assets measured at fair value through profit or loss:** | | | | |
| Listed investments – Local | **25** | 20 | **–** | – |
| Unlisted investments – Local | **77** | 70 | **13** | 49 |
| **Total dividend income** | **102** | 90 | **25** | 49 |
| **Interest income** | | | | |
| **From investments in financial assets:** | | | | |
| Bank and other cash | **125** | 86 | **35** | 30 |
| Investments and securities | **240** | 193 | **217** | 156 |
| Other financial assets | **1** | 3 | **1** | 1 |
| **Total interest income** | **366** | 282 | **253** | 187 |
| **Fair value gains and losses** | | | | |
| **Unrealised (loss)/gain** | | | | |
| Other unrealised (loss)/gains through profit or loss | **(13)** | (31) | **(37)** | 11 |
| Revaluation of interest in share trust | **–** | 36 | **79** | 37 |
| **Realised (loss)/gain** | | | | |
| Old Mutual Limited/OM Residual UK Limited shares | **(8)** | 60 | **–** | – |
| Gain on disposal of investments | **12** | 152 | **(1)** | 177 |
| **Total fair value gains and losses** | **(9)** | 217 | **41** | 225 |
| **Fair value adjustments relating to investments in subsidiaries** | | | | |
| Fair value adjustment on subsidiaries | **–** | 22 | **(309)** | 157 |
| Gains on disposal of subsidiaries | **–** | – | **–** | 68 |
| **Total fair value adjustments relating to investments in subsidiaries** | **–** | 22 | **(309)** | 225 |
| **Total investment income** | **459** | 611 | **10** | 686 |

## 31. Net claims incurred

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| Gross | **9,687** | 9,530 | **6,512** | 7,110 |
| Claims paid | **8,849** | 8,775 | **5,756** | 6,841 |
| Change in provision for outstanding claims | **322** | 403 | **240** | (85) |
| Claims administration expenses | **516** | 352 | **516** | 354 |
| Reinsurers' share | **(3,344)** | (3,864) | **(1,001)** | (1,679) |
| Claims paid | **(3,156)** | (3,280) | **(907)** | (1,615) |
| Change in provision for outstanding claims | **(188)** | (584) | **(94)** | (64) |
| Subrogation and salvage recoveries | **(848)** | (506) | **(570)** | (506) |
| Recoveries received | **(863)** | (509) | **(585)** | (509) |
| Change in receivable | **15** | 3 | **15** | 3 |
| | **5,495** | 5,160 | **4,941** | 4,925 |
| **Claims include:** | | | | |
| Payments and provisions for insured policyholders | **4,979** | 4,808 | **4,425** | 4,571 |
| Claims administration expenses | **516** | 352 | **516** | 354 |
| | **5,495** | 5,160 | **4,941** | 4,925 |

## 32. Acquisition costs

| | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|
| Acquisition costs paid | **1,984** | 1,799 | **1,389** | 1,272 |
| Change in deferred acquisition costs | **(31)** | 224 | **(35)** | 224 |
| Prepaid expense adjustment – binder fee | **(21)** | – | **(3)** | – |
| | **1,932** | 2,023 | **1,351** | 1,496 |

## 33. Administration expenses

Operating profit for the year is stated after charging the following, amongst others:

### Expenses by nature

The total cost of sales, selling and distribution expenses, marketing expenses, general and administrative expenses, research and development expenses, maintenance expenses and other operating expenses are analysed by nature as follows. This includes claims administration expenses disclosed under net claims incurred as per note 31.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2018 R million | 2017 R million | 2018 R million | 2017 R million |
| Employee costs | **1,650** | 1,458 | **1,494** | 1,303 |
| Operating lease charges | **87** | 41 | **51** | 37 |
| Depreciation, amortisation and impairment | **116** | 120 | **109** | 99 |
| Repairs and maintenance of property and equipment | **4** | 6 | **3** | 5 |
| Directors' emoluments | **14** | 44 | **14** | 44 |
| Impact of restructuring | **70** | – | **70** | – |
| Foreign exchange (loss)/gain | **25** | (18) | **1** | (5) |

