OLDMUTUAL

ANNUAL REPORT
2019

INSURE

DO GREAT THINGS EVERY DAY

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About our annual report

Introduction

This annual report to our stakeholders covers the core activities of the business for the period 1 January 2019 to 31 December 2019. It focuses on our strategy and how our material operating segments and key enabling functions create value over the short, medium and long-term.

Forward-looking statements

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

DEFINING CONCEPTS

Materiality

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

Value

Value-creation is the consequence of how Old Mutual Insure applies and leverages its resources and strategy in delivering financial performance and value for all stakeholders. Its focus is on improving both the quantum of value delivered for each of its stakeholders and the quality of their experience.

Design rationale

At Old Mutual Insure we believe that our commitment to the "six that matter" will culminate in a satisfied and happy client. These six include diversity, communication, working together, trust, protection and value; and are represented by various recognisable African symbols.

Our front cover reflects the symbiotic relationship of these six elements in our daily lives and those of our customers to achieve the correct balance in a world where all stakeholders thrive.

The six that matter

WHO WE ARE

1. BEAD WORK

DIVERSITY

The bead work symbolises diversity and reflects how we collaborate and engage to craft quality solutions that add value to our customers.

WE CULTIVATE VALUE

2. MBIRA

COMMUNICATION

This musical instrument represents a form of communication and links with our commitment to create impact, prickle interest and encourage conversation.

OUR VALUE CUSTODIANS

3. LINKS

WORKING TOGETHER

The links symbolise partnership and how working together towards a common goal makes us stronger.

HOW WE PROTECT VALUE

5. SHIELD

PROTECTION

The shield is representative of our commitment to protect what's important to our customers. They are at the heart of everything we do.

OUR VALUE OUTCOMES

4. BAOBAB

TRUST

The baobab tree is also known as the tree of life; an icon in the history of Africa where important meetings were held and significant decisions made. It symbolises our vision to be our customers' first choice to sustain and grow their prosperity.

ANNUAL FINANCIAL STATEMENTS

6. TRADITIONAL POT

VALUE

The pot, a symbol of holding, gathering and collecting to keep investments and finances secure. It reflects our role to sustain and grow the prosperity of the customers, families and communities we serve.

01

WHO WE ARE

Diversity

We are inclusive of different types of people and cultures in our organisation.

We encourage diversity in thought, mind and body throughout our business. Our employees represent different cultures and bring to the organisation varied skills and experience which offer our clients a broader depth of knowledge and understanding and allows for continuous innovation and improvement in the products and services we take to market for our continued sustainability.

The beadwork represents our collaboration and working together to craft a quality product and service for all our stakeholders.

Our foundations

Approach to value-creation

As an independently listed entity, Old Mutual Limited is now a stronger business, with a clearer strategic focus and greater opportunities for sustainable growth. The philosophy in creating beneficial outcomes for Old Mutual Insure and for customers and stakeholders is firmly grounded in a customer-led approach to short-term insurance. This also forms the basis of the strategy and business model.

As the Property & Casualty business of Old Mutual Limited in South Africa, Old Mutual Insure is steadily unlocking the value that lies within the Old Mutual customer base, while remaining true to its core capability of providing short-term insurance expertise. This enables Old Mutual Insure to continue to focus on making a significant difference to customers, communities and society as a whole.

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

Tracing our roots

- The Old Mutual Insure story originates in 1831.
- In 1965, three major UK insurance companies merged into the Royal Group. The Royal Group then merged with the SA Mutual Fire & General Insurance company in 1970 to form Mutual & Federal.
- