# Annual Report 2017

# Contents



# Our story

## Old Mutual Insure is the oldest short-term insurer in South Africa with a history that dates back more than 185 years. As one of the leading players in the short-term insurance landscape, we are justifiably proud of our tradition of service and quality, as well as our range of products, which are among the best on offer anywhere in South Africa.

Old Mutual Insure offers an extensive range of insurance products and solutions to fulfil personal, commercial and corporate needs. We also provide insurance products for the agriculture, engineering and marine sectors.

We partner with brokers to deliver personal advice to protect clients' valued assets and help them attain their financial goals and aspirations.

We rebranded at half-year from Mutual & Federal Insurance Company to Old Mutual Insure.

As part of Old Mutual Plc we are able to:

- support the group's commitment to become a fully integrated financial services provider;
- fully unlock the value that lies within the Old Mutual customer base, its brand and its distribution channels; and
- continue to develop our core capability of short-term insurance expertise.

# Governance overview

## VISION

To be the short-term insurer of choice. We will achieve this by building a multi-channel business focused on delivering value to the customer, while fostering close relationships with our strategic business partners.

## OUR VALUES

### Accountability

- Being prepared to make commitments and be judged against them.
- Taking ownership and responsibility for actions and problems.

### Respect

- Treating others as you would have them treat you.
- Leveraging the strengths of diversity.
- Actively listening to others and treating people with dignity.

### Pushing beyond boundaries

- Playing to the maximum as individuals, teams and as an organisation, across boundaries.
- Always striving to break new ground with innovation and creativity.

### Integrity

- Being honest, trustworthy, consistent and transparent.
- Acting in accordance with the highest ethical standards.

### Passion

- Giving the best and being dependable in exceeding goals.
- Having a sense of optimism and enthusiasm to spend energy voluntarily.

## OUR STRATEGIC INTENT

- Our customers – to be easy to do business with and help customers turn setbacks into comebacks.
- Our people – to create a great place to work.
- Our shareholders – to create value by offering compelling returns to shareholders.

**Old Mutual Insure is primarily focused on South African business, and it provides support to the group African property and casualty operations. Old Mutual Insure will have successfully built scale in all areas of its business, including diversified product lines through the more specialised risk pools which reduces the volatility of earnings. Old Mutual Insure is well capacitated from a skills perspective, with experienced team members and is recognised as a centre of excellence for short-term insurance across Old Mutual Emerging Markets Group of which Old Mutual Insure is a subsidiary.**

# Chairman's report

Chairman
## MJ Harper

I am pleased to report on the financial results for the year ended 31 December 2017, which are a significant improvement on 2016, and even more so given the impact of the "Knysna Fires", the largest catastrophe experienced in recent memory. The underwriting results for the period were also adversely impacted by an increase in the severity and frequency of large claims, particularly industrial fires. In addition, severe weather conditions experienced in the country further negatively impacted the results in a year characterised by repeated instances of widespread storms and flooding. Nevertheless, as a result of better underwriting discipline and control, the company has attained satisfactory levels of underwriting profitability.

The group has been fortunate in that the positive underwriting performance has been accompanied by strong investment returns with the price of listed equities having increased during the second half of the year.

## REGULATORY

The regulatory environment in South Africa is expected to undergo significant transformation in the medium term as changes including the proposed Retail Distribution Review, Solvency Assessment and Management, Treating Customers Fairly, the recently issued International Financial Reporting Standard 17 relating to insurance contracts and the Short-term Insurance Act, will have far-reaching consequences for the wider industry. We continue to engage constructively with the various regulatory authorities in this regard to ensure readiness for take-on.

## OUTLOOK

There are indications of a hardening of insurance rates which should assist the group in achieving its long-term target for the underwriting margin of 4 to 6% of net earned premiums. Management will continue to apply responsible underwriting standards in setting rates commensurate with insurance risks and will endeavour to manage the underwriting cycle by applying strict discipline in settling claims and managing expenses. Management will also continue to seek improvements in efficiency in the administration of claims and in the administration of the operations.

The group remains committed to growth through continued development of the intermediary channel and the further development of relationships with brokers and clients.

## APPRECIATION

I thank the Board of Directors for their support and commitment during the year with a special thank you to Phuthi Tsukudu, Neo Dongwana and Rex Tomlinson. I would also like to thank Jaco van der Sandt, the Financial Director, who resigned from the Board on 31 May 2017 and particular appreciation to Raimund Snyders who retired as Chief Executive Officer in December 2017, after 35 years of service to the Old Mutual Group. I welcome to the board Thuli Manyoha, who joined the Board on 1 January 2018 as the Financial Director and Hannes Wilken, who assumed the position of Acting Chief Executive Officer on 1 January 2018, while the group is in the process of finding a permanent replacement.

In conclusion I would like to express my appreciation to the management and staff of the group for the results achieved and our clients and intermediaries for their continued support.

**MJ Harper**
*Chairman*

12 March 2018

# Corporate governance report

The system of governance within the Old Mutual Emerging Markets Group ("the group"), of which Old Mutual Insure ("the company") is a subsidiary, is informed by the King Report on Governance for South Africa, 2016 (King IV). An initial assessment of our application of the King IV principles indicates that Old Mutual Insure generally conforms to all the principles recommended in the Code.

As a subsidiary, Old Mutual Insure is aligned with the governance practices and principles of the group. To this end, the company has adopted the Group Governance Framework (GGF) and corporate governance principles that underpin GGF, which is aligned with the King IV practices and principles. King IV does not represent a significant departure from the philosophical foundations of King III but there has been a refining of concepts. The Old Mutual Insure Board Charter was aligned with the King III principles and is updated to align with GGF as well as King IV.

A primary aim of King IV is to reinforce corporate governance as a holistic and integrated set of arrangements to realise the intended governance outcomes. The principles, therefore, build on and reinforce one another. Old Mutual Insure is committed to a high standard of corporate governance and internal control. The principles embodied in King IV are endorsed by the governing body of Old Mutual Insure as a guide on what the organisation shall strive to achieve by the application of the governance procedures as outlined in King IV.

The benefits that Old Mutual Insure realises through the implementation of high standards of corporate governance are:

- Ethical culture
- Good performance
- Effective control
- Legitimacy.

The Board of Directors ("the Board") is the governing body that has primary accountability for the governance of Old Mutual Insure. Old Mutual Insure's commitment to good governance is formalised in its policies and operating procedures. The Board's committees fulfil key roles to ensure good corporate governance is applied at Old Mutual Insure. The Board is assisted by senior management in ensuring that the business complies with the regulatory landscape. Governance processes are reviewed on a regular basis in order to reflect best practice.

## Principle 1: The governing body leads ethically and effectively

The purpose of committee work is derived from the Board's responsibility to all stakeholders to ensure that the Board comprises individuals who are best able to discharge their responsibilities, having regard to the law and the highest standards of governance. The Board consists of individuals with the necessary skills and experience to lead the organisation.

The Board strives to act in good faith at all times and to lead the organisation with integrity, fairness and transparency. 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.

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.

The Chairman, who is an independent non-executive director, is principally responsible for the effective operation of the Board. The Remuneration and Nomination Committee, being a committee of the Board, provides recommendations to the Board on:

- the size, structure and composition of the Board and that its committees are reviewed and maintained at appropriate levels; and
- the necessary and desirable competencies, skills, knowledge and experience of 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 as it pertains to Old Mutual Insure.

Director meeting attendance is as follows for Board and Board committee meetings. For a description on the responsibilities of each committee, please refer to principle 8:

| Director | Board | Remuneration and Nomination Committee | Audit Committee | Risk and Compliance Committee | Social, Ethics and Transformation Committee |
|---|---|---|---|---|---|
| Mr MJ Harper | 5/5 | 4/4 | 4/4 | 4/4 | |
| Mr R Snyders# | 5/5 | 4/4 | 4/4 | 4/4 | |
| Mr MP Moyo^ | 3/5 | | | | |
| Ms NB Manyoha^^ | | | | | |
| Mr G Palser** | 4/5 | | | 4/4 | 3/3 |
| Mr PGM Truyens | 5/5 | | 4/4 | 4/4 | |
| Mr M Mia | 5/5 | 4/4 | 4/4 | 4/4 | 3/3 |
| Mr PC Rörich | 5/5 | | 4/4 | 4/4 | |
| Mr JD van der Sandt | 2/5 | | | | |
| Ms PRE Tsukudu* | 5/5 | 4/4 | | | 3/3 |
| Mr R Tomlinson@ | 5/5 | 4/4 | | | |
| Ms ND Dongwana^^^ | 2/5 | | 2/4 | | |

\# *R Snyders retired as Chief Executive Officer, effective 31 December 2017.*
^ *MP Moyo appointed effective 1 June 2017.*
^^ *NB Manyoha appointed as Financial Director, effective 1 January 2018.*
* *PRE Tsukudu resigned on 31 December 2017.*
@ *R Tomlinson resigned on 21 November 2017.*
^^^ *ND Dongwana resigned on 31 May 2017.*
** *G Palser approved sabbatical in the USA.*

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. These were not Board appointments.

The governing members of Old Mutual Insure bring a diverse range of skills and experience to the Board and have the integrity, skills and experience to provide insight and strategic direction to the organisation.

## Principle 2: The governing body governs the ethics of the organisation in a way that supports the establishment of an ethical culture

The Board of Old Mutual Insure is ultimately responsible for the adoption of policies and procedure which supports the establishment of an ethical culture within the organisation. Old Mutual Insure has adopted the group's Code of Conduct which sets the tone for the ethics of the organisation. The Board of Old Mutual Insure has approved the financial crime, conflicts of interest, anti-bribery and corruption and whistleblowing policies, all of which are easily accessible to employees of Old Mutual Insure. Employees are required to perform an annual attestation exercise on each of these policies. The responsibility for the implementation and execution of the noted policies has been delegated to management.

## Principle 3: The governing body ensures that the organisation is and is seen to be a responsible corporate citizen

The Board of Old Mutual Insure ensures that it adheres to all compliance and regulatory requirements as set out by various regulatory institutions which would include the South African Revenue Service, Financial Services Board, South African Reserve Bank, Johannesburg Securities Exchange, as well as the various bodies governing the preparation of the organisation's annual financial statements.

The Board recognises that there are qualitative issues that influence the company's ability to create value in the future. These relate to the extent of Old Mutual Insure's social transformation, ethical, safety, health and environmental policies and practices. Responsibility has been delegated to management, with feedback provided to the Board.

## Principle 4: The governing body appreciates that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process

The Board plays a leadership role by providing strategic direction and ensuring that it enhances the long-term positive outcomes of the business, society and the environment. The Board convenes once a year to deliberate on and approve the company's strategy and to ensure that the company is aligned to its approved vision and goals. The annual business planning process sets the key performance targets for the next three years based on the agreed-upon strategy. The business plan is approved at a special Board meeting.

The Board exercises oversight over the achievement of the performance targets, where actual quarterly results are compared to the agreed-upon performance targets. Reasons for significant variances are unpacked and understood by the Board.

The Board appreciates that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process.

## Principle 5: The governing body ensures that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects

The Board has oversight over the content of reports, issued to external stakeholders, to ensure that reporting meets the needs of external stakeholders to make informed decisions. External reporting includes annual financial statements, own risk and solvency assessment, Solvency Assessment and Management Comprehensive Parallel Run (SAM CPR) quarterly solo quantitative reports, short-term insurance quarterly and annual returns, and annual conduct of business returns.

## Principle 6: The governing body serves as the focal point and custodian of corporate governance in the organisation

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 with regard to corporate governance and is the ultimate custodian of corporate governance within the organisation.

Leadership is provided through the setting of strategic direction for the organisation, approving policies and the business model and ensuring that this is aligned with the strategic direction of the organisation, as well as overseeing and monitoring the agreed-upon policies and business models and ensuring accountability of organisational performance.

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

## Principle 7: The governing body comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

The efficacy of the Board depends on its composition. There is an appropriate balance of skills, power and authority on the Board. The Board, through the Remuneration and Nomination Committee, has assumed responsibility for 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 discharge its governance role and responsibilities.

The Remuneration and Nomination Committee considers the appropriate mix 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 2017, the Board comprised six directors, all of whom are non-executive directors, with an executive appointment being made on 1 January 2018. Of the six non-executive directors, five are independent.

Appointments to the Board are formal and transparent and are a matter for the Board of Directors as a whole, assisted by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee makes recommendations to the Board concerning:

- plans for succession for the CEO and the direct reports of the CEO;
- 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.

The experience of the Board of Old Mutual Insure is as follows:

| Name | Executive | Non-executive | Independent non-executive | Date appointed | Skills |
|---|---|---|---|---|---|
| Mr MJ Harper | | | * | 28/07/2009 | Strat/Cus |
| Mr MP Moyo | | * | | 01/06/2017 | Fin/Strat |
| MS NB Manyoha | * | | | 01/01/2018 | Fin/Strat |
| Mr G Palser | | | * | 01/03/2014 | Fin/Risk/Act |
| Mr PGM Truyens | | | * | 26/07/2010 | Act/Cus |
| Mr M Mia | | | * | 29/04/2009 | Fin/Risk |
| Mr PC Rörich | | | * | 01/10/2015 | Fin/Ops |

*Fin = Financial; Act = Actuarial; Ops = Operations; Cus = Customer Related; Strat = Strategy*

### Mr MJ Harper, Chairman – Independent Non-executive Director

Mike Harper was appointed Chairman of Old Mutual Insure in May 2012 having previously worked in the group in several executive positions, including Strategy Director for Old Mutual Emerging Markets, leading strategic work across Asia, Latin America, South Africa and Africa markets. He served as Distribution Executive on the Old Mutual Group long-term savings executive team in London. He also served on the boards of Old Mutual Unit Trust, Old Mutual Investment Group, and the Council of the Botanical Society of South Africa and is Chairman of MTN SA Proprietary Limited.

### Mr MP Moyo, Non-executive Director – Old Mutual Emerging Markets Chief Executive Officer

Peter Moyo has been Chief Executive Officer of Old Mutual Emerging Markets since June 2017. He has deep financial services experience, having been Chief Executive Officer of Alexander Forbes from 2005 to 2008 and prior to that Deputy Managing Director of Old Mutual South Africa from 2000 to 2005, having joined as Divisional Manager in 1997. He was the Non-executive Chairman of Vodacom Group, a leading African communications company, served on the board of Liberty Holdings and was Chief Executive Officer of NMT Capital. He joined EY in 1991 and was appointed partner in 1994.

### Ms NB Manyoha, Executive Director – Financial Director

Nokuthula (Thuli) Manyoha has been appointed as the Financial Director effective 1 January 2018. She is a chartered accountant and was recently the Head of Finance and the Shareholder Segment CFO at MMI Holdings Limited. 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 driving strategy, good financial management and operational excellence, which will hold her in good stead in her new role as Financial Director.

### Mr G Palser, Non-executive Director

Gary Palser joined Old Mutual Insure's Board on 1 March 2014 as non-executive director. He has been in the group for 34 years, having joined the company in 1980. 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 after completing the necessary experience requirements. His vast experience in the group includes working full-time on the demutualisation project. He has held several senior positions within the group, such as Chief Actuary for Old Mutual SA and culminating in his appointment as the Risk and Actuarial Director for Old Mutual Emerging Markets.

### Mr PGM Truyens, Independent Non-executive Director

Paul Truyens was a senior manager with 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. He currently serves on the Board of Old Mutual South Africa, where he is chairman of the Risk Committee and of the Committee for Customer Affairs; a member of the Audit Committee, and on the board of Old Mutual Kenya. He is also a non-executive director of Infrastructure Finance Corporation (INCA), where he has been on the board since its inception in 1996.

### Mr M Mia, Independent Non-executive Director

Mahmood Mia is a former banker, having spent 19 years with Natal Building Society and thereafter as Managing Director of New Republic Bank from 1987 to 1996. He was the founding member of FASIC Investment Corporation in 1997, one of the first black empowerment companies in the country, which bought, and currently owns, the Lion Match Co Limited, as well as having purchased the South African interest of Kimberley Clark in 1998. He is currently a consultant/adviser on mergers and acquisitions and, in addition, he is a director of Credit Guarantee Insurance Corporation of Africa Limited, Ithala SOC Limited, Durban Technology Hub, as well as the audit committee chair of Momentum Health and Durban Technology Hub. He is also chair of the University of KwaZulu-Natal Foundation and the National Council of and for Persons with Disabilities.

### Mr PC Rörich, Independent Non-executive Director

Pieter Rörich has a strong business and financial education complemented by broad work experience of more than 20 years in corporate finance, investment banking and as an investments adviser; a principal investor and as an operational business leader. He is a qualified chartered accountant and has obtained an executive MBA from Saïd Business School, Oxford, which he passed with distinction. His extensive corporate experience included his role as Acting CEO of MB Technologies, one of the largest IT distributors in southern Africa. His corporate experience spans various industries, including financial services, mining and professional services companies.

## Principle 8: The governing body ensures that its arrangements for delegation within its own structures promote independent judgement and assists with balance of power and the effective discharge of its duties

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 chairs report-back quarterly meetings as to how they 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.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee is chaired by Mahmood Mia, an independent non-executive director. The committee makes recommendations to the Board on company-wide philosophy and policy relating to: reward (including but not restricted to guaranteed and variable pay, as well as retention awards); principles of incentive schemes to ensure effectiveness within agreed risk appetite; nomination and remuneration of Board members; monitoring of succession plans for key positions, including the Board Chairman and Chief Executive Officer; and monitoring of key human capital measures and makes recommendations to the Board on strategic changes required to maximise the return on investment.

### Risk and Compliance Committee

The Risk and Compliance Committee is chaired by Paul Truyens, an independent non-executive director. The committee assists the Board in setting risk appetite and tolerances and monitors adherence against these on a continuous basis. The soon to be introduced Solvency Assessment and Management 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.

### 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 financial 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, where 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.

### Social, Ethics and Transformation Committee

During the year, the Board approved a resolution to dissolve the Social, Ethics and Transformation Committee (SETCO). SETCO had been in existence since 2011 and had the responsibility for the oversight of social, ethical, customer and transformation strategies and implementation. The prime driver for dissolving the committee was the amount of duplication that exists between the Old Mutual Insure SETCO and the various group governing forums. The former SETCO's responsibilities have been transitioned to the appropriate forums.

### Company Secretary

The Company Secretary appointed to the Board is Old Mutual Life Assurance of South Africa Limited. (OMLACSA), a fellow subsidiary within the group. The individual performing the company secretarial duties is not a member of the Board, and the relationship is considered arm's length due to the fact that the individual earns a market-related salary.

The Board considers, on an annual basis, the competence, qualifications and experience of the Company Secretary and is of the view that the Company Secretary plays a pivotal role in the company's corporate governance and ensures that, in accordance with regulations, the proceedings and affairs of the Board, the company and, where appropriate, shareholders, are administrated properly. The Company Secretary has attended all Board and committee meetings during the year. All directors have had unlimited access to the Company Secretary during the year.

## Principle 9: The governing body ensures that the evaluation of its own performance and that of its committees support continued improvement in its performance and effectiveness

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, as such, continually strives to improve its performance and effectiveness for the benefit of the company.

## Principle 10: The governing body ensures that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities

The Old Mutual Insure Selection Committee has been constituted during the year to conduct a formal, rigorous and transparent procedure to identify and recommend to the Board the appointments of a Chief Executive Officer as successor to Raimund Snyders, who retired effective 31 December 2017, and that of the Finance Director as successor to Jaco van der Sandt, who resigned effective 31 May 2017. The Selection Committee will be dissolved once a permanent Chief Executive Officer has been placed.

The Selection Committee for the Chief Executive Officer includes the Chairman of the Board, Chairman of the Remuneration and Nomination Committee, as well as representatives from the group.

A quorum of three members is required, whether attending by telephone or video conference, with a minimum of one non-executive governing member from Old Mutual Insure and one member from the group.

The Chief Executive Officer reports to the Board and is responsible for managing the execution of the strategic direction of the company as approved by the Board. Board authority conferred on management is delegated through the Chief Executive Officer in terms of approved authority levels. The Board formally evaluates the performance of the Chief Executive Officer against agreed performance targets on an annual basis.

The Board, through the Remuneration and Nomination Committee, provides recommendations to the Board on the necessary and desirable competencies, skills, knowledge and experience of executive management.

The Board, through the Remuneration and Nomination Committee, monitors succession plans for key positions, including the Chief Executive Officer.

## Principle 11: The governing body governs risk in a way that supports the organisation in setting and achieving its strategic objectives

The Board, through the Risk and Compliance Committee, assumes responsibility for the governance of risk by setting the direction for how risk should be approached and addressed. The Board sets the risk appetite of the organisation and the tolerable level of risk that the organisation is willing to accept in the achievement of its strategic goals. The implementation of effective risk management is delegated to management.

Old Mutual Insure operates a mature enterprise risk management system to identify and address risks that threaten the achievement of its business objectives. Risk management activities are performed by trained and skilled individuals and are subject to oversight by both second- and third-line corporate governance structures.

A consolidated view of the risks facing the organisation is presented to the Risk and Compliance Committee, with the presented risks being considered and discussed at each quarterly meeting.

The company follows a governance framework aligned with the Group Operating Model (GOM), incorporating the three lines of defence governance model.

The three lines of defence model is considered a fundamental governance design principle:

- The first line comprises line management, the executive and executive committees. The primary responsibility for managing risks remains with first line.

- The second line of defence comprises enterprise risk management, compliance, forensics and actuarial oversight. The specialist risk functions sit within the second line and their primary role is to provide the risk framework, risk management policies, support, guidance, education, challenge and oversight of first-line activities.
- The third line of defence comprises internal and external audit. The primary responsibility of the third line is to provide independent assurance of the effective and efficient use of the risk management process and frameworks to management and the Board.