## Directors' and prescribed officers' emoluments

The directors' emoluments are paid by the company unless stated otherwise. 2018 Remuneration outcomes have been impacted by one off event including accelerated vesting due to the distribution of Quilter and unbundling of Nedbank.

| 2018 | Fees R'000 | Basic salary R'000 | Bonus R'000 | Pension contribution R'000 | Other R'000 | Total R'000 | IFRS2 charge on Nedbank/ Quilter R'000 | IFRS2 fair value of unvested shares at year end owed to director R'000 |
|---|---|---|---|---|---|---|---|---|
| Mrs NB Manyoha* | – | 2,140 | 1,132 | 197 | 1,500 | 4,969 | 749 | 1,783" |
| Mr GL Napier*+ | – | 544 | 649 | 177 | 4,990 | 6,360 | – | 433" |
| Mr MJ Harper^ | 638 | – | – | – | – | 638 | – | – |
| Mr M Mia^ | 431 | – | – | – | – | 431 | – | – |
| Mr PGM Truyens^ | 553 | – | – | – | – | 553 | – | – |
| Mr P Rörich^ | 672 | – | – | – | – | 672 | – | – |
| Mr G Palser^ | 288 | – | – | – | – | 288 | – | – |
| Ms TP Zondi^ | 258 | – | – | – | – | 258 | – | – |
| Mr JW Wilken~ | 3,874 | – | – | – | 5,670 | 9,544 | – | – |
| Paid by the company | 1,312 | – | – | – | 5,670 | 6,982 | – | – |
| Paid by group companies | 2,562 | – | – | – | – | 2,562 | – | – |
| Mr P Moyo^ | | 8,000 | 14,124 | – | – | 22,124 | 22,748 | 11,748 |
| Paid by group companies | | 8,000 | 14,124 | – | – | 22,124 | 22,748 | 11,748 |
| Mr M Ilsley^ | – | 2,850 | – | – | 2,250 | 5,100 | 1,191 | 3,912 |
| Paid by group companies | – | 2,850 | – | – | 2,250 | 5,100 | 1,191 | 3,912 |
| | 6,714 | 13,534 | 15,905 | 374 | 14,410 | 50,937 | 24,688 | 17,876 |
| **2017** | | | | | | | | |
| Mr R Snyders* | 545 | 3,081 | – | 318 | 108 | 4,052 | 286 | 5,911 |
| Paid by the company | – | 3,081 | – | 318 | 108 | 3,507 | 286 | 5,911 |
| Paid by group companies | 545 | – | – | – | – | 545 | – | – |
| Mr JW Wilken | 1,827 | – | – | – | – | 1,827 | – | – |
| Paid by the company | 1,227 | – | – | – | – | 1,227 | – | – |
| Paid by group companies | 600 | – | – | – | – | 600 | – | – |
| Mr J van der Sandt* | 148 | 1,053 | 500 | 28 | 4,000 | 5,729 | 71 | – |
| Paid by the company | – | 1,053 | 500 | 28 | 4,000 | 5,581 | 71 | – |
| Paid by group companies | 148 | – | – | – | – | 148 | – | – |
| Mr G Palser^ | 353 | – | – | – | – | 353 | – | – |
| Mr NP Dongwana^ | 250 | – | – | – | – | 250 | – | – |
| Mr MJ Harper^ | 1,153 | – | – | – | – | 1,153 | – | – |
| Mr P Rörich^ | 468 | – | – | – | – | 468 | – | – |
| Mr M Mia^ | 638 | – | – | – | – | 638 | – | – |
| Mr PGM Truyens^ | 2,477 | – | – | – | – | 2,477 | – | – |
| Paid by the company | 641 | – | – | – | – | 641 | – | – |
| Paid by group companies | 1,836 | – | – | – | – | 1,836 | – | – |
| Mr PRE Tsukudu^ | 369 | – | – | – | – | 369 | – | – |
| Mr P Moyo^ | – | 4,375 | 8,407 | – | – | 12,782 | – | 3,524 |
| Paid by group companies | – | 4,375 | 8,407 | – | – | 12,782 | – | 3,524 |
| | 8,228 | 8,509 | 8,907 | 346 | 4,108 | 30,098 | 357 | 9,435 |

** Executive*
*^ Non-executive director*
*~ Prescribed officer*
*+ Appointed 1 November 2018*
*" Shares awarded for performance relating to 2018 are granted in 2019*

## 33. Administration expenses (continued)

**Directors' and prescribed officers' Old Mutual Limited Share Awards**

| 2018 | Issue date | Vesting date | Share price R | Opening shares Number of shares | Shares granted Number of shares | Shares vested Number of shares | Shares forfeited Number of shares | Closing shares Number of shares |
|---|---|---|---|---|---|---|---|---|
| R Snyders | 16 April 2015 | 16 April 2018 | 22.40 | 46,263 | – | (24,519) | (21,744) | – |
| | 16 April 2015 | 16 April 2018 | 22.40 | 49,457 | – | (43,449) | (6,008) | – |
| | 11 March 2016 | 11 March 2019 | 22.40 | 62,346 | – | (40,260) | (22,086) | – |
| | 11 March 2016 | 11 March 2019 | 22.40 | 26,346 | – | – | (5,564) | 20,782 |
| | 29 March 2017 | 29 March 2020 | 22.40 | 74,815 | – | – | (24,938) | 49,877 |
| | 29 March 2017 | 29 March 2020 | 22.40 | 88,018 | – | (73,903) | (14,115) | – |
| NB Manyoha | 19 April 2018 | 19 April 2021 | 22.40 | – | 45,967 | (16,618) | – | 29,349 |
| | 19 April 2018 | 19 April 2022 | 22.40 | – | 8,063 | – | – | 8,063 |
| | 19 April 2018 | 19 April 2023 | 22.40 | – | 8,063 | – | – | 8,063 |
| | 18 September 2018 | 18 September 2020 | – | – | 336 | – | – | 336 |
| | 14 December 2018 | 18 September 2020 | – | – | 128 | – | – | 128 |
| P Moyo | 6 September 2017 | 6 September 2020 | 22.40 | 724,639 | – | – | – | 724,639 |
| | 6 September 2017 | 6 September 2021 | 22.40 | 181,159 | – | – | – | 181,159 |
| | 6 September 2017 | 6 September 2022 | 22.40 | 181,160 | – | – | – | 181,160 |
| | 19 April 2018 | 19 April 2021 | 22.40 | – | 344,966 | – | – | 344,966 |
| | 18 September 2018 | 18 September 2020 | 22.40 | – | 336 | – | – | 336 |
| | 14 December 2018 | 18 September 2020 | 22.40 | – | 128 | – | – | 128 |
| | 18 September 2018 | 18 September 2019 | 22.40 | – | 227,140 | – | – | 227,140 |
| | 14 December 2018 | 18 September 2019 | 22.40 | – | 86,180 | – | – | 86,180 |
| M Ilsley | 6 September 2017 | 6 September 2020 | 22.40 | 391,305 | | | (313,044) | 78,261 |
| | 12 November 2018 | 18 September 2019 | 22.40 | | 95,138 | | | 95,138 |
| | 18 September 2018 | 18 September 2020 | 22.40 | | 336 | | | 336 |
| | 14 December 2018 | 18 September 2020 | 22.40 | | 128 | | | 128 |
| | | | | 1,825,508 | 816,909 | (198,749) | (407,499) | 2,036,169 |