The Board has commenced the process to re-align the three lines of defence model to the five lines of defence model under King IV.

The GOM contains a suite of risk policies that have been developed in line with the risk categorisation model. Each of these policies have been developed internally and approved by the Board. Compliance of each of the risk policies is monitored on an ongoing basis and is reported via the biannual letter of representation process.

## Principle 12: The governing body governs technology and information in a way that supports the organisation setting and achieving its strategic objectives

The Board is responsible for the governance of technology and information. The Board has mandated management to implement the Information Technology (IT) governance framework and reporting system to monitor the risks and effective control of IT within the group. Internal audit also provides assurance to management and the Audit Committee of the effectiveness of IT governance.

Technology and information is governed in a way that supports the organisation to set and achieve its objectives.

The Board approves policies that articulate and give effect to its set direction on the employment of technology and information on an annual basis and delegates to management the responsibility to implement and execute effective technology and information management.

The various management committees exercise oversight of technology and information management and report to the Board and its committees in terms of the five pillars of IT governance: governance and risk, strategic alignment, value delivery, resource management and performance management. Approval and oversight include the following:

- Integration of people, technologies, information and processes across the organisation.
- Integration of technology and information risks into organisation-wide risk management.
- Arrangements for business resilience.
- Proactive monitoring of intelligence to identify and respond to incidents, including cyber-attacks and adverse social media events.
- Management of the performance of, and the risks pertaining to, third-party and outsourced service providers.
- Assessment of value delivered to the organisation through significant investments in technology and information, including the evaluation of projects throughout their life cycles and of significant operational expenditure.
- Responsible disposal of obsolete technology and information in a way that has regard to environmental impact and information security.
- Ethical and responsible use of technology and information.
- Compliance with relevant laws.

## Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that it supports the organisation being ethical and a good corporate citizen

The Regulatory Risk and Compliance function, also known as the "Compliance Function", is a requirement of legislation and the Group Operating Model (GOM). The group has a formal code of ethics which is issued to employees of the group.

The objective of the Compliance Function is to proactively assist Old Mutual Insure in managing its compliance risk through effective communication, advice, recommendations and material findings.

Compliance risk arises from current or prospective non-adherence to regulatory requirements. Compliance risk therefore exposes Old Mutual Insure to risk of damage of its business model, objectives, reputation and financial soundness.

The role of the Compliance Function is to provide independent assurance to the Board to assess whether management has established an effective regulatory risk control framework.

The three lines of defence model require the Compliance Function to provide the governing body with assurance of compliance within Old Mutual Insure.

## Principle 14: The governing body ensures that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term

The Board, through the Remuneration and Nomination Committee, assumes the responsibility for the review of the design and management of salary structures and incentive schemes and ensures the proper authorisation for awards made under such schemes.

The Remuneration and Nomination Committee makes representations to the board on:

- Company-wide philosophy and broad policy with respect to all aspects of total remuneration, including, but not restricted to, basic pay, performance incentive arrangements and share awards; and
- Principles of incentive schemes to ensure adequacy and effectiveness and that they do not have an adverse risk effect on staff working practices, reporting or environmental, social and governance issues.

The Remuneration and Nomination Committee advises on the remuneration of the Chairman and Non-Executive Directors, taking into account comparative remuneration levels in similar organisations as the committee deems comparable. Guidance is further obtained from the group on the remuneration of the governing members.

Director's remuneration is disclosed in the annual report.

## Principle 15: The governing body ensures that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation's external reports

The Board assumes responsibility for assurance by setting the direction concerning the arrangements for assurance services. The Board delegates to the Audit Committee the responsibility for overseeing that those arrangements are effective in achieving the following:

- Enabling an effective internal control environment.
- Supporting the integrity of information used for internal decision-making by management, the Board and its committees.
- Supporting the integrity of external reports.

Old Mutual Insure follows a governance framework aligned with the group, including the three lines of defence governance model. The third line of defence comprises internal audit and external audit. The primary responsibility of the third line is to provide independent assurance of the effective and efficient use of the risk management process and frameworks to the Board.

### Assurance of external reports

The Board assumes responsibility for the integrity of external reports issued by the organisation by setting the direction for how assurance of these should be approached and addressed.

### Internal audit

The Board assumes responsibility for internal audit by setting arrangements needed to provide objective and relevant assurance that contributes to the effectiveness of governance, risk management and control processes. The Board delegates oversight of internal audit to the Audit Committee.

## Principle 16: In the execution of its governance role and responsibilities, the governing body has adopted a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time

The Board recognises its commitment to the organisation, employees and wider community, with members of the Board having adopted a stakeholder-inclusive approach in the execution of their duties. The Board assumes responsibility for the governance of stakeholder relationship and sets the tone as to how stakeholders should be approached. The Board has delegated to management the responsibility for implementation and execution of effective stakeholder relationship management.

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 in ensuring that the business complies with the regulatory landscape to ensure the sustainability of the business. Governance processes are reviewed on a regular basis in order 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 direct stakeholders of Old Mutual Insure are shareholders, customers, employees, suppliers, regulators, government and the communities in which the group companies operate.

## SHAREHOLDER COMMUNICATION

There is continuous engagement with the shareholder on a monthly basis in terms of financial results as well as formal quarterly feedback in terms of business performance and risks. The Chief Executive Officer and Financial Director meet with the shareholder on a regular basis.

## CUSTOMERS

The group companies provide short-term insurance products and services to South African businesses and individuals. In this regard, the integrity of Old Mutual Insure's brand, image and reputation is paramount.

The status of the Treating Customers Fairly programme is largely compliant with focus on embedding an organisational customer culture from a top down approach.

To ensure the sustainability of our business, we regularly engage with our customers to ensure satisfaction levels and gain insight into their needs. A value-for-money analysis is under way unpacking whether our products meet our customers' needs. We continuously endeavour to improve our products and processes in order to ensure that customers' needs are addressed.

## EMPLOYEES

Old Mutual Insure believes that employees have an important role to play in improvement of customer service and the increase in collaboration efforts across the Old Mutual group. The human resource strategy is to attract, develop and retain the best talent from our community.

Critical initiatives that were identified to enable the business strategy were:

- Changes in the operating/business model.
- Build knowledge and skills in critical roles through the General Insurance Academy.
- Guide business in the development of clear and integrated scorecards aligned with critical business deliverables.
- Embed a new way of working aligned with the Old Mutual group's value proposition with increased focus on "We care" given the expected impact of the changes.

The General Insurance Academy (GIA) continues to build core and critical skills needed to turn the business performance around and bridge the skills gaps identified. This is measured through proficiency and workplace assessments which track improvements across underwriting and sales.

The group agrees that competitive, market-related remuneration for executive directors, management and staff is essential for the development and retention of top-level talent and intellectual capital within Old Mutual Insure. Given the current economic climate, changes in the regulatory requirements and the ongoing skills shortage, it is essential that adequate measures be implemented to attract and retain the required skills. Over and above this, the remuneration philosophy is positioned to reward exceptional performance and to maintain such performance over time.

Executive performance bonuses are predominantly based on profit growth and return on equity and therefore ensure that decisions are made not to just grow turnover, but to write profitable insurance business in order to maximise profit and return on equity, which creates a sustainable business.

Old Mutual Insure has adopted a performance-based reward strategy for its employees. This strategy offers a value proposition consisting of a fixed salary plus a performance bonus.

Salaries are benchmarked against industry norms.

Remuneration is based on individual and company performance. Annual remuneration reviews encompass both elements.

## EMPLOYEE WELLNESS

The group is committed to the health and safety of employees and has implemented measures to ensure optimal health and safety conditions for its employees. The "We Care Employee Wellness Programme" is providing holistic wellbeing offerings to employees. Given the current social-economic conditions and significant changes taking place across the business, data indicates that there is a growing need to improve financial and lifestyle wellbeing support to our employees.

## SUPPLIERS

The group has procedures in place to ensure 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.

## REGULATORS

The group is subject to the independent oversight of South African regulatory authorities. Group company representatives interact with a wide spectrum of regulatory bodies, including the Financial Services Board and the Johannesburg Stock Exchange. The relationship sought is one of compliance with the regulations set by these regulatory authorities.

## COMMUNITIES

Old Mutual Insure's Corporate Social Investment programme focuses on activities that complement the business operations within the short-term insurance industry, while simultaneously aligning with the company's own transformation objectives and addressing the needs of many underdeveloped communities.

Investments are particularly focused on initiatives relating to education (especially mathematics and science) and agricultural socio-economic development in order to make a sustainable difference in the lives of beneficiaries.

An increasing focus at Old Mutual Insure will be the encouragement of staff volunteerism both in terms of hands-on involvement and identifying desirable projects within their own communities.

## NATURAL ENVIRONMENT

The group is committed to reduce both the direct and indirect impacts its business activities have on the natural environment. Various measures have been implemented in our offices to ensure that we reduce our impact on the environment. The nature of our business is such that the largest impact on the environment is made by our claim suppliers.

We interact with our suppliers to ensure that they have projects and processes in place to reduce their impact on the environment.

Acting Chief Executive Officer

**JW Wilken**

## OLD MUTUAL INSURE RECORDS A SOLID PERFORMANCE IN 2017

I am pleased to report that the group produced a satisfactory financial result. The achievement follows on from the ongoing commitment to the group's vision to be the short-term insurer of choice.

Old Mutual Insure's year-end underwriting result of R310 million reflects a solid performance, being the best underwriting result achieved over the last five years, albeit including a number of natural catastrophe events with a net value exceeding the prior 10-year average. The result flags a turnaround from 2016's R80 million underwriting profit, strongly supported by the intermediated commercial and personal lines businesses as well as the direct iWyze business. The turnaround was supported by disciplined underwriting, claims efficiencies and ongoing expense management. Corporate property has been impacted by a less than favourable large claims occurrence, granted that this is in line with the wider market's experience. Credit Guarantee Insurance Corporation of Africa Limited (CGIC) reported a profit despite a number of large claims reported during the year.

The group gross written premium has increased by 3.3% year-on-year. Ongoing tightening of underwriting control and risk remediation through a systematic review of underwriting requirements, pricing and risk selection has strained policy volume growth. Commercial and personal lines is in the process of positioning themselves for sustained profitable growth through a modernised go-to-market capability supported by the right infrastructure and pricing for risk, while also improving the customer experience through digital solutions. CGIC's gross written premium, although directly linked to the South African economic conditions, has remained resilient with year-on-year growth of 6.9%. Specialty, excluding cell captive business, has shown growth from the prior year due to a better renewal season and new business arising in the corporate, marine and engineering divisions.

Extreme weather events, including hail storms, are increasing in intensity and occurrence. Old Mutual Insure experienced three major catastrophes for the year: the June Western and Eastern Cape fires and storms, the October KwaZulu-Natal and Gauteng storms, and the December Gauteng storms. The net cost of catastrophe claims, including reinstatement premiums, in 2017 of R196 million has exceeded the value of net catastrophe claims reported in the prior financial years. The effect of the increase in severity of the catastrophe claims has been partially offset by an improvement in attritional losses in both personal and commercial lines.

The Old Mutual Insure's gross loss ratio is slightly higher than the prior year at 72.7% (2016: 70.8%) driven by the severity of the catastrophe events for the year. The mix of catastrophe versus attritional losses and the reinsurance structure in place are the main contributors to the improved net loss ratio position. Personal and commercial lines have had a better than expected attritional claims experience driven by a reduction in claims frequency as well as added efficiencies implemented in the claims space.

Old Mutual Insure has been reducing its cost base over a period of time, with a compound annual growth of only 4% over the 2015 to 2017 period. Old Mutual Insure will continue to focus on extracting expense efficiencies within the business.

## DELIVERING A SUSTAINED TURNAROUND IN OUR PROPERTY AND CASUALTY CAPABILITY

The 2018 focus remains on balancing profitable growth with a further enhancement in underwriting discipline and control of specifically the commercial, specialty and the CGIC portfolios. There will also be a continued efficiency drive to optimise the expense ratio, while also driving earnings diversification through specialty insurance and iWyze.

### Commercial and personal lines

The overall result of the division highlights the considerable effort that went into delivering a good underwriting result despite the negative gross premium growth in 2017. This is partially attributable to a focus on profitability but also a large variance in the crop segment due to the effect of the drought conditions on the 2016/2017 season and late rains and slow uptake on crop insurance for the 2017/2018 season. The claims ratio across the division has shown a marked improvement from the prior year despite the impact of the catastrophe loss experience in 2017. This is due in part to work that has been done to improve the underlying risk of the portfolio but also from claims cost control initiatives that were put in place in 2017, which had a significant effect on the motor business in particular. 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 negative underwriting result was attributed to the poor claims performance for specialty in 2017. Additionally, the run-off of large corporate claims that were incurred in prior years was also significantly worse than average. Growth in specialty was mostly driven by successfully securing new corporate property business and increasing premiums from existing business. The specialty business segment is continuing to underwrite carefully despite some business loss due to a more competitive overseas market. The net commission was lower than expected due to reinsurance commissions in corporate property being impacted by the loss experience in 2017. The specialty segment will continue to proactively focus on new business to grow the top-line with a deeper focus on underwriting quality in the core business and also focusing on facultative reinsurance to protect the underwriting result. Work has been done on the development of new products to diversify revenue streams including travel insurance and liability, and financial lines which should further aid growth in this segment. The risk finance segment will focus on cross-sell opportunities between cells and Old Mutual Insure to unlock synergies and increase profitability.

## iWyze

iWyze delivered a significant improvement in the underwriting result compared to the prior year, supported by premium growth, stringent expense management and improved claim controls during the year. The iWyze sales pre-population tool went live during the year, which has led to a significant improvement in the time to complete quotes and sales. A new pricing tool was launched in November, which will further optimise pricing in the business. iWyze will continue to focus on policy sales through the development of a portfolio of affinities, as well as ongoing expense optimisation and claims cost management.

## CGIC

In 2017 CGIC managed a turnaround from the underwriting loss reported in 2016. Overall premium growth year on year exceeded inflation. The CGIC portfolio was negatively impacted by large claims within the domestic portfolio. The export and bonds divisions ended the year profitably and posted a strong year-on-year result. Risk management and quality of underwriting are still top of mind. Continued discipline, training and adherence to underwriting guidelines are receiving emphasis.

## PRIORITIES FOR 2018

- iWyze growth and profitability.
- Diversify and increasing exposure to the higher-margin specialty business line.
- Restore quality of risk portfolio and improve profitability – ongoing commercial remediation and focus on claims cost efficiencies.
- Collaborate across the broader Old Mutual Group.
- Continue to deliver non-commission expense reduction while maintaining due consideration for the leverage benefit to invest in future capability and technical skills.

## APPRECIATION

Many people have contributed to the good financial result of Old Mutual Insure during a challenging year. I recognise the efforts of our employees, intermediaries and old and new business partners. I also thank the Board for its continued support and ability to steer the group. Let us continue to work together to fully unlock the value that lies within Old Mutual Insure and to become the short-term insurer of choice.

**JW Wilken**
*Acting Chief Executive Officer*

12 March 2018

# Executive team

**Left to right (standing):** Chief Executive Officer (CGIC): Charles Nortje, Africa Centre of Excellence Executive: Franklin Sibanda, Executive Claims Centre of Excellence: Hennie Nortje, Financial Director: Thuli Manyoha, Acting Chief Executive Officer: Hannes Wilken, Executive Specialty: John Nienaber, Chief Information Officer: Heydon Hall.

**Left to right (sitting):** Chief Actuary: Lisa Pines, Chief Risk Officer: Thabile Nyaba; Commercial, Personal and Distribution Executive: Coenraad de Jager, Chief Operating Officer: Susan Dalby, Human Resources Executive: Dr Liziwe Masoga.

# Financial Director's report

Financial Director
**NB Manyoha**

## DURING THE YEAR THE COMPANY RETURNED R1 225 MILLION TO THE SHAREHOLDER THROUGH THE PAYMENT OF DIVIDENDS

I take pleasure in presenting the financial report for 2017. To assist with providing an insight into a number of components of the operations and results, I would like to elaborate on some of the issues.

## BASIS OF REPORTING

The statutory financial statements have been prepared on the basis of IFRS. There have been no changes to accounting policies during the period. The financial statements provide comprehensive information regarding the assets, liabilities, income and expenditure of the group and company. In addition, detailed background is provided with regard to the recognition and measurement of insurance contracts, as well as insurance and financial risk.

Due to the specialised nature of the business, further quantitative information is provided with regard to insurance contract provisions, as well as a detailed analysis of the processes used to determine significant assumptions.

## FINANCIAL RESULTS

Earnings for the year attributable to equity holders increased significantly when compared to the previous year. The group profit after tax reported at R718 million has increased by R455 million from the previous year due to the increase in the underwriting profit, as well as the better performing investment portfolio compared to the prior year. The IFRS reported return on equity of 18.5% at 31 December 2017 shows a significant increase from the prior financial year of 6.7%.

| **FINANCIAL RESULTS (Rm)** | **2017** | 2016 | % change |
|---|---|---|---|
| Net premiums | **8 486** | 8 592 | (1.2) |
| Underwriting surplus | **310** | 80 | 287.5 |
| **KEY RATIOS (%)** | | | |
| Management expense ratio | **18.8** | 13.8 | (5.0) |
| Operating ratio | **96.3** | 99.1 | (0.7) |

| **PERFORMANCE OBJECTIVES** | Target % | **2017 %** | 2016 % | % change |
|---|---|---|---|---|
| Underwriting result as a percentage of earned premium | 4 – 6 | **3.7** | 0.9 | 2.8 |
| Return on equity (IFRS basis) | >20,0 | **18.5** | 6.7 | 11.8 |

## Underwriting result

The generation of a positive, growing underwriting surplus remains the primary financial objective of Old Mutual Insure and the R310 million earned in 2017 represents an underwriting ratio of 3.7% to net earned premiums. Although this is lower than the longer-term average objective of 4 to 6%, it was nevertheless most encouraging following the R80 million underwriting gains in 2016.

## Supplementary income statement

In terms of IFRS, all realised and unrealised gains and losses on financial assets are brought to account through the income statement. This inevitably leads to volatility and therefore a supplementary income statement is presented. This supplementary income statement separates the insurance and investment activities for ease of explanation and suitable benchmarking and comparison. The statement removes volatility from the results and presents a longer-term view of the investment activities by disclosing a long-term investment return (LTIR) rather than the short-term investment fluctuations disclosed in terms of IFRS. The LTIR rate remained the same during the year at 7.4% as compared to 2016. The LTIR rate is applied to "smoothed" insurance funds and shareholders' funds, with the smoothing achieved by averaging balances over a longer period.

Old Mutual Insure reported an adjusted operating profit (post-tax and minority interest) of R502 million for the year (2016: R353 million), which reflects an improved pre-tax underwriting profit of R230 million and a flat LTIR of R405 million (2016: R404 million).

| Unaudited<br>Rm | Dec YTD<br>**2017** | <br>2016 | Variance<br>Actual vs<br>prior year (%) |
|---|---|---|---|
| **Profitability measures** | | | |
| **Gross written premiums** | **12 481** | 12 082 | 3.3 |
| Net claims incurred | **(5 160)** | (5 790) | 10.9 |
| Acquisition expenses | **(1 357)** | (1 549) | 12.4 |
| Non-commission expenses | **(1 582)** | (1 191) | (32.8) |
| **Underwriting profit/(loss)#** | **310** | 80 | >100 |
| LTIR (excl Old Mutual Plc shares) | **405** | 404 | 0.1 |
| **IFRS AOP (pre-tax)** | **715** | 484 | 47.5 |
| Taxation | **(192)** | (128) | (50.5) |
| Non-controlling interest | **(21)** | (3) | >100 |
| **IFRS AOP (post-tax, post-MI)** | **502** | 353 | 41.6 |
| **Ratios (%)** | | | |
| Claims ratio^ | **61.4** | 67.2 | |
| Acquisition expense ratio^ | **16.1** | 18.0 | |
| Cost to income ratio* | **12.7** | 9.9 | |
| Combined ratio^ | **96.3** | 99.1 | |
| **Underwriting margin** | **3.7** | 0.9 | |

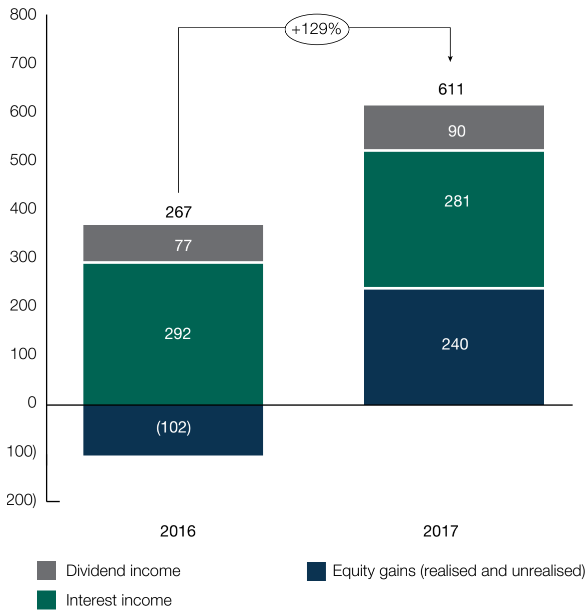
^ *As a percentage of net earned premium.*
* *As a percentage of gross written premium.*
# *Technical result before investment returns.*

## INVESTMENT RETURNS

Investment returns are accumulated within the non-technical section of the supplementary income statement and comprises dividends, interest and investment gains and losses. The interest income was positively impacted by ongoing high rates of interest, while dividend income was higher than expected. In addition, the overall investment income improved significantly during 2017 due to the increase in equity markets during the second half of the year. Realised and unrealised investment income of R611 million in 2017 is a significant improvement on the investment income of R267 million achieved in 2016.

The composition of the investment income based on IFRS is shown in the table below:

Investment income




## DIVIDENDS

During the year, dividends of R1.225 billion were paid to the shareholder from reserves.

## CORPORATE ACTIONS

Old Mutual Insure raised debt in the form of a corporate bond in the fourth quarter of R500 million, which received a satisfactory market-related interest rate of 9.157% (Jibar + 2.09%). This will improve the cost of capital for the company. In addition, the group sold a 25% shareholding in Credit Guarantee Insurance Corporation of Africa Limited to Atradius N.V., a global trade credit insurance, surety and collections services company.

**NB Manyoha**
*Financial Director*

12 March 2018

# Group and Company Annual Financial Statements

*for the year ended 31 December 2017*

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These financial statements for the period ending 31 December 2017 have been audited in compliance with section 30 of the Companies Act. The financial statements have been prepared by T Osborne CA (SA) (Head of Finance), under the supervision of NB Manyoha CA (SA), (Financial Director).

# Statement of responsibility by the board of directors

The directors are responsible for the preparation and fair presentation of the group and company annual financial statements of Old Mutual Insure Limited, comprising the statements of financial position at 31 December 2017, the statements of profit and loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the consolidated and company financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Approval of consolidated and company annual financial statements

The consolidated and company annual financial statements of Old Mutual Insure Limited, as identified in the first paragraph, were approved by the Board of Directors on 12 March 2018 and signed on their behalf by:

**MJ Harper**
*Chairman*

12 March 2018

**JW Wilken**
*Acting Chief Executive Officer*

12 March 2018

# Certificate by company secretary

I hereby confirm, in my capacity as company secretary of Old Mutual Insure Limited that for the year ended 31 December 2017, the company has filed all required returns and notices in terms of the Companies Act, 2008 and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

**OMLACSA**
*Company Secretary*

12 March 2018

# Joint report of the Audit and Risk committees

## AUDIT COMMITTEE

The current members are Mr PC Rörich (Chairperson), Mr PGM Truyens and Mr M Mia.

## RISK COMMITTEE

The current members are Mr PGM Truyens (Chairperson), Mr G Palser, Mr M Mia and Mr P Rörich.

The Audit and Risk committees are committees of the Old Mutual Insure Board of Directors. In the execution of its duties during the past financial year, the Audit and Risk committees have:

- reviewed the procedures for identifying business risks and controlling their impact on Old Mutual Insure;
- reviewed the Old Mutual Insure policies and procedures for detecting and preventing fraud;
- reviewed the operational effectiveness of Old Mutual Insure's group policies, systems and procedures;
- considered whether the independence, objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provide adequate support to enable the committee to meet its objectives;
- 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 response;
- 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 the controls over financial and certain operational risks;
- 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 Old Mutual Insure 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 committees, of executive directors and any other person who is not a member of the committees);
- reviewed the external auditor's management letter and management's response; and
- reviewed the credibility, independence and objectivity of the external auditor. The Audit and Risk committees are satisfied that the external auditor is independent of the company for the 2017 year.

Where weaknesses were identified in the internal controls, corrective action has been taken to eliminate or reduce the concomitant risks. Accordingly, in our opinion, the internal controls of Old Mutual Insure are effective to ensure that Old Mutual Insure's assets were safeguarded, proper accounting records were maintained and resources were utilised efficiently.

Following our review of the consolidated and company annual financial statements for the year ended 31 December 2017, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act, 2008, of South Africa and International Financial Reporting Standards and that they fairly present the financial position at 31 December 2017 of the company, its subsidiaries and associates, and the consolidated results of the operations and cash flows for the year then ended.

On behalf of the Audit and Risk committees

**PC Rörich**
*Chairperson of the Audit Committee*

12 March 2018

**PGM Truyens**
*Chairperson of the Risk Committee*

12 March 2018

## 1. MAIN BUSINESS AND OPERATIONS

The company is a registered short-term insurance company. The operating results and state of affairs of the company are fully set out in the attached financial statements.

Old Mutual Insure Limited ("the company") is domiciled in South Africa and was rebranded from Mutual & Federal Insurance Company Limited on 5 June 2017.

| | |
|---|---|
| **Registered office:** | 19th Floor, Old Mutual Insure Centre<br>75 Helen Joseph Street<br>Johannesburg |
| **Postal address:** | PO Box 1120<br>Johannesburg<br>2000 |
| **Company registration number:** | 1970/006619/06 |

## 2. DIVIDENDS

The company declared a dividend of R1,225 billion (2016: nil) for the year ended 31 December 2017.

## 3. EVENTS AFTER THE REPORTING DATE

The Board is not aware of any events arising after the reporting period that affect the results for the year ended 31 December 2017.

## 4. AUTHORISED AND ISSUED SHARE CAPITAL

The authorised and issued share capital is disclosed per note 26 of the financial statements.

## 5. DIRECTORS AND PRESCRIBED OFFICERS

| Directors | Name and surname | Date |
|---|---|---|
| Appointed: | Mr P Moyo | 1 June 2017 |
| | Ms NB Manyoha | 1 January 2018 |
| Resigned: | Mr J van der Sandt | 31 May 2017 |
| | Mrs NP Dongwana | 31 May 2017 |
| | Mr RG Tomlinson | 21 November 2017 |
| | Mr PRE Tsukudu | 31 December 2017 |
| Retired: | Mr R Snyders | 31 December 2017 |

### The current directors of the company are as follows:

| Name | Nationality | Permanent/rotation | Notice period | Retirement age |
|---|---|---|---|---|
| Mr MJ Harper (Chairman) | South African | Rotation | 1 month | 70 |
| Mr G Palser | South African | Rotation | 1 month | 70 |
| Mr M Mia | South African | Rotation | 1 month | 70 |
| Mr P Moyo | South African | Rotation | 1 month | 70 |
| Mr PGM Truyens | Dutch | Rotation | 1 month | 70 |
| Mr PC Rörich | South African | Rotation | 1 month | 70 |

## 6. HOLDING COMPANY

The company is a wholly owned subsidiary of Mutual & Federal Investments Proprietary Limited. The ultimate holding company is Old Mutual Plc, which is incorporated in the United Kingdom and listed on the London, Johannesburg, Malawi, Namibia and Zimbabwe stock exchanges.

## 7. AUDITOR

KPMG Inc. will continue in office in accordance with section 90 of the Companies Act of South Africa.

# 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 30 to 98, which comprise the statements of financial position as at 31 December 2017, and the statements of 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 2017, 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 matters for the consolidated and separate financial statements are set out below:

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of the Incurred But Not Reported ('IBNR') liability** | |
| Refer to notes 1.7, 2, 4.1, 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 R882m (company: R386m), 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.<br><br>This matter is a key audit matter due to the inherent uncertainty and significant judgements required in the actuarial modelling process. | 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>• We used our actuarial specialists to evaluate the work of Old Mutual Insure Limited's actuaries in determining the IBNR liability. This included evaluation of the methods, models and assumptions applied along with the consistency of the approach from the prior year;<br>• We tested the claims development data supporting the IBNR percentages used by management, by agreeing the data in the actuarial reports to data on the underlying system; and<br>• We evaluated and tested management's controls over monitoring of data capture and subsequent updates to estimates raised on the insurance claims system. 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. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of the investments in subsidiaries**<br>Refer to notes 1.4, 1.12, 2, 4.2.4, 10<br>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 R1.836m, as disclosed in note 10.<br><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><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 confirmed 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 Certificate by the Company Secretary, the Joint Report of the Audit and Risk Committees and the Directors' Report as required by the Companies Act of South Africa 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 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 47 years.

**KPMG Inc.**
Registered Auditors

**Per Mark Danckwerts**
Chartered Accountant (SA)
Registered Auditor
Director
14 March 2018

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

# Statements of profit or loss and other comprehensive income

*for the year ended 31 December 2017*

| | Notes | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|---|
| Gross written premiums | | **12 481** | 12 082 | **8 751** | 8 718 |
| *Less:* Reinsurance premiums | | **(3 995)** | (3 490) | **(1 120)** | (1 042) |
| Net written premiums | | **8 486** | 8 592 | **7 631** | 7 676 |
| Change in provision for unearned premiums | 20 | **(76)** | 18 | **16** | 4 |
| Gross amount | | **(70)** | (25) | **15** | (28) |
| Reinsurers' share | | **(6)** | 43 | **1** | 32 |
| Earned premiums | | **8 410** | 8 610 | **7 647** | 7 680 |
| Commission income | 28 | **667** | 520 | **159** | 157 |
| Investment returns | 29 | **611** | 267 | **686** | 124 |
| **Net income** | | **9 688** | 9 397 | **8 492** | 7 961 |
| Net claims incurred | 30 | **(5 160)** | (5 950) | **(4 925)** | (5 183) |
| Gross amount | | **(9 024)** | (8 690) | **(6 604)** | (6 162) |
| Reinsurers' share | | **3 864** | 2 740 | **1 679** | 979 |
| Acquisition costs | 31 | **(2 023)** | (1 747) | **(1 496)** | (1 321) |
| Administration expenses | 32 | **(1 557)** | (1 321) | **(1 118)** | (1 197) |
| Investment costs | | **(9)** | (6) | **(9)** | (6) |
| Foreign exchange loss | | **(18)** | (26) | **(5)** | (5) |
| Share of profits from associates | 11 | **27** | 10 | **–** | – |
| **Profit before taxation** | | **948** | 357 | **939** | 249 |
| Taxation | 33 | **(213)** | (92) | **(157)** | (87) |
| **Profit after taxation** | | **735** | 265 | **782** | 162 |
| **Profit for the year** | | **735** | 265 | **782** | 162 |
| **Other comprehensive income before taxation:** | | | | | |
| Property revaluation – subsequently reclassified into profit or loss | | **(12)** | 2 | **–** | 2 |
| Foreign currency translation reserve* | | **(2)** | – | **–** | – |
| Actuarial loss on defined benefit plans* | | **(5)** | (42) | **(4)** | (41) |
| | | **(19)** | (40) | **(4)** | (39) |
| Taxation on other comprehensive income | | **6** | – | **–** | – |
| **Total comprehensive income for the year** | | **722** | 225 | **778** | 123 |
| **Profit attributable to:** | | | | | |
| Equity holders of the company | | **718** | 263 | **782** | 162 |
| Non-controlling interests | | **17** | 2 | **–** | – |
| **Profit for the year** | | **735** | 265 | **782** | 162 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the company | | **705** | 224 | **778** | 123 |
| Non-controlling interests | | **17** | 1 | **–** | – |
| **Total comprehensive income for the year** | | **722** | 225 | **778** | 123 |

# Statements of profit or loss and other comprehensive income (continued)

*for the year ended 31 December 2017*

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Earnings attributable to equity shareholders** | | | | |
| **Earnings per share (cents)** | | | | |
| Basic earnings per share | **224** | 82 | **245** | 51 |
| Diluted earnings per share | **224** | 82 | **245** | 51 |
| 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)** | | | | |
| Headline earnings per share | **227** | 83 | **244** | 51 |
| Diluted earnings per share | **227** | 83 | **244** | 51 |
| Dividends per share (cents) | **383** | – | **383** | – |

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

# Statements of financial position

*as at 31 December 2017*

| | Notes | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Intangible assets | 16 | **161** | 150 | **161** | 150 |
| Property and equipment | 17 | **253** | 343 | **245** | 266 |
| Deferred taxation assets | 18 | **71** | 49 | **50** | 32 |
| Investment in subsidiaries | 10 | **–** | – | **1 836** | 2 076 |
| Investment in associate | 11 | **113** | 74 | **14** | 2 |
| Loans to share trusts | 13 | **7** | 8 | **84** | 119 |
| Interest in employee share trusts | 12 | **–** | – | **566** | 529 |
| Loans and advances | | **4** | 1 | **4** | 1 |
| Post-retirement medical benefit reimbursement asset | 21 | **235** | 233 | **170** | 165 |
| Deferred acquisition costs | 6 | **200** | 207 | **123** | 129 |
| Reinsurers' share of general insurance liabilities | 20 | **2 340** | 1 902 | **1 346** | 1 282 |
| Deposits with cedants | | **25** | 23 | **–** | – |
| Investments and securities | 14 | **5 539** | 5 717 | **3 463** | 3 533 |
| Amounts due from agents and reinsurers | 7 | **2 118** | 1 167 | **1 693** | 719 |
| Subrogation and salvage recoveries | 8 | **653** | 656 | **287** | 292 |
| Non-current asset held for sale | 19 | **38** | – | **–** | – |
| Taxation paid in advance | 33 | **24** | 1 | **–** | – |
| Other receivables | 9 | **938** | 683 | **546** | 553 |
| Cash and cash equivalents | 15 | **1 724** | 1 227 | **319** | 119 |
| **Total assets** | | **14 443** | 12 441 | **10 907** | 9 967 |
| **LIABILITIES** | | | | | |
| General insurance liabilities | 20 | **5 964** | 5 634 | **3 709** | 3 809 |
| Amounts payable to cell owners | 23 | **761** | 734 | **–** | – |
| Debt instrument | 25 | **500** | – | **500** | – |
| Deferred reinsurance commission revenue | 6 | **139** | 134 | **63** | 58 |
| Deposits owing to reinsurers | | **834** | 603 | **718** | 525 |
| Amounts due to agents and reinsurers | 7 | **1 272** | 476 | **871** | 218 |
| Post-retirement medical benefit liability | 21 | **272** | 268 | **210** | 200 |
| Share-based payment liability | 27 | **90** | 54 | **82** | 53 |
| Current provisions | 22 | **175** | 84 | **151** | 63 |
| Deferred taxation liabilities | 18 | **107** | 90 | **–** | – |
| Taxation payable | 33 | **31** | 22 | **23** | 16 |
| Other payables | 24 | **304** | 321 | **219** | 215 |
| **Total liabilities** | | **10 449** | 8 420 | **6 546** | 5 157 |
| **EQUITY** | | | | | |
| Share capital and share premium | 26 | **1 797** | 1 797 | **1 797** | 1 797 |
| Other reserves | | **58** | 113 | **84** | 89 |
| Property revaluation reserve | | **60** | 113 | **86** | 89 |
| Foreign currency translation reserve | | **(2)** | – | **(2)** | – |
| Retained income | | **1 905** | 2 111 | **2 480** | 2 924 |
| Equity holders' share of the company's capital and reserves | | **3 760** | 4 021 | **4 361** | 4 810 |
| **Non-controlling interests** | | **234** | – | **–** | – |
| **Total equity** | | **3 994** | 4 021 | **4 361** | 4 810 |
| **Total liabilities and equity** | | **14 443** | 12 441 | **10 907** | 9 967 |

# Statements of changes in equity

*for the year ended 31 December 2017*

| Group | Share and share premium Rm | Foreign translation reserve Rm | Revaluation reserve Rm | Retained income Rm | Total share-holder's equity Rm | Non-controlling interest Rm | Total Rm |
|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2015** | 1 797 | – | 75 | 1 966 | 3 838 | 110 | 3 948 |
| Profit for the year | – | – | – | 263 | 263 | 2 | 265 |
| Transfer from revaluation reserve to retained earnings | – | – | (2) | 2 | – | – | – |
| Acquisition of interest in a subsidiary | – | – | – | (78) | (78) | (112) | (190) |
| Actuarial loss on defined benefit plans | – | – | – | (42) | (42) | – | (42) |
| Property revaluation | – | – | 40 | – | 40 | – | 40 |
| **Balance at 31 December 2016** | **1 797** | **–** | **113** | **2 111** | **4 021** | **–** | **4 021** |
| Profit for the year | **–** | **–** | **–** | **718** | **718** | **17** | **735** |
| Transfer from revaluation reserve to retained earnings | **–** | **–** | **(3)** | **3** | **–** | **–** | **–** |
| Property revaluation | **–** | **–** | **(12)** | **–** | **(12)** | **3** | **(9)** |
| Sale of interest in a subsidiary | **–** | **–** | **–** | **280** | **280** | **214** | **494** |
| Foreign currency translation reserve | **–** | **(2)** | **–** | **–** | **(2)** | **–** | **(2)** |
| Actuarial loss on defined benefit plans | **–** | **–** | **–** | **(5)** | **(5)** | **–** | **(5)** |
| Reclassification of property reserve | **–** | **–** | **(38)** | **38** | **–** | **–** | **–** |
| Dividends paid to shareholder | **–** | **–** | **–** | **(1 225)** | **(1 225)** | **–** | **(1 225)** |
| Dividends paid by share trusts | **–** | **–** | **–** | **(15)** | **(15)** | **–** | **(15)** |
| **Balance at 31 December 2017** | **1 797** | **(2)** | **60** | **1 905** | **3 760** | **234** | **3 994** |

| Company | Share capital and share premium Rm | Foreign currency translation reserve Rm | Revaluation reserve Rm | Retained income Rm | Total ordinary share-holder's equity Rm |
|---|---|---|---|---|---|
| **Balance at 31 December 2015** | 1 797 | – | 51 | 2 801 | 4 649 |
| Profit for the year | – | – | – | 162 | 162 |
| Transfer from property revaluation reserve to retained earnings | – | – | (2) | 2 | – |
| Actuarial loss on defined benefit plans | – | – | – | (41) | (41) |
| Property revaluation | – | – | 40 | – | 40 |
| Dividends paid | – | – | – | – | – |
| **Balance at 31 December 2016** | **1 797** | **–** | **89** | **2 924** | **4 810** |
| Profit for the year | **–** | **–** | **–** | **782** | **782** |
| Transfer from property revaluation reserve to retained earnings | **–** | **–** | **(3)** | **3** | **–** |
| Actuarial loss on defined benefit plans | **–** | **–** | **–** | **(4)** | **(4)** |
| Foreign currency translation reserve | **–** | **(2)** | **–** | **–** | **(2)** |
| Dividends paid | **–** | **–** | **–** | **(1 225)** | **(1 225)** |
| **Balance at 31 December 2017** | **1 797** | **(2)** | **86** | **2 480** | **4 361** |

# Statements of cash flows

*for the year ended 31 December 2017*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| **Cash flows from operating activities** | | | | | |
| Net cash (used in)/generated by operating activities | | **(606)** | 342 | **(742)** | 186 |
| Cash generated from operations | 34 | **343** | (118) | **244** | 10 |
| Interest income and realised gains | | **433** | 471 | **364** | 200 |
| Dividend received | | **90** | 77 | **49** | 32 |
| Dividend paid | 35 | **(1 240)** | – | **(1 225)** | – |
| Interest paid | | **(6)** | – | **(6)** | – |
| Contribution to post-retirement medical benefit reimbursement asset | | **–** | (2) | **–** | (2) |
| Taxation paid | | **(226)** | (86) | **(168)** | (54) |
| **Cash flows from investing activities** | | | | | |
| Cash generated from/(utilised in) investing activities | | **615** | (797) | **442** | (512) |
| | | **367** | (249) | **372** | (244) |
| Acquisition of intangible assets | | **(36)** | (14) | **(36)** | (14) |
| Acquisitions of property and equipment | | **(52)** | (50) | **(47)** | (45) |
| Proceeds on the disposal of property and equipment | | **3** | 4 | **3** | 4 |
| Net repayments of loans and advances | | **(3)** | 1 | **(3)** | 1 |
| Acquisition of additional equity interest in subsidiary | | **–** | (190) | **–** | (190) |
| Proceeds from sale of shares in a subsidiary | | **494** | – | **494** | – |
| Acquisition of a subsidiary | | **(27)** | – | **(27)** | – |
| Acquisition of associate | | **(12)** | – | **(12)** | – |
| Net proceeds of investments | | **248** | (548) | **70** | (268) |
| Increase in amounts due to and from subsidiaries | | **–** | – | **18** | 2 |
| Acquisition of investments | | **(7 292)** | (9 444) | **(6 707)** | (8 072) |
| Proceeds from disposal of investments | | **7 540** | 8 896 | **6 759** | 7 802 |
| **Cash flows from financing activities** | | **500** | – | **500** | – |
| Proceeds from borrowings | | **500** | – | **500** | – |
| Net increase/(decrease) in cash and cash equivalents | | **509** | (455) | **200** | (326) |
| Net foreign exchange differences on cash and cash equivalents | | **(12)** | 28 | **–** | – |
| Cash and cash equivalents at beginning of year | | **1 227** | 1 654 | **119** | 445 |
| **Cash and cash equivalents at end of year** | | **1 724** | 1 227 | **319** | 119 |

# Notes to the consolidated and company annual financial statements

*for the year ended 31 December 2017*

## 1. ACCOUNTING POLICIES

### 1.1 Statement of compliance

The principal accounting policies adopted in the preparation of these 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 as issued by the Accounting Practices Committee 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, 2008. Old Mutual Insure Limited ("the company") is domiciled in South Africa. The consolidated financial statements for the year ended 31 December 2017 comprise of the company and its subsidiaries (together referred to as the "group") and the group interest in associates.

### 1.2 Basis of preparation

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

The accounting policies set out below have been consistently applied to all periods presented in these financial statements and no new accounting policies have been adopted.

The preparation of financial statements in conformity to 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.

### 1.3 Consolidated financial statements

In the company financial statements the company's investments in subsidiaries and associate companies are accounted for as financial assets through profit and loss and carried at fair value.

#### Consolidation procedures

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 profit or loss statement 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. 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.