### Directors' and prescribed officers' Old Mutual Plc Share Awards

| 2017 | Issue date | Vesting date | Share price R | Opening shares Number of shares | Shares granted Number of shares | Shares vested Number of shares | Shares forfeited Number of shares | Closing shares Number of shares |
|---|---|---|---|---|---|---|---|---|
| R Snyders | 8 April 2014 | 8 April 2018 | 37.99 | 19,244 | – | (19,244) | – | – |
| | 8 April 2014 | 8 April 2018 | 37.99 | 101,781 | – | – | (101,781) | – |
| | 16 April 2015 | 16 April 2018 | 37.99 | 46,263 | – | – | – | 46,263 |
| | 16 April 2015 | 11 March 2019 | 37.99 | 49,457 | – | – | – | 49,457 |
| | 11 March 2016 | 11 March 2019 | 37.99 | 62,346 | – | – | – | 62,346 |
| | 11 March 2016 | 11 March 2019 | 37.99 | 26,346 | – | – | – | 26,346 |
| | 29 March 2017 | 29 March 2020 | 37.99 | – | 162,833 | – | – | 162,833 |
| JD van der Sandt | 8 April 2014 | 8 April 2018 | 37.99 | 2,237 | – | (2,237) | – | – |
| | 8 April 2014 | 8 April 2018 | 37.99 | 62,200 | – | – | (62,200) | – |
| | 16 April 2015 | 16 April 2019 | 37.99 | 28,964 | – | – | (28,964) | – |
| | 16 April 2015 | 16 April 2019 | 37.99 | 25,058 | – | – | (25,058) | – |
| | 11 March 2016 | 11 March 2019 | 37.99 | 9,375 | – | – | (9,375) | – |
| | 11 March 2016 | 11 March 2019 | 37.99 | 27,809 | – | – | (27,809) | – |
| | 11 March 2016 | 11 March 2019 | 37.99 | 14,770 | – | – | (14,770) | – |
| | 15 August 2016 | 15 August 2019 | 37.99 | 3,290 | – | – | (3,290) | – |
| | 15 August 2016 | 15 August 2019 | 37.99 | 19,968 | – | – | (19,968) | – |
| | 29 March 2017 | 29 March 2020 | 37.99 | – | 33,530 | – | (33,530) | – |
| | 29 March 2017 | 29 March 2020 | 37.99 | – | 52,970 | – | (52,970) | – |
| P Moyo | 6 September 2017 | 6 September 2020 | 37.99 | – | 543,479 | – | – | 543,479 |
| | 6 September 2017 | 6 September 2020 | 37.99 | – | 181,159 | – | – | 181,159 |
| | 6 September 2017 | 6 September 2021 | 37.99 | – | 181,160 | – | – | 181,160 |
| | 6 September 2017 | 6 September 2022 | 37.99 | – | 181,160 | – | – | 181,160 |
| | | | | 499,108 | 1,336,291 | (21,481) | (379,715) | 1,434,203 |

| | GROUP 2018 R million | GROUP 2017 R million | COMPANY 2018 R million | COMPANY 2017 R million |
|---|---|---|---|---|
| **34. Taxation** | | | | |
| **Major components of the tax expense** | | | | |
| **Current** | | | | |
| Local income tax – current period | **306** | 220 | **244** | 175 |
| Local income tax – recognised in current tax for prior periods | **(108)** | (8) | **(107)** | – |
| | **198** | 212 | **137** | 175 |
| **Deferred** | | | | |
| Originating and reversing temporary differences | **(89)** | (5) | **(83)** | (18) |
| Arising from previously unrecognised tax loss/tax credit/temporary difference | **90** | – | **89** | – |
| | **1** | (5) | **6** | (18) |
| **Withholding tax** | | | | |
| Current year | **10** | 6 | **–** | – |
| | **209** | 213 | **143** | 157 |
| **Deferred taxation movement by major temporary difference** | | | | |
| Assessed loss | **–** | (1) | **–** | – |
| Post retirement medical aid provision | **(3)** | (1) | **(3)** | (1) |
| Other provisions and impairments | **(211)** | (26) | **(69)** | (56) |
| Smoothed operating leases | **(3)** | 1 | **(3)** | 1 |
| Prepayments | **(12)** | 2 | **(12)** | (11) |
| Outstanding doubtful premium | **–** | – | **–** | 15 |
| Amortisation of software application | **25** | 1 | **25** | 17 |
| Capital gains tax | **110** | 17 | **(14)** | 3 |
| Urban development zone allowance | **27** | 2 | **27** | 14 |
| Investments and securities | **3** | – | **(10)** | – |
| Cashback, salvages and subrogation | **65** | – | **65** | – |
| | **1** | (5) | **6** | (18) |
| **Reconciliation of taxation rate** | | | | |
| Reconciliation between applicable tax rate and average effective tax rate. | | | | |
| Standard rate (%) | **28.00** | 28.00 | **28.00** | 28.00 |
| Non-taxable income (%) | **(0.82)** | (8.16) | **2.09** | (13.30) |
| Disallowed expenditure (%) | **(1.93)** | 1.90 | **14.50** | 2.00 |
| Withholding tax (%) | **1.28** | 0.50 | **0.12** | – |
| Prior year adjustment (%) | **(2.18)** | (0.20) | **5.28** | – |
| Change in tax rate (%) | **–** | 0.40 | **–** | – |
| Capital gains tax (%) | **(1.48)** | – | **3.57** | – |
| **Effective rate (%)** | **22.87** | 22.44 | **53.56** | 16.70 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **35. Tax (paid)/refunded** | | | | |
| Balance at the beginning of the year | **(31)** | 21 | **(23)** | (16) |
| Current tax for the year recognised in profit or loss | **(198)** | 212 | **(137)** | (175) |
| Balance prepaid at end of year | **–** | 24 | **–** | – |
| Balance at the end of the year | **(115)** | (31) | **(112)** | 23 |
| | **(344)** | 226 | **(272)** | (168) |
| **36. Cash generated from operations** | | | | |
| Profit before taxation | **914** | 949 | **267** | 939 |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | **60** | 74 | **56** | 65 |
| Amortisation and impairment of intangible assets | **32** | 32 | **32** | 32 |
| (Gains)/losses on foreign exchange | **(25)** | 18 | **(1)** | 5 |
| Income from equity accounted investments | **(96)** | – | **–** | – |
| Dividend income | **(102)** | – | **(25)** | – |
| Interest income | **(366)** | (602) | **(253)** | (677) |
| Finance costs | **51** | – | **9** | – |
| Fair value losses | **9** | – | **268** | – |
| Impairment of property and equipment | **5** | 11 | **8** | – |
| Movements in retirement benefit assets and liabilities | **(6)** | 2 | **(9)** | 5 |
| Net insurance contract provisions | **(61)** | (108) | **(57)** | (164) |
| Other non-cash items | **–** | – | **–** | (1) |
| Net deferred acquisition costs | **–** | 12 | **–** | 11 |
| Subrogation recoveries receivable | **–** | 3 | **–** | 5 |
| **Changes in working capital:** | | | | |
| Other receivables | **334** | (255) | **225** | 7 |
| Share-based payment charge/(credit) | **(22)** | 59 | **(28)** | 53 |
| Amounts due from agents and reinsurers | **(258)** | (155) | **(93)** | (321) |
| Increase/(decrease) in deposits with/by reinsurers and cedants | **(40)** | 229 | **(46)** | 193 |
| Amounts payable to cell owners | **117** | – | **–** | – |
| Other payables and employee benefits | **277** | 74 | **189** | 92 |
| | **823** | 343 | **542** | 244 |
| **37. Dividends paid** | | | | |
| Dividends | **(229)** | (1,225) | **(225)** | (1,225) |
| Dividends paid/distribution to employees by share trust | **–** | (15) | **–** | – |
| | **(229)** | (1,240) | **(225)** | (1,225) |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **38. Revaluation reserve** | | | | |
| Opening balance | **60** | 113 | **86** | 89 |
| (Devaluation)/revaluation during the year | **5** | (12) | **5** | – |
| Transfer to retained earnings | **25** | (3) | **(1)** | (3) |
| Reclassification of revaluation reserve | **–** | (38) | **–** | – |
| | **90** | 60 | **90** | 86 |
| **39. Headline earnings per share** | | | | |
| For the calculation of headline earnings per share, the profit attributable to equity holders of the company is adjusted for items excluded from headline earnings per share as listed below, divided by the normal weighted average number of ordinary shares in issue. | | | | |
| Profit attributable to equity holders | **671** | 719 | **124** | 783 |
| Impairment of property and equipment | **3** | 12 | **3** | – |
| Profit on sale of property and equipment | **(1)** | – | **(1)** | – |
| Loss on disposal of associate | **1** | – | **1** | – |
| Headline earnings attributable to equity holders | **674** | 731 | **127** | 783 |
| Weighted average number of ordinary shares in issue (millions) | **320** | 320 | **320** | 320 |
| Headline earnings per share (cents) | **210.00** | 228.00 | **39.69** | 244.00 |