### 1.4 Investments in subsidiaries

Subsidiary undertakings are those entities controlled by the group. Subsidiaries are all entities over which the group has control. To consider if control exists, consideration must be given as 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 in returns relating to the investor. Control is assessed on a continuous basis and is reassessed as facts and circumstances change. Investments in subsidiaries in the financial statements of the group are designated as fair value through profit or loss. Investments in subsidiaries are managed and their performance is evaluated on a fair value basis.

### 1.5 Investments in associates

An associate is an entity over which the group has significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee. All the other factors, contractual or otherwise, are assessed in determining whether the group has the ability to exercise significant influence. Investments in associates in the financial statements of the company are designated as fair value through profit or loss and accounted for until cessation of significant influence.

## 1. ACCOUNTING POLICIES (continued)

### 1.6 Non-controlling interest

The group recognises any non-controlling interest in the 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 Insurance contracts

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. Contracts under which the transfer of insurance risk to the group from the policyholder is not significant are classified as investment contracts.

#### Premiums

Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten and are recognised in profit or loss.

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 provision 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 reimbursement

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 collected by the insured or the group shall be shared in proportion to their respective interests. Estimates of salvage 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. ACCOUNTING POLICIES (continued)

## 1.7 Insurance contracts (continued)

### Unearned premium provision

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.

Included in the unearned premium provision is a provision made for probable future 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.

### Low claims and no-claims bonus

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 year-end and movements in the provision are recognised in profit or loss.

### Liabilities and related assets under liability adequacy test

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.

### 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, 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 which corresponds to the unearned premium provision. Acquired costs and the movement in deferred acquisition costs are recognised in profit or loss.

### Commission income

Comprises commissions earned in respect of insurance contracts. Commission income is recognised on the effective commencement or renewal date of the insurance 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.

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

## 1. ACCOUNTING POLICIES (continued)

### 1.7 Insurance contracts (continued)

#### Agents' and reinsurers' balances

These receivables are measured at amortised cost, and the group is of the opinion that the carrying values of these receivables are a reasonable approximation of fair value.

#### Deposits with reinsurers and cedants

Deposits with reinsurers and cedants are measured at amortised cost.

### 1.8 Investment contracts

Receipts and payments under financial contracts are not classified as insurance transactions in the statement of profit and loss and other comprehensive income, but are deposit-accounted in the statement of financial position. The deposit liability recognised in the statement of financial position represents the amounts payable to the holders of the financial contracts inclusive of allocated financial income.

### 1.9 Foreign currency translation

#### Foreign currency transactions and balances other than in respect of foreign operations

Transactions in foreign currencies are converted to South African Rands, the group's functional currency, at the rate of the exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into relevant functional currency at rates of exchange ruling 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 foreign exchange rates ruling at the dates the fair values were determined.

Exchange gains and losses on the translation and settlement of monetary items during the period of foreign currency assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in the consolidated statement of 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.

#### Translation of foreign operations

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. Their 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.

### 1.10 Property and equipment

Property and equipment are tangible assets that the group holds for its own use and which the group expects to use for more than one period. The consumption of the property and equipment is reflected through a depreciation charge designed to reduce the asset to its residual value.

## 1. ACCOUNTING POLICIES (continued)

### 1.10 Property and equipment (continued)

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

Land – not depreciated
Buildings: Main structure – 26 years
Buildings: Electrical equipment – 20 years
Building: Internal finishes – 15 years
Motor vehicles – 4 to 5 years
Furniture and equipment – 6 years
Computer equipment – 3 years

The residual value, useful life and depreciation method of each asset is reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for 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.

#### 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. Equipment is 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 its 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 earnings.

#### 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. ACCOUNTING POLICIES (continued)

### 1.11 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 company and the cost of the asset can be measured reliably.

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

An intangible asset arising from development shall be 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 10 years and are expected to have a nil residual value. The amortisation charge is recognised in profit or loss.

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.

### 1.12 Financial instruments

#### Initial measurement

Financial instruments are initially recognised at fair value. For financial instruments not at fair value through profit or loss, this includes any directly attributable transaction costs.

The group recognises loans and advances, deposits and debt securities issued on the date on which they originate. The group shall recognise a financial asset or a financial liability in its statement of financial position when the company becomes party to the contractual provisions of the instrument.

#### Subsequent measurement

*Investments and securities*

Listed and unlisted investments are designated at fair value through profit or loss. Investments are managed, evaluated and reported in terms of a risk and investment strategy on a fair value basis.

*Loans and advances*

Loans advanced are stated at amortised cost, using the effective interest rate method.

*Other receivables*

Other receivables are stated at amortised cost, using the effective interest rate method.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and bank balances, all of which are available for use by the company unless otherwise stated. Cash and cash equivalents are stated at amortised cost.

*Other payables*

Other payables are stated at amortised cost, using the effective interest rate method.

## 1. ACCOUNTING POLICIES (continued)

### 1.12 Financial instruments (continued)

#### Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the group 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.

#### Derecognition

A financial asset is derecognised when the contractual cash flows from the asset expire, or when the right to receive the contractual cash flows in a transaction, which substantially transfers all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when its contractual obligation is discharged, cancelled or when it expires.

#### Impairment

*Financial assets*

The carrying amounts of the group's financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if the objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed for impairment collectively. All impairment losses are recognised through profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

*Non-financial assets*

The carrying amount of other non-financial assets are 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 and companies. 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.

### 1.13 Share capital

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

### 1.14 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.

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

## 1. ACCOUNTING POLICIES (continued)

### 1.15 Income taxes

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided 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 provided 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 to equity or other comprehensive income. Deferred tax on taxable temporary differences is not recognised for investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and the parent is able to control the timing of the reversal of the temporary difference.

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.

### 1.16 Employee benefits

#### Short-term employee benefits

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 an employee's employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises a liability and expense for the termination benefit 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 that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits.

#### Bonus plans

Bonuses are short-term benefits recognised in profit or loss that are expected to be settled wholly before 12 months after the end of the annual reporting period. A liability for employee benefits in the form of bonus plans is recognised in other payables when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met.

- There is a formal plan and amounts to be paid are determined before the issuing of the financial statements; or
- Past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

# 1. ACCOUNTING POLICIES (continued)

## 1.16 Employee benefits (continued)

### 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 the amount payable to employees is recognised as an expense with a corresponding increase in liabilities, over the period that the employees becomes unconditionally entitled to the instruments, and is remeasured at each reporting date and at settlement date. Any changes in the liability are recognised in profit or loss.

### 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.

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 2017. 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.

### Defined benefit pension plan

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 least once in three years. Any actuarial gains or losses are recognised as incurred. Actuarial gains or losses are recognised in other comprehensive income.

## 1.17 Provisions

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 is virtually certain.

## 1.18 Segment 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, Speciality 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.
- Personal lines: The personal portfolio offers a multiproduct and multichannel distribution portfolio that provides clients with cover through a wide range of products.
- Risk financing: Risk Financing is a specialist cell captive insurer.
- Specialty: The specialist business 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.

## 1. ACCOUNTING POLICIES (continued)

### 1.18 Segment reporting (continued)

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 is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis.

### 1.19 Net investment income

Investment income is accounted for as below:

- Interest income is recognised in profit or loss as it accrues, using the effective interest rate method.
- Dividend income is recognised in profit or loss when the right to receive payment is established.
- Interest expenses are recognised in profit or loss in the period they are incurred.

### 1.20 Borrowing costs

Borrowing costs are recognised as an expense in profit or loss in the period which they are incurred. Borrowed funds are measured at amortised cost at the reporting date where applicable.

### 1.21 Leases

#### Operating leases

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 on a straight-line basis over the period of the lease.

### 1.22 Accounting for cell owners' interests

Through a specialised risk financing subsidiary, the group provides cell captive facilities to clients. The cell captive facilities effectively ringfence the underwriting and declared investment results of insurance contracts introduced to the subsidiary by cell owners.

Through participation agreements, the third-party cell owners share in the risk and rewards of the insurance contracts although the subsidiary is still the principal to the insurance contract. Therefore, although the risks are transferred to the cell owner through the agreement, all gross premiums, gross claims and gross commissions are still reflected by the group but then shown as equal and opposite reinsurance transactions outwards to reflect the transfer of the risk to the cell owner.

### 1.23 Contingencies and commitments

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.

### 1.24 New standards, amendments and interpretations not yet adopted

#### IFRS 9 *Financial Instruments*

On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments Standard*, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

This standard will include changes in the measurement bases of the group's financial assets to amortised cost, fair value through other comprehensive income and fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the company. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application. Early adoption is permitted. Old Mutual Emerging Markets (OMEM) has engaged with its subsidiaries during the 2017 financial year and, as such, the group was included in this project to implement IFRS 9. The purpose of this project was to determine the potential impact IFRS 9 will have on the financial statements. The preliminary findings indicated that it will have a minimal impact.

## 1. ACCOUNTING POLICIES (continued)

### 1.24 New standards, amendments and interpretations not yet adopted (continued)

**IFRS 15:** ***Revenue from Contracts with Customers***

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The standard is effective for the group for the financial year commencing 1 January 2018. During the year, the group performed a high-level assessment to determine the potential impact of the new standard on the group's statement of profit or loss and other comprehensive income. Based on this assessment, nothing has come to the attention of the group that would indicate that the impact of the new standard would be significant.

**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 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 the Old Mutual Emerging Markets Group to facilitate an effective transition to the new standard for all subsidiaries within the group and, as such, group is within the scope. The group is in the process of assessing the impact and its transitional provisions. In addition, it has requested a professional services firm to perform a gap analysis and determine the impact IFRS 17 will have on its current processes and financial statements. Findings are being evaluated with necessary actions plans being developed. The group has senior management that is on both the SAICA and South African Insurance Association (SAIA) IFRS 17 panels. Management regularly attends meetings held for this forum. This allows the group to keep abreast of any developments in this space. The group is in the process of assessing the impact of IFRS 17 and the transitional provisions.

## 2. ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and judgements in applying the accounting policies are described below:

### 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 basic 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 20.

### 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 21.

### Investments in subsidiaries and associates

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.

### Interest in employee share trusts

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. The judgement applied in valuing the 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.

## 3. CATEGORISATION OF ASSETS AND LIABILITIES

| 2017 GROUP | Notes | Total Rm | Financial assets at fair value through profit or loss Rm |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 16 | **161** | – |
| Property and equipment | 17 | **253** | – |
| Deferred taxation assets | 18 | **71** | – |
| Investment in subsidiaries | 10 | **–** | – |
| Investment in associate | 11 | **113** | 113 |
| Interest in employee share trusts | 13 | **7** | 7 |
| Loans and advances | | **4** | – |
| Post-retirement medical benefit reimbursement asset | 21 | **235** | – |
| Deferred acquisition costs | 6 | **200** | – |
| Reinsurers' share of general insurance liabilities | 20 | **2 340** | – |
| Investments and securities | 14 | **5 539** | 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 |
| Money market funds and securities treated as investments | | **4 268** | 4 268 |
| Amounts due from agents and reinsurers | 7 | **2 118** | – |
| Deposits with cedants | | **25** | – |
| Subrogation and salvage recoveries | 8 | **653** | – |
| Non-current asset held for sale | 19 | **38** | 38 |
| Taxation paid in advance | | **24** | – |
| Other receivables | 9 | **938** | – |
| Cash and cash equivalents | 15 | **1 724** | – |
| | | **14 443** | 5 697 |
| **LIABILITIES** | | | |
| General insurance liabilities | 20 | **5 964** | – |
| Deferred reinsurance commission income | 6 | **139** | – |
| Debt instrument | 25 | **500** | – |
| Cell owners' interest | 23 | **761** | – |
| Deposits owing to reinsurers | | **834** | – |
| Amounts due to agents and reinsurers | 7 | **1 272** | – |
| Post-retirement medical benefit liability | 21 | **272** | – |
| Current provisions | 22 | **175** | – |
| Deferred taxation liabilities | 18 | **107** | – |
| Taxation payable | | **31** | – |
| Share-based payment liability | 27 | **90** | – |
| Other payables | 24 | **304** | – |
| | | **10 449** | – |

| Loans and receivables at amortised cost Rm | Financial liabilities at amortised cost Rm | Other non-financial assets and liabilities Rm | Current assets and liabilities Rm | Non-current assets and liabilities Rm |
|---|---|---|---|---|
| – | – | 161 | – | 161 |
| – | – | 253 | – | 253 |
| – | – | 71 | – | 71 |
| – | – | – | – | – |
| – | – | – | – | 113 |
| – | – | – | – | 7 |
| 4 | | – | – | 4 |
| – | – | 235 | – | 235 |
| – | – | 200 | 200 | – |
| – | – | 2 340 | 1 844 | 496 |
| – | – | – | 5 431 | 108 |
| – | – | – | – | 100 |
| – | – | – | – | 3 |
| – | – | – | – | 5 |
| – | – | – | 1 163 | – |
| – | – | – | 4 268 | – |
| 2 118 | – | – | 2 118 | – |
| – | – | 25 | 25 | – |
| – | – | 653 | 535 | 118 |
| – | – | – | 38 | – |
| – | – | 24 | 24 | – |
| 938 | – | – | 938 | – |
| 1 724 | – | – | 1 724 | – |
| 4 784 | – | 3 962 | 12 877 | 1 566 |
| – | – | 5 964 | 4 701 | 1 263 |
| – | – | 139 | 139 | – |
| – | 500 | – | – | 500 |
| – | 761 | – | 761 | – |
| – | 834 | – | 834 | – |
| – | 1 272 | – | 1 272 | – |
| – | – | 272 | – | 272 |
| – | – | 175 | 175 | – |
| – | – | 107 | – | 107 |
| – | – | 31 | 31 | – |
| – | – | 90 | – | 90 |
| – | 304 | – | 304 | – |
| – | 3 671 | 6 778 | 8 217 | 2 232 |

## 3. CATEGORISATION OF ASSETS AND LIABILITIES (continued)

| 2016<br>GROUP | Notes | Total<br>Rm | Financial assets at fair value through profit or loss<br>Rm |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 16 | 150 | – |
| Property and equipment | 17 | 343 | – |
| Deferred taxation assets | 18 | 49 | – |
| Investment in subsidiaries | 10 | – | – |
| Investment in associate | 11 | 74 | 74 |
| Interest in employee share trusts | 13 | 8 | 8 |
| Loans to share trusts | | – | – |
| Loans and advances | | 1 | – |
| Post-retirement medical benefit reimbursement asset | 21 | 233 | – |
| Deferred acquisition costs | 6 | 207 | – |
| Reinsurers' share of general insurance liabilities | 20 | 1 902 | – |
| Deposits with cedants | | 23 | – |
| Investments and securities | 14 | 5 717 | 5 717 |
| Unlisted ordinary shares | | 101 | 101 |
| Long-term loans | | 8 | 8 |
| Unlisted empowerment private equity fund | | 19 | 19 |
| Listed ordinary shares | | 2 145 | 2 145 |
| Money market funds and securities treated as investments | | 3 444 | 3 444 |
| Amounts due from agents and reinsurers | 7 | 1 167 | – |
| Subrogation and salvage recoveries | 8 | 656 | – |
| Taxation paid in advance | | 1 | – |
| Other receivables | 9 | 683 | – |
| Cash and cash equivalents | 15 | 1 227 | – |
| | | 12 441 | 5 799 |
| **LIABILITIES** | | | |
| General insurance liabilities | 20 | 5 634 | – |
| Amounts payable to cell owners | 23 | 734 | – |
| Deferred reinsurance commission income | | 134 | – |
| Deposits owing to reinsurers | | 603 | – |
| Amounts due to agents and reinsurers | 7 | 476 | – |
| Post-retirement medical benefit liability | 21 | 268 | – |
| Current provisions | 22 | 84 | – |
| Deferred taxation liabilities | 18 | 90 | – |
| Taxation payable | | 22 | – |
| Share-based payment liability | 27 | 54 | – |
| Other payables | 24 | 321 | – |
| | | 8 420 | – |

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

| | Loans and receivables at amortised cost Rm | Financial liabilities at amortised cost Rm | Other non-financial assets and liabilities Rm | Current assets and liabilities Rm | Non-current assets and liabilities Rm |
|---|---|---|---|---|---|
| | – | – | 150 | – | 150 |
| | – | – | 343 | – | 343 |
| | – | – | 49 | – | 49 |
| | – | – | – | – | – |
| | – | – | – | – | 74 |
| | – | – | – | – | 8 |
| | – | – | – | – | – |
| | 1 | – | – | – | 1 |
| | – | – | 233 | – | 233 |
| | – | – | 207 | 207 | – |
| | – | – | 1 902 | 236 | 1 666 |
| | – | – | 23 | 23 | – |
| | – | – | – | 5 642 | 75 |
| | – | – | – | – | 101 |
| | – | – | – | – | 8 |
| | – | – | – | – | 19 |
| | – | – | – | 2 145 | – |
| | – | – | – | 3 497 | (53) |
| | 1 167 | – | – | 1 167 | – |
| | – | – | 656 | 538 | 118 |
| | – | – | 1 | 1 | – |
| | 683 | – | – | 683 | – |
| | 1 227 | – | – | 1 227 | – |
| | 3 078 | – | 3 564 | 9 724 | 2 717 |
| | – | – | 5 634 | 676 | 4 958 |
| | – | – | – | 734 | – |
| | – | – | 134 | 134 | – |
| | – | – | 603 | 603 | – |
| | – | 476 | – | 476 | – |
| | – | – | 268 | – | 268 |
| | – | – | 84 | 84 | – |
| | – | – | 90 | 90 | – |
| | – | – | 22 | 22 | – |
| | – | – | 54 | – | 54 |
| | – | 321 | – | 321 | – |
| | – | 797 | 6 889 | 3 140 | 5 280 |

## 3. CATEGORISATION OF ASSETS AND LIABILITIES (continued)

| 2017 COMPANY | Notes | Total Rm | Financial assets at fair value through profit or loss Rm |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 16 | **161** | **–** |
| Property and equipment | 17 | **245** | **–** |
| Deferred taxation assets | 18 | **50** | **–** |
| Investment in subsidiaries | 10 | **1 836** | **1 836** |
| Investment in associate | 11 | **14** | **14** |
| Interest in employee share trusts | | **566** | **566** |
| Loans to share trusts | 13 | **84** | **–** |
| Loans and advances | | **4** | **–** |
| Post-retirement medical benefit reimbursement asset | 21 | **170** | **–** |
| Deferred acquisition costs | 6 | **123** | **–** |
| Reinsurers' share of general insurance liabilities | 20 | **1 346** | **–** |
| Investments and securities | 14 | **3 463** | **3 463** |
| Unlisted ordinary shares | | **9** | **9** |
| Long-term loans | | **–** | **–** |
| Unlisted empowerment private equity fund | | **67** | **67** |
| Listed ordinary shares | | **502** | **502** |
| Money market funds and securities treated as investments | | **2 885** | **2 885** |
| Amounts due from agents and reinsurers | 7 | **1 693** | **–** |
| Subrogation and salvage recoveries | 8 | **287** | **–** |
| Taxation paid in advance | | **–** | **–** |
| Other receivables | 9 | **546** | **–** |
| Cash and cash equivalents | 15 | **319** | **–** |
| | | **10 907** | **5 879** |
| **LIABILITIES** | | | |
| General insurance liabilities | 20 | **3 709** | **–** |
| Cell owners' interest | | **–** | **–** |
| Debt instrument | 25 | **500** | **–** |
| Deferred reinsurance commission income | 6 | **63** | **–** |
| Deposits owing to reinsurers | | **718** | **–** |
| Amounts due to agents and reinsurers | 7 | **871** | **–** |
| Post-retirement medical benefit liability | 21 | **210** | **–** |
| Current provisions | 22 | **151** | **–** |
| Deferred taxation liabilities | 18 | **–** | **–** |
| Taxation payable | | **23** | **–** |
| Share-based payment liability | 27 | **82** | **–** |
| Other payables | 24 | **219** | **–** |
| | | **6 546** | **–** |

| | Loans and receivables at amortised cost Rm | Financial liabilities at amortised cost Rm | Other non-financial assets and liabilities Rm | Current assets and liabilities Rm | Non-current assets and liabilities Rm |
|---|---|---|---|---|---|
| | – | – | 161 | – | 161 |
| | – | – | 245 | – | 245 |
| | – | – | 50 | – | 50 |
| | – | – | – | – | 1 836 |
| | – | – | – | – | 14 |
| | – | – | – | – | 566 |
| | 84 | – | – | – | 84 |
| | 4 | – | – | – | 4 |
| | – | – | 170 | – | 170 |
| | – | – | 123 | 123 | – |
| | – | – | 1 346 | 1 074 | 272 |
| | – | – | – | 3 387 | 76 |
| | – | – | – | – | 9 |
| | – | – | – | – | – |
| | – | – | – | – | 67 |
| | – | – | – | 502 | – |
| | – | – | – | 2 885 | – |
| | 1 693 | – | – | 1 693 | – |
| | – | – | 287 | 235 | 52 |
| | – | – | – | – | – |
| | 546 | – | – | 546 | – |
| | 319 | – | – | 319 | – |
| | 2 646 | – | 2 382 | 7 377 | 3 530 |
| | – | – | 3 709 | 2 927 | 782 |
| | – | – | – | – | – |
| | – | 500 | – | – | 500 |
| | – | – | 63 | 63 | – |
| | – | 718 | – | 718 | – |
| | – | 871 | – | 871 | – |
| | – | – | 210 | – | 210 |
| | – | – | 151 | 151 | – |
| | – | – | – | – | – |
| | – | – | 23 | 23 | – |
| | – | – | 82 | – | 82 |
| | – | 219 | – | 219 | – |
| | – | 2 308 | 4 238 | 4 972 | 1 574 |