## 40. Related parties

| | |
|---|---|
| Ultimate holding company | Old Mutual Limited |
| Holding company | Mutual & Federal Investments Proprietary Limited |
| Subsidiaries | Refer to note 44 |
| Associated companies | Refer to note 44 |
| Fellow subsidiaries | Old Mutual Emerging Markets Proprietary Limited<br>Old Mutual Life Assurance Company (South Africa) Limited<br>Old Mutual Investment Group Limited<br>Old Mutual Direct Holdings Limited<br>Old Mutual Short–term Insurance (Botswana) Limited<br>Old Mutual Short–term Insurance (Namibia) Limited |
| Fellow associate | Nedbank Limited |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **Related party transactions** | | | | |
| **Nedbank Limited** | | | | |
| Premium received for insurance cover | **154** | 955 | **154** | 955 |
| Interest received | **102** | 21 | **61** | 11 |
| Claims incurred | **(88)** | (599) | **(88)** | (581) |
| Investment management fees | **(28)** | (6) | **(27)** | (6) |
| Acquisition costs | **–** | (143) | **–** | (143) |
| **Transactions with Old Mutual Emerging Markets Proprietary Limited – OMEM** | | | | |
| Administration charge | **(96)** | (69) | **(96)** | (69) |
| Dividend paid | **(225)** | (1,255) | **(225)** | (1,255) |
| **Transactions with subsidiaries: Mutual & Federal Risk Financing Limited** | | | | |
| Interest received | **(8)** | 2 | **(8)** | – |
| Claims incurred | **–** | (18) | **–** | – |
| Reinsurance premiums | **323** | 17 | **323** | 17 |
| Reinsurance claims | **38** | 8 | **38** | 8 |
| Reinsurance commission | **83** | 4 | **83** | 4 |
| Administration expenses | **39** | 36 | **39** | 36 |
| **Credit Guarantee Insurance Corporation of Africa Limited** | | | | |
| Reinsurance premiums | **1** | 1 | **1** | 1 |
| Reinsurance claims | **(3)** | (2) | **(3)** | (2) |
| Interest received | **–** | 8 | **–** | – |
| Rental received | **35** | – | **35** | – |
| **Receivables and (Payables) with other entities within the Old Mutual Group:** | | | | |
| Nedbank Limited – Bank balances | **536** | 568 | **210** | 213 |
| Nedbank Limited – Money market investment | **577** | 1,107 | **548** | 482 |
| Old Mutual Life Assurance Company (South Africa) Limited – Post retirement medical aid asset | **223** | 235 | **160** | 170 |
| OM Residual UK Limited (previously the ultimate holding company) | **–** | (11) | **–** | (11) |
| Old Mutual Direct Holdings Limited | **41** | 36 | **41** | 36 |
| Old Mutual Limited | **(56)** | – | **(56)** | – |
| Old Mutual Short-term Insurance (Botswana) Limited | **3** | 1 | **3** | 1 |
| Old Mutual Short-term Insurance (Namibia) Limited | **7** | 2 | **7** | 2 |
| **Transactions with trusts within the Old Mutual Insure Group** | | | | |
| Loan to the Mutual and Federal Management Incentive Trust | **–** | – | **63** | 63 |
| Loan to the Mutual and Federal Development Trust | **–** | – | **14** | 14 |
| Loan to the Mutual and Federal Management Incentive Trust (Namibia) | **7** | 7 | **7** | 7 |
| Loan to the Mutual and Federal Development Trust | **3** | 3 | **3** | 3 |
| Value of shares held by the Mutual and Federal Management Incentive Trust | **241** | 440 | **–** | – |
| Value of shares held by the Mutual and Federal Senior Black Management Trust | **84** | 138 | **–** | – |
| Value of shares held by the Employee Incentive Trust | **24** | – | **–** | – |
| Value of shares held by the Broad Based Economic Empowerment Employee Scheme | **47** | – | **–** | – |
| Value of shares held by the Mutual and Federal Development Trust | **81** | – | **–** | – |

## 40. Related parties (continued)

**Fees paid to the Troy consortium**

The intra-group balance with Old Mutual Direct Holdings relates to prepayments made by the company to the Troy consortium for the development of direct insurance infrastructure within the wider Old Mutual Group. The payments made to the consortium during the year were R3.9 million (2017: R6 million). The R41 million (2017: R36 million) receivable at year-end represents the prepayments made by the company as well as associated interest which will be reimbursed by Old Mutual Direct Holdings. JW Wilken is an equal one-third partner to the Troy consortium.

## 41. Commitments

### Operating lease

The group leases certain of its office buildings and office equipment in terms of operating leases. The company does not have the option to acquire the assets upon termination of the lease.

| | COMPANY | |
|---|---|---|
| | **2018 R million** | 2017 R million |
| Less than 1 year | **9** | 3 |
| Between 1 and 5 years | **58** | 34 |
| **Total future minimum lease payments under non-cancellable operating leases** | **67** | 37 |

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

### Authorised capital expenditure

Construction of a new parking lot, located across the Old Mutual Insure Limited head office building in Johannesburg commenced on 1 November 2017.

The company has purchased four levels of basement parking from First National Bank Limited (FNB) (the Old Mutual Insure Limited section). FNB will retain the 10 upper levels that will be constructed above the Old Mutual Insure Limited section. The parkade is situated on land owned by FNB and is to be developed and constructed in accordance with a development agreement between FNB and Eris Property Group Proprietary Limited. The parkade will be constructed in phases and on completion, a sectional title scheme will be opened in order to transfer the Old Mutual Insure Limited section into the name of the company. It was agreed that the company would fund the development costs upfront on a monthly basis. The development costs are an amount equal to the purchase price. The company has subsequently agreed to sell the Old Mutual Insure Limited section to Bayete Capital Proprietary Limited (Bayete) in terms of a Deed of Sale Agreement. The Old Mutual Insure Limited section will be transferred to Bayete simultaneously with (or as soon as possible after) the transfer thereof into the name of the company.

This is expected to be completed mid 2019 at an estimated cost of R97 million of which R88 million has already been paid. The parking is included in the sale agreement and the balance of the commitment remains. Please refer to note 20.

## 42. Going concern

The directors believe that the group has adequate financial resources to continue in operation for the foreseeable future and accordingly the group and company financial statements have been prepared on a going-concern basis. The directors have satisfied themselves that the group is in a sound financial position. The directors are not aware of any new material changes that may adversely impact the group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the group.

## 43. Events after the reporting period

No events have occurred after the reporting period that affect the results or financial position for the year ended 31 December 2018.

## 44. List of related undertakings

### Subsidiaries

| | | ISSUED SHARE CAPITAL | | FAIR VALUE OF SHARES IN SUBSIDIARIES | | INDEBTEDNESS BY/(TO) SUBSIDIARIES | |
|---|---|---|---|---|---|---|---|
| | | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million | **2018 R million** | 2017 R million |
| **Directly held** | | | | | | | |
| Cougar Investment Holding Company Limited | (a) | **10** | 10 | **169** | 134 | **–** | (67) |
| Credit Guarantee Insurance Corporation of Africa Limited (75%) (2017: 75%) | (b) | **3** | 3 | **1,016** | 1,338 | **–** | (6) |
| Mutual & Federal Company of Zimbabwe (Private) Limited# | (b) | **8** | 8 | **137** | 132 | **–** | – |
| Mutual & Federal Risk Financing Limited | (b) | **5** | 5 | **177** | 208 | **–** | 33 |
| Platinum Underwriting Managers Proprietary Limited (2018: –% 2017: 40%) | (b) | **–** | – | **–** | (2) | **–** | – |
| Old Mutual Holdings (Mauritius) Limited+ | (b) | **27** | 27 | **27** | 27 | **–** | – |
| Sintelum Proprietary Limited | (b) | **–** | – | **21** | – | **–** | – |
| Elite Risk Acceptances Proprietary Limited | (b) | **–** | – | **1** | – | **–** | – |
| **Indirectly held** | | | | | | | |
| Galilean Properties (Proprietary) Limited | (a) | **–** | 29 | **–** | 38 | **–** | – |
| **Structured vehicles** | | | | | | | |
| The Mutual & Federal Management Incentive Trust | | **–** | – | **281** | 330 | **63** | 63 |
| The Mutual & Federal Senior Black Management Trust | | **–** | – | **172** | 236 | **–** | – |
| The Mutual & Federal Development Trust | | **–** | – | **57** | – | **14** | 14 |
| Employee Incentive Trust | | **–** | – | **33** | – | **–** | – |
| Broad-based Economic Empowerment Employee Scheme | | **–** | – | **68** | – | **–** | – |

All other subsidiaries are incorporated in South Africa unless otherwise indicated.