## 3. CATEGORISATION OF ASSETS AND LIABILITIES (continued)

| 2016<br>COMPANY | Notes | Total<br>Rm | Financial assets at fair value through profit or loss<br>Rm |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 16 | 150 | – |
| Property and equipment | 17 | 266 | – |
| Deferred taxation assets | 18 | 32 | – |
| Investment in subsidiaries | 10 | 2 076 | 2 076 |
| Investment in associate | 11 | 2 | 2 |
| Interest in employee share trusts | | 529 | 529 |
| Loans to share trusts | 13 | 119 | – |
| Loans and advances | | 1 | – |
| Post-retirement medical benefit reimbursement asset | 21 | 165 | – |
| Deferred acquisition costs | | 129 | – |
| Reinsurers' share of general insurance liabilities | 20 | 1 282 | – |
| Investments and securities | 14 | 3 533 | 3 533 |
| Unlisted ordinary shares | | 16 | 16 |
| Long-term loans | | 8 | 8 |
| Unlisted empowerment private equity fund | | 19 | 19 |
| Listed ordinary shares | | 1 525 | 1 525 |
| Money market funds and securities treated as investments | | 1 965 | 1 965 |
| Amounts due from agents and reinsurers | 7 | 719 | – |
| Subrogation and salvage recoveries | 8 | 292 | – |
| Taxation paid in advance | | – | – |
| Other receivables | 9 | 553 | – |
| Cash and cash equivalents | 15 | 119 | – |
| | | 9 967 | 6 140 |
| **LIABILITIES** | | | |
| General insurance liabilities | 20 | 3 809 | – |
| Deferred reinsurance commission income | | 58 | – |
| Cell owners' interest | | – | – |
| Deposits owing to reinsurers | | 525 | – |
| Amounts due to agents and reinsurers | 7 | 218 | – |
| Post-retirement medical benefit liability | 21 | 200 | – |
| Current provisions | 22 | 63 | – |
| Deferred taxation liabilities | 18 | – | – |
| Taxation payable | | 16 | – |
| Share-based payment liability | 27 | 53 | – |
| Other payables | 24 | 215 | – |
| | | 5 157 | – |

| Loans and receivables at amortised cost Rm | Financial liabilities at amortised cost Rm | Other non-financial assets and liabilities Rm | Current assets and liabilities Rm | Non-current assets and liabilities Rm |
|---|---|---|---|---|
| – | – | 150 | – | 150 |
| – | – | 266 | – | 266 |
| – | – | 32 | – | 32 |
| – | – | – | – | 2 076 |
| – | – | – | – | 2 |
| – | – | – | 19 | 510 |
| 119 | – | – | – | 119 |
| 1 | – | – | – | 1 |
| – | – | 165 | 6 | 159 |
| – | – | 129 | 129 | – |
| – | – | 1 282 | 312 | 970 |
| – | – | – | 3 206 | 327 |
| – | – | – | – | 16 |
| – | – | – | – | 8 |
| – | – | – | – | 19 |
| – | – | – | 1 525 | – |
| – | – | – | 1 681 | 284 |
| 719 | – | – | 719 | – |
| – | – | 292 | 239 | 53 |
| – | – | – | – | – |
| 553 | – | – | 553 | – |
| 119 | – | – | 119 | – |
| 1 511 | – | 2 316 | 5 302 | 4 665 |
| – | – | 3 809 | 2 936 | 873 |
| – | – | 58 | 58 | – |
| – | – | – | – | – |
| – | 525 | – | 525 | – |
| – | 218 | – | 218 | – |
| – | – | 200 | – | 200 |
| – | – | 63 | 63 | – |
| – | – | – | – | – |
| – | – | 16 | 16 | – |
| – | – | 53 | 13 | 40 |
| – | 215 | – | 215 | – |
| – | 958 | 4 199 | 4 044 | 1 113 |

## 4. MANAGEMENT OF RISK AND CAPITAL

### 4.1 Insurance risk

#### 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 very large risks 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. 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.

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

### 4.1 Insurance risk (continued)

#### 4.1.1 Types of insurance contracts (continued)

**Property** – Provide 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 company 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 above-mentioned categories.

#### 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 and 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, random, 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 underwriting limits, 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 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.

*Reinsurance strategy*

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% (2016: 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 2.4% (2016: 2.3%) 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 company has exposure to all major lines of insurance business, but the bulk of exposure is to property and motor risks.

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

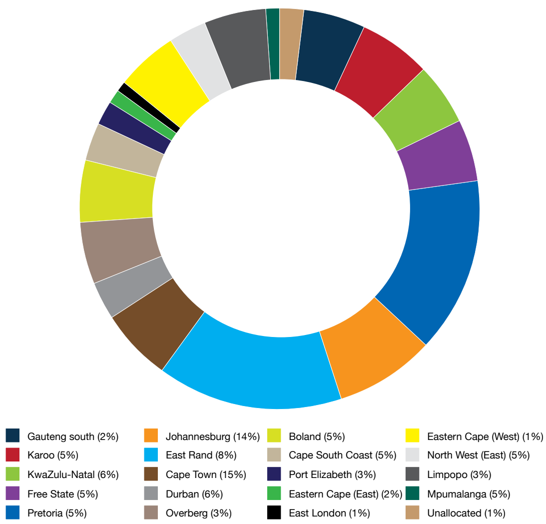
### 4.1 Insurance risk (continued)

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

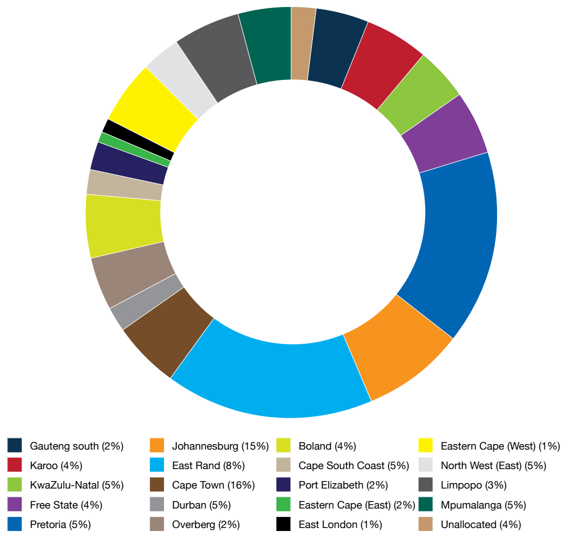
*Concentrations of insurance risk and policies mitigating the concentrations (continued)*

*Sum insured by geographical area*

2017



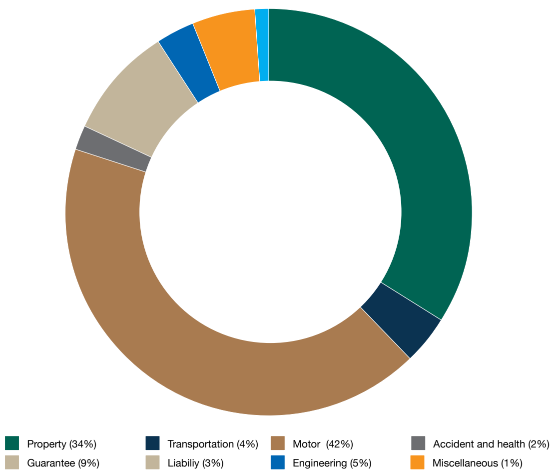

2016



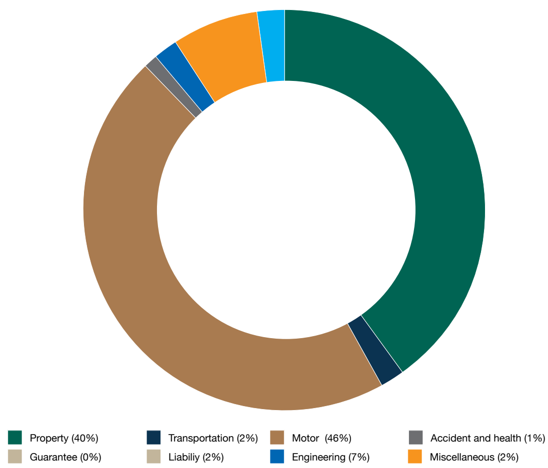

*Note that the data above includes all exposure to risk for Old Mutual Insure company, even where policy terms limit losses. Not all location data is available and reliable, and approximations have been made to allocate this data.*

*Gross premium by class of business for the group*

2017




2016



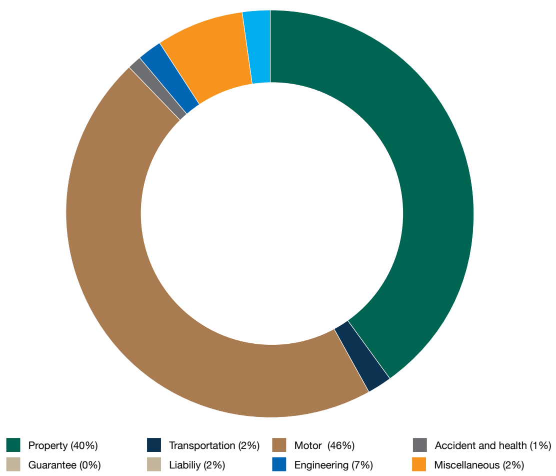
## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

### 4.1 Insurance risk (continued)

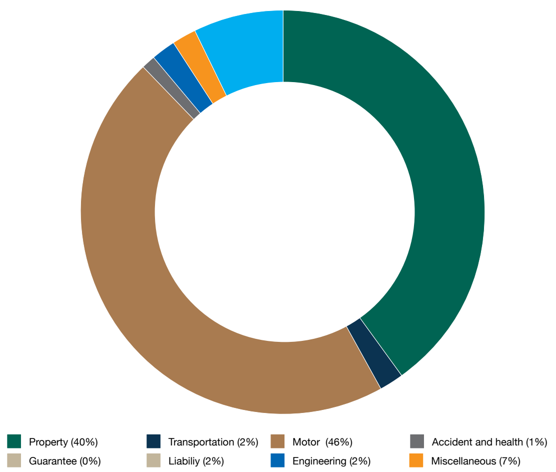
#### 4.1.2 Risk that arises from insurance contracts (continued)

*Gross premium by class of business for the company*

2017




2016




*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 only 1.3% of capital (2016: 1.2%). The additional reinstatement premiums, variable commissions, loss participation and inclusion of large individual losses within the catastrophe could increase this to 6.9% (2016: 5.5%) 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.

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

### 4.1 Insurance risk (continued)

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

*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 companies are 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

Transactions in financial instruments result in the group assuming financial risks. These include market 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.

*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.

*Equity price risk – listed equities*

The group has investments in listed equities that are exposed to market risk. The listed equities are selected by management after consideration of the benefits and corresponding risk related to the investment.

| | Instantaneous shock to value of equity market | | | | |
|---|---|---|---|---|---|
| | Group | | | | |
| **Sensitivity analysis** | **Current carrying value Rm** | **10% up Rm** | **20% up Rm** | **10% down Rm** | **20% down Rm** |
| **Listed shares** | | | | | |
| Protected equity | 502 | 552 | 602 | 467 | 467 |
| Old Mutual shares and other listed shares | 661 | 727 | 793 | 595 | 529 |
| Total impact | 1 163 | 1 279 | 1 395 | 1 062 | 996 |
| Total impact (%) | | 10 | 20 | (10) | (14) |

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

## 4.2 Financial risk (continued)

### 4.2.1 Market risk (continued)

*Interest rate risk*

Assets subject to interest rate fluctuations include cash instruments, including money market funds treated as investments. As part of the regular exercise to assess capital adequacy, the company considers both upward and downward shocks based on the maturity of the underlying instrument. These can range from 28% – 78% of actual interest rates based on the maturity of each underlying investment. Upward shocks applied would reduce profit by R56 million (2016: R45 million) while downward shocks would increase profit by R34 million (2016: R27 million).

*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 credit insurance, transactions with foreign reinsurers and equity investments in foreign companies.

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Assets Rm** | **Liabilities Rm** | **Net Rm** | Assets Rm | Liabilities Rm | Net Rm |
| **Group** | | | | | | |
| South African Rand | **14 290** | **10 327** | **3 963** | 12 353 | 8 381 | 3 972 |
| United States Dollar | **153** | **122** | **31** | 88 | 39 | 49 |
| | **14 443** | **10 449** | **3 994** | 12 441 | 8 420 | 4 021 |
| **Company** | | | | | | |
| South African Rand | **10 777** | **6 424** | **4 353** | 9 879 | 5 118 | 4 761 |
| United States Dollar | **130** | **122** | **8** | 88 | 39 | 49 |
| | **10 907** | **6 546** | **4 361** | 9 967 | 5 157 | 4 810 |

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

| | **2017 Average ZAR** | 2016 Average ZAR | **2017 Closing ZAR** | 2016 Closing ZAR |
|---|---|---|---|---|
| United States Dollar | **13.3214** | 14.7190 | **12.5389** | 13.9685 |

### 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. The group is also protected by guarantees provided by the intermediary guarantee facility for the non-payment of premiums collected by intermediaries.

Reputable financial institutions are used for investing and cash-handling purposes. In excess of 52% 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.

## 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*

| Rm | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **2017** | | | | | | |
| Loans and advances | – | – | – | – | 4 | 4 |
| Reinsurers' share of outstanding claims | – | 187 | 2 080 | 49 | 24 | 2 340 |
| 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 equity fund | – | – | – | – | 1 163 | 1 163 |
| Money market funds treated as investments | 608 | 2 205 | 1 383 | 54 | 18 | 4 268 |
| Insurance-related receivables | – | – | – | – | 2 771 | 2 771 |
| Other receivables | – | – | – | – | 938 | 938 |
| Cash and cash equivalents | – | 1 706 | – | – | 18 | 1 724 |
| | 608 | 4 098 | 3 463 | 103 | 5 051 | 13 323 |

| Rm | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| 2016 | | | | | | |
| Loans and advances | – | – | – | – | 1 | 1 |
| Reinsurers' share of outstanding claims | – | 152 | 1 691 | 40 | 19 | 1 902 |
| Loans to share trusts | – | – | – | – | 8 | 8 |
| Investments and securities | | | | | | |
| Long-term loans | – | – | – | – | 8 | 8 |
| Unlisted ordinary shares | – | – | – | – | 101 | 101 |
| Unlisted empowerment private equity fund | – | – | – | – | 19 | 19 |
| Listed equity fund | – | – | – | – | 2 145 | 2 145 |
| Money market funds treated as investments | 155 | 546 | 2 552 | 37 | 154 | 3 444 |
| Insurance-related receivables | – | – | – | – | 1 823 | 1 823 |
| Other receivables | – | – | – | – | 683 | 683 |
| Cash and cash equivalents | – | 1 227 | – | – | – | 1 227 |
| | 155 | 1 925 | 4 243 | 77 | 4 961 | 11 361 |

## 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*

| Rm | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **2017** | | | | | | |
| Loans and advances | – | – | – | – | 4 | 4 |
| Reinsurers' share of outstanding claims | – | 311 | 914 | 82 | 39 | 1 346 |
| Loans to share trusts | – | – | – | – | 84 | 84 |
| Investments and securities | | | | | | |
| Long-term loans | – | – | – | – | 9 | 9 |
| Unlisted empowerment private equity fund | – | – | – | – | 67 | 67 |
| Listed equity fund | – | – | – | – | 502 | 502 |
| Money market funds treated as investments | 608 | 2 205 | – | 54 | 18 | 2 885 |
| Insurance-related receivables | – | – | – | – | 1 980 | 1 980 |
| Other receivables | – | – | – | – | 546 | 546 |
| Cash and cash equivalents | – | 314 | – | – | 5 | 319 |
| | 608 | 2 830 | 914 | 136 | 3 254 | 7 742 |

| Rm | AAA | AA | A | BBB and lower | Not rated | Total |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| 2016 | | | | | | |
| Loans and advances | – | – | – | – | 1 | 1 |
| Reinsurers' share of outstanding claims | – | 202 | 717 | 41 | 4 | 964 |
| Loans to share trusts | – | – | – | – | 119 | 119 |
| Investments and securities | | | | | | |
| Long-term loans | – | – | – | – | 8 | 8 |
| Unlisted empowerment private equity fund | – | – | – | – | 19 | 19 |
| Listed equity fund | 20 | 241 | 149 | 230 | 885 | 1 525 |
| Money market funds treated as investments | 394 | 1 284 | 86 | 51 | 149 | 1 965 |
| Insurance-related receivables | – | – | – | – | 1 011 | 1 011 |
| Other receivables | – | – | – | – | 553 | 553 |
| Cash and cash equivalents | – | 119 | – | – | – | 119 |
| | 414 | 1 846 | 952 | 322 | 2 749 | 6 284 |

The assets analysed above are based on external credit ratings obtained from Fitch Ratings Inc and Moody's. 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.

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

### 4.2 Financial risk (continued)

#### 4.2.2 Credit risk (continued)

*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 company 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 R834 million (2016: R603 million) and the company held deposits of R718 million (2016: R525 million) as security for reinsurers' share of insurance contract provisions at the reporting date.

#### 4.2.3 Liquidity risk

The group is exposed to daily cash calls mainly from claims arising. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The group sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand. Refer to note 20 for a detailed maturity analysis on general insurance liabilities.

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

| Rm | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **Group** | | | | | |
| **2017** | | | | | |
| Property | 17 | **–** | **–** | **161** | **161** |
| Investment in subsidiaries | 10 | **–** | **–** | **–** | **–** |
| Investment in associates | 11 | **–** | **–** | **113** | **113** |
| Interest in employee share trusts | | **–** | **–** | **–** | **–** |
| Investments and securities | 14 | **5 431** | **3** | **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** |
| Money market funds and securities treated as investments | | **4 268** | **–** | **–** | **4 268** |
| **Financial assets at fair value** | | **5 431** | **3** | **379** | **5 813** |
| 2016 | | | | | |
| Property | 17 | – | – | 214 | 214 |
| Investment in subsidiaries | 10 | – | – | – | – |
| Investment in associates | 11 | – | – | 74 | 74 |
| Interest in employee share trusts | | – | – | – | – |
| Investments and securities | 14 | 5 589 | 8 | 120 | 5 717 |
| Unlisted ordinary shares | | – | – | 101 | 101 |
| Long-term loans | | – | 8 | – | 8 |
| Unlisted empowerment private equity fund | | – | – | 19 | 19 |
| Listed ordinary shares | | 2 145 | – | – | 2 145 |
| Money market funds and securities treated as investments | | 3 444 | – | – | 3 444 |
| **Financial assets at fair value** | | 5 589 | 8 | 408 | 6 005 |

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

### 4.2 Financial risk (continued)

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

| Rm | Notes | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| **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** |
| Investments and securities | 14 | **3 387** | **–** | **76** | **3 463** |
| Unlisted ordinary shares | | **–** | **–** | **9** | **9** |
| Long-term loans | | **–** | **–** | **–** | **–** |
| Unlisted empowerment private equity fund | | **–** | **–** | **67** | **67** |
| Listed ordinary shares | | **502** | **–** | **–** | **502** |
| Money market funds and securities treated as investments | | **2 885** | **–** | **–** | **2 885** |
| **Financial assets at fair value** | | **3 387** | **566** | **2 085** | **6 038** |
| 2016 | | | | | |
| Property | 17 | – | – | 160 | 160 |
| Investment in subsidiaries | 10 | – | – | 2 076 | 2 076 |
| Investment in associates | 11 | – | – | 2 | 2 |
| Interest in employee share trusts | | – | 529 | – | 529 |
| Loans and advances | | – | – | – | – |
| Post-retirement medical benefit asset | 21 | – | – | – | – |
| Investments and securities | 14 | 3 228 | 210 | 95 | 3 533 |
| Unlisted ordinary shares | | – | – | 16 | 16 |
| Long-term loans | | – | 8 | – | 8 |
| Unlisted empowerment private equity fund | | – | – | 19 | 19 |
| Listed ordinary shares | | 1 525 | – | – | 1 525 |
| Money market funds and securities treated as investments | | 1 703 | 202 | 60 | 1 965 |
| **Financial assets at fair value** | | 3 228 | 739 | 2 333 | 6 300 |

*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.

## 4. MANAGEMENT OF RISK AND CAPITAL (continued)

### 4.2 Financial risk (continued)

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

*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 | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Investment securities and subsidiary loans** | | | | |
| Opening balance | **408** | 386 | **2 333** | 2 108 |
| Movement in valuation of property | **(53)** | – | **(1)** | – |
| Subsidiary fair value adjustment through profit or loss | **–** | – | **227** | (44) |
| Movement in associate through profit or loss | **39** | 10 | **–** | – |
| Acquisition of additional equity interest in subsidiary | **–** | – | **–** | 190 |
| Sale of interest in subsidiary | **–** | – | **(494)** | – |
| Acquisition of subsidiary | **–** | – | **27** | – |
| Acquisition of associate | **–** | – | **12** | – |
| Investment and securities movement | | | | |
| Revaluation of investments to fair value through profit or loss | **(15)** | 8 | **41** | 1 |
| Revaluation of money market instruments | **–** | 4 | **(60)** | 4 |
| Closing balance | **379** | 408 | **2 085** | 2 333 |

*Sensitivity analysis for investment 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.

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 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 6% (2016: 4%) 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

For capital management purposes, the company targets the higher of a multiple of 1.3 times the solvency assessment and management's solvency capital requirements and the interim measures after spreading (insurers to spread their investments over a number of products in order to reduce their risk. The percentages allowed differ according to the risk profile of the investment product) considered over a three-year projection period. This implies that the group holds a buffer over and above a 99.5% level of sufficiency.

The company is registered in South Africa, provides short-term insurance and submits quarterly and annual returns to the Financial Services Board in terms of the Short-term Insurance Act, 1998. The company is required to at all times maintain a capital adequacy ratio as is calculated on the "interim measure" basis defined in the Short-term Insurance Act.

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

## 5. SEGMENT REPORT

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.

### Income statement

| **2017 Business activity** | **Insurance line of business Commercial Rm** | **Personal Rm** | **Risk Financing Rm** | **Specialty Rm** | **CGIC Guarantee** | **Total** |
|---|---|---|---|---|---|---|
| Gross written premium | **4 216** | **3 444** | **2 629** | **1 082** | **1 110** | **12 481** |
| Net written premium | **3 851** | **3 362** | **99** | **419** | **755** | **8 486** |
| Net earned premium | **3 867** | **3 359** | **53** | **422** | **709** | **8 410** |
| Net claims incurred | **(2 294)** | **(2 058)** | **(27)** | **(331)** | **(450)** | **(5 160)** |
| Net acquisition expenses | **(774)** | **(472)** | **(1)** | **(91)** | **(18)** | **(1 356)** |
| Total expenses | **(634)** | **(653)** | **(14)** | **(101)** | **(182)** | **(1 584)** |
| Segment result | **165** | **176** | **11** | **(101)** | **59** | **310** |
| Investment returns and share of profit from associates | **–** | **–** | **–** | **–** | **–** | **638** |
| Profit before taxation | | | | | | **948** |

| 2016 Business activity | Insurance line of business Commercial Rm | Personal Rm | Risk Financing Rm | Specialty Rm | CGIC Guarantee | Total |
|---|---|---|---|---|---|---|
| Gross written premium | 4 432 | 3 337 | 2 333 | 942 | 1 038 | 12 082 |
| Net written premium | 4 081 | 3 297 | 28 | 297 | 889 | 8 592 |
| Net earned premium | 4 085 | 3 248 | 44 | 347 | 886 | 8 610 |
| Net claims incurred | (2 744) | (2 358) | (2) | (124) | (722) | (5 950) |
| Net acquisition expenses | (655) | (397) | 1 | (101) | (75) | (1 227) |
| Total expenses | (594) | (445) | (23) | (132) | (159) | (1 353) |
| Segment result | 92 | 48 | 20 | (10) | (70) | 80 |
| Investment returns and share of profit from associates | – | – | – | – | – | 277 |
| Profit before taxation | | | | | | 357 |

Investment income and expenditure attributable to equity holders, and foreign exchange gains and losses 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 located in Zimbabwe, Swaziland and Mauritius, the results of these foreign entities are not material to the group. As the asset base represents approximately 1.06% in 2017 (2016: 0.9%) of the groups total assets, no further information is provided in these financial statements.

In addition the chief operating decision-maker (Executive Committee) does not review segment assets and liabilities on a regular basis; however, relies on segment's revenue and underwriting result to assess the performance of a segment and make decisions about resources to be allocated to a segment.

## 5. SEGMENT REPORT (continued)

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

| | Gross written premium | |
|---|---|---|
| | **2017 Rm** | 2016 Rm |
| Property | **4 247** | 3 605 |
| Transportation | **549** | 540 |
| Motor | **5 188** | 5 477 |
| Accident and health | **213** | 228 |
| Guarantee | **1 161** | 1 044 |
| Liability | **317** | 325 |
| Engineering | **657** | 668 |
| Miscellaneous | **149** | 195 |
| **Total** | **12 481** | 12 082 |

## 6. DEFERRED ACQUISITION COSTS AND REINSURANCE COMMISSION REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Analysis of movements** | | | | |
| **Deferred acquisition costs** | | | | |
| Balance at beginning of year | **207** | 198 | **129** | 132 |
| Change in statement of comprehensive income | **(7)** | 9 | **(6)** | (3) |
| Balance at end of year | **200** | 207 | **123** | 129 |
| **Reinsurance commission revenue** | | | | |
| Balance at beginning of year | **134** | 109 | **58** | 62 |
| Change in statement of comprehensive income | **5** | 25 | **5** | (4) |
| Balance at end of year | **139** | 134 | **63** | 58 |

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.

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

## 7. AMOUNTS DUE (TO)/FROM AGENTS AND REINSURERS

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Assets** | | | | |
| Agents' balances | **1 498** | 963 | **1 073** | 515 |
| Reinsurance balances | **620** | 204 | **620** | 204 |
| | **2 118** | 1 167 | **1 693** | 719 |
| **Liabilities** | | | | |
| Agents' balances | **(921)** | (228) | **(705)** | (212) |
| Reinsurance balances | **(351)** | (248) | **(166)** | (6) |
| | **(1 272)** | (476) | **(871)** | (218) |

**Portfolio impairment allowance**

Included in the agents' and reinsurance balances is a portfolio impairment allowance for possible losses. The portfolio impairment is the only impairment for receivables measured at amortised cost.

**Analysis of portfolio impairment allowance**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Balance at beginning of year | **(8)** | (8) | **(5)** | (5) |
| Movement for the period | **–** | – | **–** | – |
| **Balance at end of year** | **(8)** | (8) | **(5)** | (5) |

## 8. SUBROGATION AND SALVAGE RECOVERIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Balance at beginning of year | **656** | 248 | **292** | 171 |
| Change in statement of comprehensive income | **(3)** | 408 | **(5)** | 121 |
| Balance at end of year | **653** | 656 | **287** | 292 |

## 9. OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Accrued interest | **98** | 69 | **97** | 58 |
| Prepayments | **39** | 39 | **32** | 19 |
| Amounts due from subsidiaries (note 10) | **–** | – | **34** | 28 |
| Related parties | **–** | – | **49** | – |
| Value-added taxation | **320** | 344 | **271** | 309 |
| Sundry debtors | **481** | 231 | **63** | 139 |
| | **938** | 683 | **546** | 553 |

# INVESTMENTS, LOANS, ADVANCES AND CASH

## 10. INVESTMENT IN SUBSIDIARIES

| | Company 2017 Rm | Company 2016 Rm |
|---|---|---|
| Shares at cost less impairment | **1 167** | 907 |
| Acquisition of additional equity interest in subsidiary | **–** | 190 |
| Acquisition of subsidiary | **27** | – |
| Sale of equity interest in subsidiary | **(494)** | – |
| Adjustment to fair value | **1 136** | 979 |
| | **1 836** | 2 076 |
| Amounts due from subsidiaries (included in other receivables) | **34** | 28 |
| Amounts due to subsidiaries (included in other payables) | **(74)** | (50) |
| | **1 796** | 2 054 |

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.

### Purchase of subsidiary Old Mutual Holdings (Mauritius) Limited

#### Old Mutual Mauritius group

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

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

### Sale of shares in subsidiaries

#### 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.

## 11. INVESTMENT IN ASSOCIATE

### Mercury Administrator and Underwriter Agency Proprietary Limited

The 25% interest in Mercury Administrator and Underwriter Agency Proprietary Limited is carried at cost, which approximates the fair value of the investment at 31 December 2017.

### 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 2017.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Investment at cost | **74** | 62 | **2** | 2 |
| Share of profits from associate | **27** | 10 | **–** | – |
| Acquisition of an associate | **12** | 2 | **12** | – |
| | **113** | 74 | **14** | 2 |

## 12. SHARE TRUSTS

### 12.1 INTEREST IN EMPLOYEE SHARE TRUSTS

The Mutual & Federal Management Incentive Trust and The Mutual & Federal Senior Black Management Trust (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:

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

| **2017**<br>**Group and company** | **Closing market value per share**<br>**R** | **Management Incentive Trust**<br>**Rm** | **Senior Black Management Trust**<br>**Rm** | **Total**<br>**Rm** |
|---|---|---|---|---|
| Investment in Old Mutual Plc 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** |

## 12. SHARE TRUSTS (continued)

### 12.1 INTEREST IN EMPLOYEE SHARE TRUSTS (continued)

| 2016<br>Group and company | Closing market value per share<br>R | Management Incentive Trust<br>Rm | Senior Black Management Trust<br>Rm | Total<br>Rm |
|---|---|---|---|---|
| Investment in Old Mutual Plc shares | 34.44 | 416 | 132 | 548 |
| Allocated | | 161 | 51 | 212 |
| Unallocated | | 255 | 81 | 336 |
| Other assets | | 41 | 100 | 141 |
| Loan from Old Mutual Insure Limited | | (98) | – | (98) |
| Other liabilities | | (48) | (14) | (62) |
| Total net asset value | | 311 | 218 | 529 |

**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 Plc shares are the majority investment in these trusts. The fair value of the shares is obtained from an active market.

## 13. LOANS AND INTEREST IN SHARE TRUSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017**<br>**Rm** | 2016<br>Rm | **2017**<br>**Rm** | 2016<br>Rm |
| Loan to The Mutual & Federal Management Incentive Trust | **–** | – | **63** | 98 |
| Loan to The Mutual & Federal Black Broker Trust | **–** | – | **14** | 14 |
| Loan to The Mutual & Federal Management Incentive Trust (Namibia) | **7** | 8 | **7** | 7 |
| | **7** | 8 | **84** | 119 |

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

The objective of the Mutual & Federal Black Broker Trust is to provide or secure finance to or for black brokers wishing to develop brokerage businesses to service the short-term insurance market in South Africa, thus assisting with education and asset acquisition to commence operations in a productive manner.

## 14. INVESTMENTS AND SECURITIES

The group classifies all its investments and securities at 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.

### 14.1.1 Summary of investments and securities

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Unlisted ordinary shares [(1)] | **100** | 101 | **9** | 16 |
| Unlisted long-term loans [(2)] | **3** | 8 | **–** | 8 |
| Unlisted empowerment private equity fund [(3)] | **5** | 19 | **67** | 19 |
| Listed ordinary shares [(4)] | **1 163** | 2 145 | **502** | 1 525 |
| Unlisted money market funds treated as investments [(5)] | **4 268** | 3 444 | **2 885** | 1 965 |
| **Total investments and securities** | **5 539** | 5 717 | **3 463** | 3 533 |

[(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 their 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. In 2016, the portfolio was fairly valued at R1.525 billion, which has subsequently reduced to R502 million as a result of a R1.25 billion liquidation to fund a dividend payment. The remaining R500 million has been reinvested in a portfolio with an underlying tracker portfolio and a protective derivative structure to limit downside risk (put structure only) rather than the derivative overlay portfolio of the previous protected equity portfolio (put and call structure).*

[(5)] *The average interest on money market instruments earned during the year was 8.59% (2016: 7.95%) per annum.*

### 14.1.2 Maturity profile for short-term funds treated as investments

| | Maturity in less than 3 months Rm | Maturity of 3 months to 1 year Rm | Maturity between 1 to 5 years Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2017** | | | | |
| Money market funds treated as investments | **1 033** | **2 941** | **294** | **4 268** |
| 2016 | | | | |
| Money market funds treated as investments | 661 | 2 499 | 284 | 3 444 |
| **Company** | | | | |
| **2017** | | | | |
| Money market funds treated as investments | **1 033** | **1 558** | **294** | **2 885** |
| 2016 | | | | |
| Money market funds treated as investments | 661 | 1 028 | 284 | 1 973 |

## 14. INVESTMENTS AND SECURITIES (continued)

14.1.3 Listed ordinary shares

| | Maturity in less than 3 months Rm | Maturity of 3 months to 1 year Rm | Maturity between 1 to 5 years Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2017** | **1 163** | **–** | **–** | **1 163** |
| 2016 | 2 145 | – | – | 2 145 |
| **Company** | | | | |
| **2017** | **502** | **–** | **–** | **502** |
| 2016 | 1 525 | – | – | 1 525 |

## 15. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Cash at bank and on hand | **1 723** | 1 206 | **318** | 97 |
| Short-term bank deposits | **1** | 21 | **1** | 22 |
| | **1 724** | 1 227 | **319** | 119 |

The average interest rate is 6.39% for 2017 (2016: 6.41%).

The closing interest rate for 2017 is 6.25% (2016: 6.5%).

## 16. INTANGIBLE ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Cost | **836** | 800 | **836** | 800 |
| Balance at 1 January | **800** | 786 | **800** | 786 |
| Current year developments and purchases | **36** | 14 | **36** | 14 |
| Accumulated amortisation and impairment losses | **(675)** | (650) | **(675)** | (650) |
| Balance at beginning of year | **(650)** | (623) | **(650)** | (623) |
| Current year amortisation | **(32)** | (20) | **(32)** | (20) |
| Adjustment | **7** | – | **7** | – |
| Impairment | **–** | (7) | **–** | (7) |
| **Balance at 31 December** | **161** | 150 | **161** | 150 |

The useful life of the software was reassessed resulting in additional amortisation of R4 million in the current year.

## 17. PROPERTY AND EQUIPMENT

### 17.1 Group

| | Land and buildings Rm | Furniture and equipment Rm | Motor vehicles Rm | Computer equipment Rm | Total Rm |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2016 | 255 | 109 | 31 | 337 | 732 |
| Net additions | (2) | 5 | 1 | 46 | 50 |
| Adjustment | (41) | (2) | – | – | (43) |
| Disposals | – | (6) | (6) | (1) | (13) |
| Revaluation | 41 | – | – | – | 41 |
| **Balance at 31 December 2016** | 253 | 106 | 26 | 382 | 767 |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 1 January 2016 | (69) | (78) | (13) | (230) | (390) |
| Depreciation | (11) | (9) | (4) | (67) | (91) |
| Residual value adjustment | 41 | – | (1) | – | 40 |
| Disposals | – | 10 | 6 | 1 | 17 |
| Impairment loss | – | – | – | – | – |
| **Balance at 31 December 2016** | (39) | (77) | (12) | (296) | (424) |
| **Carrying value at 31 December 2016** | 214 | 29 | 14 | 86 | 343 |
| **Cost** | | | | | |
| Balance at 1 January 2017 | **254** | **104** | **26** | **383** | **767** |
| Net additions | **9** | **2** | **3** | **38** | **52** |
| Transfer to non-current assets held for sale | **(38)** | **–** | **–** | **–** | **(38)** |
| Disposals | **–** | **(64)** | **(9)** | **(24)** | **(97)** |
| Revaluation | **(15)** | **–** | **–** | **–** | **(15)** |
| **Balance at 31 December 2017** | **210** | **42** | **20** | **397** | **669** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 1 January 2017 | **(39)** | **(78)** | **(12)** | **(296)** | **(425)** |
| Depreciation | **(12)** | **(7)** | **(2)** | **(53)** | **(74)** |
| Residual value adjustment | **2** | **–** | **(1)** | **–** | **1** |
| Disposals | **–** | **61** | **9** | **24** | **94** |
| Impairment loss | **–** | **(12)** | **–** | **–** | **(12)** |
| **Balance at 31 December 2017** | **(49)** | **(36)** | **(6)** | **(325)** | **(416)** |
| **Carrying value at 31 December 2017** | **161** | **6** | **14** | **72** | **253** |

## 17. PROPERTY AND EQUIPMENT (continued)

### 17.2 Company

| | Land and buildings Rm | Furniture and equipment Rm | Motor vehicles Rm | Computer equipment Rm | Total Rm |
|---|---|---|---|---|---|
| Cost | 165 | 150 | 38 | 379 | 732 |
| Balance at 1 January 2016 | 166 | 82 | 24 | 335 | 607 |
| Net additions | (1) | – | 1 | 45 | 45 |
| Disposals | – | (7) | (6) | (1) | (14) |
| Residual value adjustment | (41) | – | – | – | (41) |
| Revaluation | 41 | – | – | – | 41 |
| **Balance at 31 December 2016** | 165 | 75 | 19 | 379 | 638 |
| Accumulated depreciation and impairment | | | | | |
| Balance at 1 January 2016 | (38) | (64) | (10) | (231) | (343) |
| Depreciation | (8) | (6) | (3) | (65) | (82) |
| Residual value adjustment | 41 | 1 | 2 | (1) | 43 |
| Disposals | – | 6 | 4 | – | 10 |
| **Balance at 31 December 2016** | (5) | (63) | (7) | (297) | (372) |
| **Carrying value at 31 December 2016** | 160 | 12 | 12 | 82 | 266 |
| Cost | **173** | **40** | **13** | **391** | **617** |
| Balance at 1 January 2017 | **165** | **75** | **19** | **381** | **640** |
| Net additions | **8** | **–** | **3** | **36** | **47** |
| Disposals | **–** | **(35)** | **(9)** | **(26)** | **(70)** |
| **Balance at 31 December 2017** | **173** | **40** | **13** | **391** | **617** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 1 January 2017 | **(5)** | **(63)** | **(9)** | **(297)** | **(374)** |
| Depreciation | **(9)** | **(4)** | **(2)** | **(50)** | **(65)** |
| Disposals | **–** | **31** | **12** | **24** | **67** |
| **Balance at 31 December 2017** | **(14)** | **(36)** | **1** | **(323)** | **(372)** |
| **Carrying value at 31 December 2017** | **159** | **4** | **14** | **68** | **245** |

Land and buildings comprise an office block and leasehold improvements situated on Erf 5230, 75 Helen Joseph Street, Johannesburg, Gauteng. The property was acquired in 1998 for an amount of R85 million and was revalued by Mills Fitchet, an independent registered professional valuer, at R165 million in June 2016. The valuation was based on market-related rentals discounted at an appropriate rate of return. The estimated useful life is 26 years for the building structure, 15 years for electrical engineering and 12 years for internal finishes.

## 17. PROPERTY AND EQUIPMENT (continued)

### Valuation techniques and inputs

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 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 | R165 million | Long-term net operating rate (%) | 16.50 |
| | | Capitalisation rate (%) | 10.50 |

| Description | Fair value at 31 December 2016 | Observable inputs | Weighted average costs of capital |
|---|---|---|---|
| Owner-occupied fixed property | R165 million | Long-term net operating rate (%) | 16.50 |
| | | Capitalisation rate (%) | 10.50 |

## 18. DEFERRED TAXATION

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Balance at beginning of year | **(41)** | (57) | **32** | 58 |
| Recognised in profit or loss | **5** | 16 | **18** | (26) |
| Balance at end of year | **(36)** | (41) | **50** | 32 |
| **Presented on balance sheet** | | | | |
| Deferred taxation asset | **71** | 49 | **50** | 32 |
| Deferred taxation liabilities | **(107)** | (90) | **–** | – |
| | **(36)** | (41) | **50** | 32 |
| **Analysis of major temporary differences** | | | | |
| Post-retirement medical aid provision | **29** | 29 | **11** | 10 |
| Other provisions and impairments | **57** | 31 | **48** | 42 |
| Revaluation of investments [(1)] | **(5)** | (8) | **–** | 2 |
| Prepayment | **15** | 16 | **15** | – |
| Amortisation of software application | **(11)** | (13) | **(12)** | (13) |
| Smoothed operating leases | **3** | 4 | **3** | 4 |
| Urban development zone allowance | **(14)** | (12) | **(14)** | (12) |
| Motor vehicle residual value | **(2)** | (2) | **(2)** | (2) |
| Capital gains taxation | **(102)** | (85) | **(1)** | – |
| Temporary differences from risk financing operations | **(6)** | (1) | **2** | 1 |
| | **(36)** | (41) | **50** | 32 |

[(1)] *At the effective capital gains taxation rate of 22.4% (2016: 18.6%).*

## 19. NON-CURRENT ASSETS HELD FOR SALE

Credit Guarantee Insurance Corporation Limited of Africa (CGIC), a subsidiary, owns 100% of the shares in Galilean Properties (Pty) Limited (Galilean). Galilean is a property letting enterprise that owns a single property which it lets to CGIC. On 1 October 2017 Galilean sold the property to Lespart Proprietary Limited (Lespart), a third party purchaser for a purchase price of R37.5 million. The sale is conditional on Galilean obtaining a Certificate of Compliance in terms of the Occupational Health and Safety Act 85 of 1993 in respect of the electrical installations on the property.