*(a) Investment company*
*(b) Short-term insurance*
*# Incorporated in Zimbabwe*
*+ Incorporated in Mauritius*

## 44. List of related undertakings (continued)

All holdings are 100% unless otherwise indicated.

Old Mutual Holdings (Mauritius) is the holding company for the entities listed below and these entities are all incorporated in Mauritius.

- Old Mutual Business Services (Mauritius)
- Old Mutual Reinsurance (Mauritius) Limited
- Old Mutual Specialty Insurance Limited

| Associates | Fair value of shares in associates 2018 R million | Fair value of shares in associates 2017 R million | Indebtedness by/(to) associates 2018 R million | Indebtedness by/(to) associates 2017 R million |
|---|---|---|---|---|
| **Directly held** | | | | |
| Mercury Administrator & Underwriter Agency Proprietary Limited (25%) | – | 2 | – | – |
| Merx Underwriting Managers Proprietary Limited (45%) | 13 | 12 | – | – |
| **Indirectly held** | | | | |
| RM Insurance Holdings Limited (incorporated in Zimbabwe) | 91 | – | – | – |

# SUPPLEMENTARY INFORMATION (UNAUDITED)

## 1. Workforce profile

### 1.1 Please report the total number of employees (including employees with disabilities) in each of the following occupational levels: Note: A=Africans, C=Coloureds, I=Indians and W=Whites

| | Male | | | | Female | | | | Foreign nationals | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Occupational Levels** | **A** | **C** | **I** | **W** | **A** | **C** | **I** | **W** | **Male** | **Female** | **Total** |
| Top management | 1 | – | – | 5 | 3 | – | – | 2 | – | – | 11 |
| Senior management | 8 | 6 | 12 | 32 | 3 | 3 | 10 | 24 | 5 | – | 103 |
| Professionally qualified and experienced specialists and mid-management | 72 | 34 | 64 | 119 | 51 | 45 | 45 | 130 | 10 | 3 | 573 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents | 101 | 77 | 49 | 100 | 100 | 58 | 29 | 92 | 7 | 4 | 617 |
| Semi-skilled and discretionary decision-making | 248 | 96 | (35) | 12 | 393 | 236 | 62 | 111 | 5 | 1 | 1,199 |
| Unskilled and defined decision-making | 4 | – | – | – | – | – | – | – | – | – | 12 |
| **Total permanent** | 434 | 213 | 160 | 268 | 558 | 342 | 146 | 359 | 27 | 8 | 2,515 |
| Temporary employees | 24 | 8 | 4 | 2 | 25 | 7 | 4 | 11 | – | – | 85 |
| **Grand total** | 458 | 221 | 164 | 270 | 583 | 349 | 150 | 370 | 27 | 8 | 2,600 |

### 1.2 Please report the total number of employees with disabilities only in each of the following occupational levels: Note: A=Africans, C=Coloureds, I=Indians and W=Whites

| | Male | | | | Female | | | | Foreign nationals | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Occupational Levels** | **A** | **C** | **I** | **W** | **A** | **C** | **I** | **W** | **Male** | **Female** | **Total** |
| Top management | – | – | – | 1 | – | – | – | – | – | – | 1 |
| Senior management | – | – | 1 | – | – | – | – | 1 | – | – | 2 |
| Professionally qualified and experienced specialists and mid-management | – | – | – | – | – | – | – | 2 | – | – | 2 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents | 2 | – | – | 1 | – | – | – | – | – | – | 3 |
| Semi-skilled and discretionary decision-making | 4 | – | – | 1 | 8 | 2 | 1 | 2 | – | – | 18 |
| Unskilled and defined decision-making | – | – | – | – | – | – | – | – | – | – | – |
| **Total permanent** | 6 | – | 1 | 3 | 8 | 2 | 1 | 5 | – | – | 26 |
| Temporary employees | – | – | – | – | – | – | – | – | – | – | – |
| **Grand total** | 6 | – | 1 | 3 | 8 | 2 | 1 | 5 | – | – | 26 |

The supplementary information presented does not form part of the group and company annual financial statements and is unaudited.