An asset is available for immediate sale in its present condition. There is an expectation that the sale will be completed in the first quarter of 2018, therefore, the building is classified as a non-current asset held for sale, in the consolidated annual financial statements of the group. Classification of this asset as held for sale gave rise to an impairment loss of R12.5 million, which is included under other expenses in profit or loss.

| **The carrying value of the asset to be disposed of:** | **Rm** |
|---|---|
| Land and buildings | 38 |

# LIABILITIES ARISING FROM INSURANCE CONTRACTS

## 20. GENERAL INSURANCE LIABILITIES

| | | **2017** | | | 2016 | |
|---|---|---|---|---|---|---|
| | **Gross Rm** | **Reinsurance Rm** | **Net Rm** | Gross Rm | Reinsurance Rm | Net Rm |
| **Group** | | | | | | |
| Unearned premiums | **1 340** | **647** | **693** | 1 270 | 650 | 620 |
| Outstanding claims | **4 624** | **1 693** | **2 931** | 4 364 | 1 252 | 3 112 |
| | **5 964** | **2 340** | **3 624** | 5 634 | 1 902 | 3 732 |
| **Company** | | | | | | |
| Unearned premiums | **799** | **319** | **480** | 815 | 318 | 497 |
| Outstanding claims | **2 910** | **1 027** | **1 883** | 2 994 | 964 | 2 030 |
| | **3 709** | **1 346** | **2 363** | 3 809 | 1 282 | 2 527 |

## 20. GENERAL INSURANCE LIABILITIES (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Analysis of movements in net outstanding claims** | | | | |
| Balance at beginning of year | **3 112** | 2 850 | **2 031** | 2 267 |
| Value added taxation | **(294)** | (278) | **(288)** | (278) |
| | **2 818** | 2 572 | **1 743** | 1 989 |
| Current year claims incurred | **4 188** | 6 895 | **3 947** | 8 317 |
| Change in previous year claims estimates | **1 519** | (450) | **1 519** | (450) |
| Current year claims paid | **(4 562)** | (5 193) | **(4 294)** | (7 107) |
| Previous year claims paid | **(1 286)** | (1 006) | **(1 286)** | (1 006) |
| | **2 677** | 2 818 | **1 629** | 1 743 |
| Value added taxation | **254** | 294 | **254** | 288 |
| Balance at end of year | **2 931** | 3 112 | **1 883** | 2 031 |
| **Analysis of movements in gross unearned premium liability** | | | | |
| Balance at beginning of year | **1 270** | 1 245 | **815** | 787 |
| Change to unearned premium provision | **70** | 25 | **(15)** | 28 |
| Balance at end of year | **1 340** | 1 270 | **800** | 815 |
| **Analysis of movements in net unearned premium liability** | | | | |
| Balance at beginning of year | **620** | 638 | **496** | 500 |
| Change in statement of comprehensive income | **76** | (18) | **(16)** | (4) |
| Foreign currency translation | **(3)** | – | **–** | – |
| Balance at end of year | **693** | 620 | **480** | 496 |

### 20.1 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. The maturity analysis is set out below.

## 20. GENERAL INSURANCE LIABILITIES (continued)

### 20.1 Maturity analysis of general insurance liabilities (continued)

| | Maturity in less than 3 months Rm | Maturity between 3 months and 1 year Rm | Maturity between 1 and 5 years Rm | Total Rm |
|---|---|---|---|---|
| **Group** | | | | |
| **2017** | | | | |
| Claims incurred but not yet reported (IBNR) | **488** | **225** | **169** | **882** |
| Notified claims | **2 071** | **954** | **717** | **3 742** |
| Unearned premiums | **146** | **817** | **377** | **1 340** |
| | **2 705** | **1 996** | **1 263** | **5 964** |
| 2016 | | | | |
| Claims incurred but not yet reported (IBNR) | 452 | 184 | 205 | 841 |
| Notified claims | 1 892 | 772 | 859 | 3 523 |
| Unearned premiums | 170 | 876 | 224 | 1 270 |
| | 2 514 | 1 832 | 1 288 | 5 634 |
| **Company** | | | | |
| **2017** | | | | |
| Claims incurred but not yet reported (IBNR) | **214** | **98** | **74** | **386** |
| Notified claims | **1 397** | **643** | **484** | **2 524** |
| Unearned premiums | **87** | **488** | **224** | **799** |
| | **1 698** | **1 229** | **782** | **3 709** |
| 2016 | | | | |
| Claims incurred but not yet reported (IBNR) | 217 | 89 | 98 | 404 |
| Notified claims | 1 391 | 568 | 631 | 2 590 |
| Unearned premiums | 109 | 562 | 144 | 815 |
| | 1 717 | 1 219 | 873 | 3 809 |

#### Incurred but not reported (IBNR) sensitivity analysis

The most material assumption in determining the IBNR is the level of diversification allowed for within the 75% margin. The margin can be determined at various levels, for example:

- Aggregating the margin at each granular segment level at which the best estimate IBNR is determined (this will increase the margin as less diversification between classes is allowed for);
- At a total aggregated or statutory class level (which will result in the lowest margin as full diversification between classes of business is allowed for); or
- Using different levels of aggregation of segments between the above mentioned limits.

The level of aggregation chosen was at a divisional statutory class, e.g. Property Commercial. The sensitivities in the table below show the impact of applying diversification of the margin at one level higher (e.g. Property total) and lower (e.g. Property Commercial Schemes).

| **Base case: 75th percentile margin allowing for diversification up to a divisional statutory basis** | **Impact on profit or loss (Rm)** |
|---|---|
| 75th percentile margin allowing for diversification at a granular segment level | (29.1) |
| 75th percentile margin allowing for diversification at a statutory class level | 21.3 |

## 21. DEFINED BENEFIT PLAN – POST-RETIREMENT MEDICAL AID

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Balance at 31 December:** | | | | |
| Present value of defined benefit obligation | **272** | 268 | **210** | 200 |
| Fair value of plan assets | **(235)** | (233) | **(170)** | (165) |
| Net (asset)/liability | **37** | 35 | **40** | 35 |

### 21.1 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 2017.

#### Sensitivity analysis

The table below shows how the defined benefit obligation as at 31 December 2017 would be impacted by changes to these assumptions:

| **In-service and continuation members** | **Defined benefit obligation at 31 December 2017** | **% increase** |
|---|---|---|
| Discount rate – increases by 1% | **247** | **(10)** |
| Discount rate – reduces by 1% | **306** | **12** |
| Medical inflation – increases by 1% | **305** | **12** |
| Medical inflation – reduces by 1% | **246** | **(10)** |

### 21.2 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 CPI 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.

## 21. DEFINED BENEFIT PLAN – POST-RETIREMENT MEDICAL AID (continued)

### 21.3 Movement in net post-retirement medical benefit liability

| | Defined benefit obligation | | Fair value of reimbursement assets | | Net post-retirement medical benefit liability | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm | **Rm** | Rm |
| **Group** | | | | | | |
| Balance at 1 January | **268** | 247 | **(233)** | (254) | **35** | (7) |
| **Included in profit or loss:** | **25** | 26 | **(24)** | (25) | **1** | 1 |
| Current service cost | **2** | 2 | **–** | – | **2** | 2 |
| Interest cost/(income) | **23** | 24 | **(24)** | (25) | **(1)** | (1) |
| **Included in OCI:** | **(1)** | 12 | **6** | 30 | **5** | 42 |
| Actuarial (gain)/loss | **(1)** | 12 | **6** | 30 | **5** | 42 |
| **Other:** | **(20)** | (17) | **16** | 16 | **(4)** | (1) |
| Contributions paid by employer | **–** | – | **–** | 2 | **–** | 2 |
| Benefits paid | **(20)** | (17) | **16** | 14 | **(4)** | (3) |
| **Balance as at 31 December** | **272** | 268 | **(235)** | (233) | **37** | 35 |

| | Defined benefit obligation | | Fair value of reimbursement assets | | Net post-retirement medical benefit liability | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm | **Rm** | Rm |
| **Company** | | | | | | |
| Balance at 1 January | **200** | 183 | **(165)** | (187) | **35** | (4) |
| **Included in profit or loss:** | **19** | 20 | **(19)** | (20) | **–** | – |
| Current service cost | **1** | 1 | **–** | (1) | **1** | – |
| Interest cost/(income) | **18** | 19 | **(19)** | (19) | **(1)** | – |
| **Included in OCI:** | **4** | 12 | **–** | 29 | **4** | 41 |
| Actuarial (gain)/loss | **4** | 12 | **–** | 29 | **4** | 41 |
| **Other:** | **(14)** | (15) | **14** | 13 | **–** | (2) |
| Contributions paid by employer | **–** | – | **–** | (2) | **–** | (2) |
| Benefits paid | **(14)** | (15) | **14** | 15 | **–** | – |
| **Balance as at 31 December** | **210** | 200 | **(170)** | (165) | **39** | 35 |

## 21. DEFINED BENEFIT PLAN – POST-RETIREMENT MEDICAL AID (continued)

### 21.3 Movement in net post-retirement medical benefit liability (continued)

| Key actuarial assumptions | Group 2017 % | Group 2016 % | Company 2017 % | Company 2016 % |
|---|---|---|---|---|
| Discount rate – in-service members | **9.7** | 9.8 | **10.4** | 9.8 |
| Discount rate – continuation members | **8.8** | 9.2 | **9.6** | 9.2 |
| Medical inflation rate – in-service members | **8.2** | 8.6 | **8.6** | 8.6 |
| Medical inflation rate – continuation members | **7.0** | 8.1 | **8.0** | 8.1 |
| Expected investment return | **9.0** | 9.5 | **9.9** | 9.5 |
| Retirement ages | **62 – 65** | 62 – 65 | **62** | 62 |

| Mortality rates | 2017 | 2016 |
|---|---|---|
| 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 |

## 22. CURRENT PROVISIONS

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **22.1 Leave provisions** | | | | |
| Balance at beginning of year | **51** | 51 | **43** | 43 |
| Movement of provisions | **4** | – | **4** | – |
| **Balance at end of year** | **55** | 51 | **47** | 43 |
| **22.2 Bonus provisions** | | | | |
| Balance at beginning of year | **33** | 121 | **20** | 78 |
| Movement of provisions | **87** | (88) | **84** | (58) |
| **Balance at end of year** | **120** | 33 | **104** | 20 |
| **Total provisions** | **175** | 84 | **151** | 63 |

## 23. AMOUNTS PAYABLE TO CELL OWNERS

| | Group 2017 Rm | Group 2016 Rm |
|---|---|---|
| Balance at beginning of year | **734** | 763 |
| Capital contribution | **5** | 1 |
| Net increase/(decrease) in cell owners' interest | **22** | (30) |
| Underwriting and investment income attributable to cell owners | **186** | 224 |
| Dividend payments to cell owners | **(164)** | (254) |
| **Balance at end of year** | **761** | 734 |
| Balance at end of year is made up as follows: | | |
| Retained income reserve | **(428)** | (390) |
| Treasury shares | **(71)** | (64) |
| Reinsurance technical reserves recoverable from cell owners | **(262)** | (280) |
| **Closing balance** | **(761)** | (734) |

## 24. OTHER PAYABLES

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Trade creditors | **39** | 48 | **34** | 39 |
| Amounts due to subsidiaries | **–** | – | **74** | 50 |
| Other creditors | **265** | 273 | **111** | 126 |
| | **304** | 321 | **219** | 215 |

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

## 25. DEBT INSTRUMENT

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Unsecured subordinated callable floating rate notes | **500** | – | **500** | – |

The Johannesburg Stock 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 – 60%
2. Futuregrowth Asset Management – 20.8%
3. Ashburton Investments – 15%
4. Granate Asset Management – 4.2%

## EQUITY STRUCTURE

## 26. SHARE CAPITAL AND SHARE PREMIUM

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Authorised** | | | | |
| 350 000 000 ordinary shares of R0.1 each | **35** | 35 | **35** | 35 |
| **Issued** | | | | |
| 319 823 465 ordinary shares of R0.1 each | **32** | 32 | **32** | 32 |
| Share premium | **1 765** | 1 765 | **1 765** | 1 765 |
| **Share capital and share premium** | **1 797** | 1 797 | **1 797** | 1 797 |

## 27. SHARE-BASED PAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **27.1 Share-based payment expense** | | | | |
| Employee share awards | **59** | 2 | **53** | 1 |
| **27.2 Share-based payment liability** | | | | |
| Employee share awards | **90** | 54 | **82** | 53 |

### 27.3 Overview of the employee incentive programmes

#### 27.3.1 The Mutual & Federal Management Incentive Scheme

The primary purpose of the scheme is to attract, reward and retain senior and middle management. Restricted shares (RSP) are awarded to management for retention and attraction purposes.

*27.3.1 (i)* *Bonus Plan*

Between 40% – 45% of an employee's bonus after tax is invested in ordinary Old Mutual Plc 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 Plc shares.

*27.3.1 (ii)* *Long-term incentive plan (LTIP)*

A once-off long-term incentive plan was awarded to key employees in 2015 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.

*27.3.1 (iii)* *Long-term incentive plan (LTIP)*

A once-off long-term incentive plan was awarded to key employees in 2017 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.

#### 27.3.2 The Mutual & Federal Senior Black Management Incentive Scheme

This scheme operates for the benefit of selected senior black management of the company for retention and attraction purposes.

## 27. SHARE-BASED PAYMENTS (continued)

### 27.3 Overview of the employee incentive programmes (continued)

#### 27.3.2 The Mutual & Federal Senior Black Management Incentive Scheme (continued)

*27.3.2 (i) 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 3 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 Plc shares. Between 40%-45% of an employee's after-tax bonus is invested in ordinary Old Mutual Plc shares.

*27.3.2 (ii) 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 Plc 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.

| | Management Incentive Scheme | Senior Black Management Scheme |
|---|---|---|
| **Group and company** | | |
| Total shares in issue at 1 January 2016 | 2 671 465 | 1 136 455 |
| Number of shares granted | 1 385 918 | 1 276 227 |
| Number of shares vested/settled | (461 538) | (138 542) |
| Forfeited due to resignations | (335 259) | (328 645) |
| Total shares in issue at 31 December 2016 | **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) |
| **Total shares in issue at 31 December 2017** | **2 964 749** | 2 701 045 |

| | **2017 R** | 2016 R |
|---|---|---|
| Fair value of ordinary Old Mutual Plc shares | **37.99** | 34.44 |

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.

## 28. COMMISSION INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Commission received from reinsurers | **674** | 511 | **165** | 154 |
| Change in deferred reinsurance revenue liability | **(7)** | 9 | **(6)** | 3 |
| | **667** | 520 | **159** | 157 |

## 29. INVESTMENT RETURNS

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Interest income** | | | | |
| Term loans and other | **3** | 1 | **1** | – |
| Investments and securities | **193** | 203 | **156** | 163 |
| Cash and cash equivalents | **85** | 88 | **30** | 37 |
| **Total interest and similar income** | **281** | 292 | **187** | 200 |
| **Dividend income** | | | | |
| Investments and securities | **90** | 77 | **49** | 32 |
| – Listed equities | **20** | – | **49** | 30 |
| – Unlisted equities | **70** | 77 | **–** | 2 |
| **Total dividend income** | **90** | 77 | **49** | 32 |
| **Fair value gains and losses** | | | | |
| Unrealised (loss)/gain | **27** | (281) | **205** | (107) |
| Fair value adjustment on subsidiaries | **22** | (307) | **157** | (44) |
| Revaluation of interest in share trust | **36** | 26 | **37** | (68) |
| Other unrealised gains through profit or loss | **(31)** | – | **11** | 5 |
| Realised (loss)/gain | **212** | 179 | **245** | (1) |
| Old Mutual Plc shares | **60** | – | **–** | (2) |
| Gain on disposal of investments | **152** | 179 | **177** | 1 |
| Gain on disposal of subsidiaries | **–** | – | **68** | – |
| **Total fair value gains recognised in profit or loss** | **240** | (102) | **450** | (108) |
| **Total investment income** | **611** | 267 | **686** | 124 |

## 30. NET CLAIMS INCURRED

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Gross | **9 530** | 9 201 | **7 110** | 6 673 |
| Claims paid | **9 127** | 8 584 | **7 195** | 6 603 |
| Change in provision for outstanding claims | **403** | 617 | **(85)** | 70 |
| Reinsurers' share | **(3 864)** | (2 740) | **(1 679)** | (979) |
| Claims paid | **(3 280)** | (2 385) | **(1 615)** | (673) |
| Change in provision for outstanding claims | **(584)** | (355) | **(64)** | (306) |
| Subrogation and salvage recoveries | **(506)** | (511) | **(506)** | (511) |
| Recoveries received | **(509)** | (424) | **(509)** | (424) |
| Change in receivable | **3** | (87) | **3** | (87) |
| | **5 160** | 5 950 | **4 925** | 5 183 |
| **Claims include:** | | | | |
| Payments and provisions for insured policyholders | **4 808** | 5 432 | **4 571** | 4 728 |
| Claims administration expenses | **352** | 518 | **354** | 455 |
| | **5 160** | 5 950 | **4 925** | 5 183 |

## 31. ACQUISITION COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Acquisition costs paid | **1 799** | 1 739 | **1 272** | 1 289 |
| Change in deferred acquisition costs | **224** | 8 | **224** | 32 |
| | **2 023** | 1 747 | **1 496** | 1 321 |

## 32. ADMINISTRATION EXPENSES

### 32.1 Management and claims administration expenses include:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Employee costs | **1 399** | 1 203 | **1 250** | 1 070 |
| Salaries | **1 240** | 1 061 | **1 117** | 948 |
| Employer contribution to defined contribution retirement and medical aid funds | **19** | 18 | **1** | 2 |
| Other | **140** | 124 | **132** | 120 |
| Share-based payments expense | **59** | 2 | **53** | 1 |
| Audit fees – audit services | **9** | 9 | **6** | 7 |
| Non-audit fees paid to external auditors | **–** | – | **–** | – |
| Depreciation | **74** | 91 | **65** | 80 |
| Furniture and equipment | **7** | 9 | **4** | 6 |
| Land and buildings | **12** | 11 | **9** | 5 |
| Motor vehicles | **2** | 4 | **2** | 4 |
| Computer equipment | **53** | 67 | **50** | 65 |
| Amortisation of intangible assets | **32** | 20 | **32** | 20 |
| Impairment of intangible assets | **–** | 7 | **–** | 7 |
| Impairment of property and equipment | **12** | – | **–** | – |
| Loss/(profit) on sale of property and equipment | **–** | (4) | **–** | (4) |
| Repairs and maintenance of property and equipment | **6** | 4 | **5** | 2 |
| Rentals under operating leases – property | **41** | 38 | **37** | 36 |
| Directors' emoluments | **44** | 20 | **44** | 20 |
| Executive directors – for managerial remuneration | **18** | 16 | **18** | 16 |
| Non-executive directors – for services as directors | **26** | 4 | **26** | 4 |

#### Claims expenses – changes in estimation technique

Historically one-third of administration expenses was transferred to the claims incurred line item for costs on activities supporting the claims function.

In the current year, the analysis of claims expenses has been refined, which lead to a revised estimation methodology; this was found to be more appropriate. This more granular calculation results in expenses of R288 million being removed from the claims incurred and added to administration expense compared to using the previous estimation technique.

## 32. ADMINISTRATION EXPENSES (continued)

### 32.2 Directors' and prescribed officers' emoluments

| 2017 | Fees R'000 | Basic salary R'000 | Bonus R'000 | Pension contri-bution R'000 | Shares vested R'000 | Shares not vested R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| Mr R Snyders* | 545 | 3 081 | – | 318 | 286 | 5 911 | 108 | 10 249 |
| Paid by the company | – | 3 081 | – | 318 | 286 | 5 911 | 108 | 9 704 |
| 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 | 71 | – | 4 000 | 5 800 |
| Paid by the company | – | 1 053 | 500 | 28 | 71 | – | 4 000^ | 5 581 |
| Paid by group companies# | 148 | – | – | – | – | – | – | 148 |
| Mr G Palser+ | 353 | – | – | – | – | – | – | 353 |
| Paid by the company | 353 | – | – | – | – | – | – | 353 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr N P Dongwana+ | 250 | – | – | – | – | – | – | 250 |
| Paid by the company | 250 | – | – | – | – | – | – | 250 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr MJ Harper+ | 1 153 | – | – | – | – | – | – | 1 153 |
| Paid by the company | 1 153 | – | – | – | – | – | – | 1 153 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr P Rörich+ | 468 | – | – | – | – | – | – | 468 |
| Paid by the company | 468 | – | – | – | – | – | – | 468 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr M Mia+ | 638 | – | – | – | – | – | – | 638 |
| Paid by the company | 638 | – | – | – | – | – | – | 638 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| 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 |
| Paid by the company | 369 | – | – | – | – | – | – | 369 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr P Moyo+ | – | 6 213 | 9 966 | 448 | | 3 881 | – | 20 508 |
| Paid by the company | – | – | – | – | – | – | – | – |
| Paid by group companies | – | 6 213 | 9 966 | 448 | – | 3 881 | – | 20 508 |
| Mr R Tomlinson= | – | – | – | – | – | – | – | – |
| Paid by the company | – | – | – | – | – | – | – | – |
| Paid by group companies | – | – | – | – | – | – | – | – |
| | 8 228 | 10 347 | 10 466 | 794 | 357 | 9 792 | 4 108 | 44 092 |

## 32. ADMINISTRATION EXPENSES (continued)

### 32.2 Directors' and prescribed officers' emoluments (continued)

| 2016 | Fees R'000 | Basic salary R'000 | Bonus R'000 | Pension contri-bution R'000 | Shares vested R'000 | Shares not vested R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|---|
| Mr R Snyders* | 496 | 2 535 | 1 881 | 303 | – | 4 410 | 116 | 9 741 |
| Paid by the company | – | 2 535 | 1 881 | 303 | – | 4 410 | 116 | 9 245 |
| Paid by group companies | 496 | – | – | – | – | – | – | 496 |
| Mr J van der Sandt* | 471 | 2 388 | 886 | 66 | – | 2 420 | – | 6 231 |
| Paid by the company | – | 2 388 | 886 | 66 | – | 2 420 | – | 5 760 |
| Paid by group companies | 471 | – | – | – | – | – | – | 471 |
| Mr G Palser+ | 351 | – | – | – | – | – | – | 351 |
| Paid by the company | 351 | – | – | – | – | – | – | 351 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr NP Dongwana+ | 478 | – | – | – | – | – | – | 478 |
| Paid by the company | 478 | – | – | – | – | – | – | 478 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr MJ Harper+ | 1 066 | – | – | – | – | – | – | 1 066 |
| Paid by the company | 1 066 | – | – | – | – | – | – | 1 066 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr P Rörich+ | 426 | – | – | – | – | – | – | 426 |
| Paid by the company | 426 | – | – | – | – | – | – | 426 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr M Mia+ | 620 | – | – | – | – | – | – | 620 |
| Paid by the company | 620 | – | – | – | – | – | – | 620 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr PGM Truyens+ | 550 | – | – | – | – | – | – | 550 |
| Paid by the company | 550 | – | – | – | – | – | – | 550 |
| Paid by group companies | – | – | – | – | – | – | – | – |
| Mr PRE Tsukudu+ | 679 | – | – | – | – | – | – | 679 |
| Paid by the company | 382 | – | – | – | – | – | – | 382 |
| Paid by group companies | 297 | – | – | – | – | – | – | 297 |
| Mr R Tomlinson= | – | – | – | – | – | – | – | – |
| Paid by the company | – | – | – | – | – | – | – | – |
| Paid by group companies | – | – | – | – | – | – | – | – |
| | 5 137 | 4 923 | 2 767 | 369 | – | 6 830 | 116 | 20 142 |

* *Executive director.*
\+ *Non-executive director.*
\# *Remuneration payable to the company by whom the director is employed, and not to the individual.*
^ *Compensation paid for loss of office.*
= *R Tomlinson is paid by a foreign holding company.*

## 32. ADMINISTRATION EXPENSES (continued)

### 32.3 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 Apr 2014 | 8 Apr 2018 | 37.99 | 19 244 | – | (19 244) | – | – |
| | 8 Apr 2014 | 8 Apr 2018 | 37.99 | 101 781 | – | – | (101 781) | – |
| | 16 Apr 2015 | 16 Apr 2018 | 37.99 | 46 263 | – | – | – | 46 263 |
| | 16 Apr 2015 | 16 Apr 2018 | 37.99 | 49 457 | – | – | – | 49 457 |
| | 11 Mar 2016 | 11 Mar 2019 | 37.99 | 62 346 | – | – | – | 62 346 |
| | 11 Mar 2016 | 11 Mar 2019 | 37.99 | 26 346 | – | – | – | 26 346 |
| | 29 Mar 2017 | 29 Mar 2020 | 37.99 | – | 74 815 | – | – | 74 815 |
| | 29 Mar 2017 | 29 Mar 2020 | 37.99 | – | 88 018 | – | – | 88 018 |
| J D van der Sandt | 8 Apr 2014 | 8 Apr 2018 | 37.99 | 2 237 | – | (2 237) | – | – |
| | 8 Apr 2014 | 8 Apr 2018 | 37.99 | 62 200 | – | – | (62 200) | – |
| | 16 Apr 2015 | 16 Apr 2018 | 37.99 | 28 964 | – | – | (28 964) | – |
| | 16 Apr 2015 | 16 Apr 2018 | 37.99 | 25 058 | – | – | (25 058) | – |
| | 11 Mar 2016 | 11 Mar 2019 | 37.99 | 9 375 | – | – | (9 375) | – |
| | 11 Mar 2016 | 11 Mar 2019 | 37.99 | 27 809 | – | – | (27 809) | – |
| | 11 Mar 2016 | 11 Mar 2019 | 37.99 | 14 770 | – | – | (14 770) | – |
| | 15 Aug 2016 | 15 Aug 2019 | 37.99 | 3 290 | – | – | (3 290) | – |
| | 15 Aug 2016 | 15 Aug 2019 | 37.99 | 19 968 | – | – | (19 968) | – |
| | 29 Mar 2017 | 29 Mar 2020 | 37.99 | – | 33 530 | – | (33 530) | – |
| | 29 Mar 2017 | 29 Mar 2020 | 37.99 | – | 52 970 | – | (52 970) | – |
| P Moyo | 06 Sep 2017 | 6 Sep 2020 | 37.99 | – | 543 479 | – | – | 543 479 |
| | 06 Sep 2017 | 6 Sep 2020 | 37.99 | – | 181 159 | – | – | 181 159 |
| | 06 Sep 2017 | 6 Sep 2021 | 37.99 | – | 181 160 | – | – | 181 160 |
| | 06 Sep 2017 | 6 Sep 2022 | 37.99 | – | 181 160 | – | – | 181 160 |
| | | | | 499 108 | 1 336 291 | (21 481) | (379 715) | 1 434 203 |

| 2016 | Issue date | Vesting date | Share price (R) | Opening shares Number of shares | Shares granted Number of shares | Closing shares Number of shares |
|---|---|---|---|---|---|---|
| R Snyders | 8 Apr 2014 | 8 Apr 2018 | 34.44 | 19 244 | – | 19 244 |
| | 8 Apr 2014 | 8 Apr 2018 | 34.44 | 101 781 | – | 101 781 |
| | 16 Apr 2015 | 16 Apr 2018 | 34.44 | 46 263 | – | 46 263 |
| | 16 Apr 2015 | 16 Apr 2018 | 34.44 | 49 457 | – | 49 457 |
| | 11 Mar 2016 | 11 Mar 2019 | 34.44 | – | 62 346 | 62 346 |
| | 11 Mar 2016 | 11 Mar 2019 | 34.44 | – | 26 346 | 26 346 |
| J D van der Sandt | 8 Apr 2014 | 8 Apr 2018 | 34.44 | 2 237 | – | 2 237 |
| | 8 Apr 2014 | 8 Apr 2018 | 34.44 | 62 200 | – | 62 200 |
| | 16 Apr 2015 | 16 Apr 2018 | 34.44 | 28 964 | – | 28 964 |
| | 16 Apr 2015 | 16 Apr 2018 | 34.44 | 25 058 | – | 25 058 |
| | 11 Mar 2016 | 11 Mar 2019 | 34.44 | – | 9 375 | 9 375 |
| | 11 Mar 2016 | 11 Mar 2019 | 34.44 | – | 27 809 | 27 809 |
| | 11 Mar 2016 | 11 Mar 2019 | 34.44 | – | 14 770 | 14 770 |
| | 15 Aug 2016 | 15 Aug 2019 | 34.44 | – | 3 290 | 3 290 |
| | 15 Aug 2016 | 15 Aug 2019 | 34.44 | – | 19 968 | 19 968 |
| | | | | 335 204 | 163 904 | 499 108 |

These shares are ordinary shares of Old Mutual Plc.

## 33. TAXATION

### 33.1 South African and foreign

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm |
| **Current** | **212** | 108 | **175** | 68 |
| Current year | **220** | 102 | **175** | 62 |
| Prior year | **(8)** | 6 | **–** | 6 |
| **Deferred** | **(5)** | (16) | **(18)** | 26 |
| Current year | **(5)** | (16) | **(18)** | 26 |
| Prior year | **–** | – | **–** | – |
| **Withholding tax** | | | | |
| Current year | **6** | – | **–** | (7) |
| | **213** | 92 | **157** | 87 |

### 33.2 Deferred taxation movement by major temporary difference

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm |
| Assessed loss | **1** | 1 | **–** | – |
| Post retirement medical aid provision | **1** | 11 | **1** | (22) |
| Other provisions and impairments | **26** | (31) | **56** | 9 |
| Smoothed operating leases | **(1)** | – | **(1)** | – |
| Share based payment | **–** | (2) | **–** | – |
| Prepayments | **(2)** | (1) | **11** | – |
| Outstanding doubtful premium | **–** | – | **(15)** | – |
| Amortisation of software application | **(1)** | (9) | **(17)** | (13) |
| Capital gains tax | **(17)** | 53 | **(3)** | – |
| Urban development zone allowance | **(2)** | (6) | **(14)** | – |
| | **5** | 16 | **18** | (26) |

### 33.3 Reconciliation of taxation rate

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **%** | % | **%** | % |
| Standard rate | **28.0** | 28.0 | **28.0** | 28.0 |
| Non-taxable income | **(7.4)** | (1.9) | **(13.3)** | 2.3 |
| Disallowed expenditure | **1.9** | (0.7) | **2.0** | 5.1 |
| Withholding tax | **0.5** | (1.8) | **–** | (2.7) |
| Prior year adjustment | **(0.2)** | 1.6 | **–** | 2.2 |
| Foreign tax rate adjustment | **–** | 0.5 | **–** | – |
| Change in tax rate | **(0.4)** | (1.0) | **–** | – |
| Effective rate | **22.4** | 24.7 | **16.7** | 34.9 |

## 33. TAXATION (continued)

### 33.4 Taxation paid

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm |
| Balance owing/(prepaid) at beginning of year | **21** | (1) | **16** | 2 |
| Current taxation charged to the statement of comprehensive income | **212** | 108 | **175** | 68 |
| Balance prepaid at end of year | **24** | 1 | **–** | (16) |
| Balance owing at end of year | **(31)** | (22) | **(23)** | – |
| | **226** | 86 | **168** | 54 |

## 34. CASH GENERATED BY OPERATIONS

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm |
| Profit before taxation | **948** | 357 | **939** | 249 |
| Adjusted for: | | | | |
| Investment income (net of investment costs) | **(602)** | (261) | **(677)** | (118) |
| Share-based payment charge/(credit) | **59** | 2 | **53** | 1 |
| Decrease in net insurance contract provisions | **(108)** | 10 | **(164)** | (240) |
| Increase in subrogation recoveries receivable | **3** | (299) | **5** | (88) |
| (Decrease)/increase in net deferred acquisition costs | **12** | 5 | **11** | (1) |
| Depreciation of property and equipment | **74** | 91 | **65** | 80 |
| Amortisation and impairment of intangible assets | **32** | 27 | **32** | 27 |
| Impairment of property and equipment | **12** | – | **–** | – |
| Foreign exchange loss | **18** | 26 | **5** | 5 |
| Loss/(profit) on sale of property and equipment | **–** | (4) | **–** | (4) |
| Changes in working capital: | | | | |
| (Increase)/decrease in net agents' and reinsurers' balances | **(155)** | 65 | **(321)** | 134 |
| Decrease/(increase) in other receivables | **(255)** | (102) | **7** | (142) |
| (Decrease)/increase in other payables and provisions | **74** | (274) | **92** | (27) |
| Increase/(decrease) in net post-retirement medical benefit provision | **2** | 42 | **5** | – |
| Net (increase)/decrease in deposits with/by reinsurers and cedants | **229** | 197 | **193** | 134 |
| | **343** | (118) | **244** | 10 |

## 35. DIVIDENDS PAID

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Dividends paid to shareholder | **1 225** | – | **1 225** | – |
| Dividends paid to employees by share trust | **15** | – | **–** | – |
| **Total cash dividend paid** | **1 240** | – | **1 225** | – |

## 36. REVALUATION RESERVE

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Opening balance | **113** | 75 | **89** | 51 |
| (Devaluation)/revaluation during the year | **(12)** | 40 | **–** | 40 |
| Transfer to retained earnings | **(3)** | (2) | **(3)** | (2) |
| Reclassification of revaluation reserve | **(38)** | – | **–** | – |
| **Closing balance** | **60** | 113 | **86** | 89 |

## 37. 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.

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Profit attributable to equity holders | **718** | 263 | **782** | 162 |
| Impairment of property and equipment | **9** | – | **–** | – |
| Profit on sale of property and equipment | **–** | (3) | **–** | (3) |
| Impairment of intangible assets | **–** | 5 | **–** | 5 |
| | **727** | 265 | **782** | 164 |
| **Weighted average number of ordinary shares in issue (millions)** | **320** | 320 | **320** | 320 |
| **Headline earnings per share (cents)** | **227** | 83 | **244** | 51 |

## 38. RELATED PARTY TRANSACTIONS

The company has a related-party relationship with its holding company, subsidiaries, fellow subsidiaries, associate, directors and key management personnel and their close family members.

### Transactions with entities in the Old Mutual Group

The company, in the ordinary course of business, entered into various transactions with fellow subsidiary companies in the Old Mutual Group, including Nedbank Limited, Old Mutual South Africa Limited, Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), Old Mutual Short-term Insurance (Botswana) Limited, Old Mutual Short-term Insurance (Namibia) Limited, Old Mutual Investment Group Proprietary Limited (OMIG), Credit Guarantee Insurance Corporation of Africa Limited, Mutual & Federal Risk Financing Limited (MFRF) and with its holding company.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Nedbank Limited** | | | | |
| Premium received for insurance cover | **955** | 889 | **955** | 889 |
| Interest received | **21** | 27 | **11** | 27 |
| Bank charges and administration fees paid | **–** | (5) | **–** | (5) |
| Claims incurred | **(599)** | (590) | **(581)** | (590) |
| Investment management fees | **(6)** | (6) | **(6)** | (6) |
| Acquisition costs | **(143)** | (134) | **(143)** | (134) |
| ***Transactions with holding company (Old Mutual Emerging Markets – OMEM):*** | | | | |
| Administration charge | **(69)** | (68) | **(69)** | (68) |
| Dividend paid | **(1 225)** | – | **(1 225)** | – |
| ***Transactions with subsidiaries:*** | | | | |
| **Mutual & Federal Risk Financing Limited** | | | | |
| Interest received | **2** | 5 | **–** | – |
| Claims incurred | **(18)** | (29) | **–** | – |
| Reinsurance premiums | **17** | 19 | **17** | 19 |
| Reinsurance claims | **8** | 6 | **8** | 6 |
| Reinsurance commission | **4** | 6 | **4** | 6 |
| Administration expenses | **36** | 27 | **36** | 27 |

## 38. RELATED PARTY TRANSACTIONS (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| ***Transactions with subsidiaries: (continued)*** | | | | |
| **Credit Guarantee Insurance Corporation of Africa Limited** | | | | |
| Reinsurance premiums | **1** | 6 | **1** | 6 |
| Reinsurance claims | **(2)** | (12) | **(2)** | (12) |
| Reinsurance commissions | **–** | – | **–** | – |
| Interest received | **8** | 6 | **–** | – |
| Bank charges and administration fees paid | **–** | 1 | **–** | – |
| ***Receivables and (Payables) with other entities within the Old Mutual Group:*** | | | | |
| Nedbank Limited – fellow subsidiary | **86** | 66 | **86** | 66 |
| Money market investment held with Nedbank Limited – fellow subsidiary | **1 107** | 1 163 | **482** | 435 |
| OMLACSA – Post retirement medical aid asset – fellow subsidiary | **170** | 165 | **170** | 165 |
| OMIG – Empowerment private equity – fellow subsidiary | **67** | 79 | **67** | 79 |
| Old Mutual Plc (ultimate holding company) | **(11)** | (1) | **(11)** | (1) |
| Old Mutual Direct Holdings – fellow subsidiary | **36** | – | **36** | – |
| Old Mutual Short-term Insurance (Botswana) Limited – fellow subsidiary | **1** | 7 | **1** | 7 |
| Old Mutual Short-term Insurance (Namibia) Limited – fellow subsidiary | **2** | 29 | **2** | 29 |
| ***Transactions with directors and trusts within the Old Mutual Insure Group*** | | | | |
| Loan to Director of subsidiary | **–** | – | **–** | 1 |
| Loan to the Mutual and Federal Management Incentive Trust | **–** | – | **63** | 98 |
| Loan to the Mutual and Federal Black Broker Trust | **–** | – | **14** | 14 |
| Loan to the Mutual and Federal Management Incentive Trust (Namibia) | **7** | 7 | **7** | 7 |
| M&F Development Trust | **3** | – | **3** | – |

### 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 R6 million (2016: R18.4 million). The receivable at year-end (R36 million) 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.

## 39. OPERATING LEASE COMMITMENTS

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 | |
|---|---|---|
| | **2017 Rm** | 2016 Rm |
| Not later than 1 year | **3** | 7 |
| Between 1 and 5 years | **34** | 48 |
| Total future minimum lease payments under non-cancellable operating leases | **37** | 55 |

## 40. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of the business.

## 41. EVENTS OCCURRING 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 2017.

## 42. COMMITMENTS

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

The company has purchased four levels of basement parking from First National Bank Limited (FNB). FNB will retain the 10 upper levels that will be constructed above the Old Mutual Insure parking. 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 parkade into the name of the company. The purchase price plus VAT is only payable by the company to FNB on registration of the transfer of the Old Mutual Insure parkade into the name of the company. It was agreed that the company would fund the development costs upfront through a loan facility. The development costs are an amount equal to the purchase price.

This is expected to be completed mid 2019 with an estimated cost of R97 million.

# Notes to the consolidated and company annual financial statements (continued)

*for the year ended 31 December 2017*

## 43. LIST OF RELATED UNDERTAKINGS

| | | Issued share capital | | Fair value of shares in subsidiaries | | Indebtedness by/(to) subsidiaries | |
|---|---|---|---|---|---|---|---|
| | | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **DIRECTLY HELD** | | | | | | | |
| Cougar Investment Holding Company Limited | (a) | **10** | 10 | **134** | 120 | **(67)** | (50) |
| Credit Guarantee Insurance Corporation of Africa Limited 75% (2016: 100%) | (b) | **3** | 3 | **1 338** | 1 670 | **(6)** | 1 |
| Mutual & Federal Company of Zimbabwe (Private) Limited# | (b) | **8** | 8 | **132** | 99 | **–** | – |
| Mutual & Federal Risk Financing Limited | (b) | **5** | 5 | **208** | 188 | **33** | 26 |
| Platinum Underwriting Managers Proprietary Limited (40%) | (b) | **–** | – | **(2)** | (1) | **–** | 1 |
| Old Mutual Holdings (Mauritius) Limited+ | (b) | **27** | – | **27** | – | **–** | – |
| **INDIRECTLY HELD** | | | | | | | |
| Galilean Properties (Proprietary) Limited | (a) | **29** | 29 | **38** | 46 | **–** | – |
| **STRUCTURED VEHICLES** | | | | | | | |
| The Mutual & Federal Management Incentive Trust | | **–** | – | **–** | – | **63** | 98 |
| The Mutual & Federal Senior Black Management Trust | | **–** | – | **–** | – | **–** | – |
| The Mutual & Federal Black Broker Trust | | **–** | – | **–** | – | **14** | 14 |

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

(a) Investment company

(b) Short-term insurance

# Incorporated in Zimbabwe

+ Incorporated in Mauritius

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

## 43. LIST OF RELATED UNDERTAKINGS (continued)

| | Fair value of shares in associates | | Indebtedness by/(to) subsidiaries | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **Rm** | Rm | **Rm** | Rm |
| **DIRECTLY HELD** | | | | |
| Mercury Administrator & Underwriter Agency (Pty) Limited (25%) | **2** | 2 | **–** | – |
| Merx Underwriting Managers Proprietary Limited (45%) | **12** | – | **–** | – |

# Annexure 1 – employment equity report

## WORKFORCE PROFILE AND CORE AND SUPPORT FUNCTIONS

### Workforce profile

A = Africans, C = Coloureds, I = Indian and W = Whites

| Occupational Levels | Male | | | | Female | | | | Foreign Nationals | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | C | I | W | A | C | I | W | Male | Female | |
| Top Management | 2 | – | 2 | 12 | 1 | – | – | 3 | 1 | – | 21 |
| Senior management | 6 | 6 | 12 | 34 | 6 | 5 | 10 | 22 | 5 | – | 106 |
| Professionally qualified and experienced specialists and mid-management | 70 | 40 | 59 | 122 | 58 | 43 | 49 | 145 | 12 | 4 | 602 |
| Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents | 127 | 73 | 55 | 105 | 121 | 71 | 38 | 104 | 9 | 6 | 709 |
| Semi-skilled and discretionary decision making | 223 | 101 | 36 | 16 | 362 | 249 | 52 | 125 | 2 | – | 1 166 |
| Unskilled and defined decision making | 6 | 1 | – | – | 9 | – | – | – | – | – | 16 |
| **TOTAL PERMANENT** | **434** | **221** | **164** | **289** | **557** | **368** | **149** | **399** | **29** | **10** | **2 620** |
| Temporary employees | 17 | 4 | 5 | 12 | 31 | 11 | 5 | 24 | 1 | 1 | 111 |
| **GRAND TOTAL** | **451** | **225** | **169** | **301** | **588** | **379** | **154** | **423** | **30** | **11** | **2 731** |

The insurance industry is evolving; this has presented challenges and opportunities which have led to the organization having to re-adjust how we conduct our business and how talent is distributed across the organization. As a business Old Mutual Insure Limited has had to implement changes that affected its operating model and how talent is distributed in the business.

2017 saw a positive shift in overall transformation representation to 72.2% when compared to previous years (2016: 69.8% and 2015: 70.9%) and this shift is evidence of Exco's renewed commitment to delivering the goals set out in the EE strategy. This progress is seen specifically at Middle Management (i.e. role size N & O) which increased by 6.3% year on year to 52.8% and has resulted in improved EE representation in talent and succession pools where 58% of HIPOs (i.e. Grids 1, 2 & 3) are EE. In January 2018 2 x Black Female Executives have been appointed in the positions of Financial Director and Chief Risk Officer.

The General Insurance Academy (GIA) continues to build core and critical skills needed to turn the business performance around and bridge the skills gaps identified. This is measured through proficiency and workplace assessments which track improvements across underwriting and sales.

The "We Care Employee Wellness Programme", is providing holistic wellbeing offerings to employees. Given the current socio-economic conditions and significant changes taking place across the business data indicates that there is a growing need for us to improve financial and lifestyle wellbeing support to our employees. This will continue to be an important initiative in 2018.

The introduction of performance improvement in 2017 is starting to yield positive results with support from Exco and heads. This initiative is intended to shift the organization away from mediocrity towards a culture of high performance. 2017 was a year with several significant disasters that not only had an impact on our business performance but required the support of our dedicated volunteers to help communities that were affected by the Knysna fires and the KwaZulu Natal and Gauteng floods to get back on their feet.

We remain committed to "Enabling Positive Futures" by providing support to our communities not only during our annual programmes or initiatives (e.g. Mobile Library, Cradle to Career and Habitat for Humanity), but more importantly when they are in need.

In 2018, we will continue to work with business leaders and employees to build a culture where employees are empowered to "Do Great Things" and where we "Enable Positive Futures".

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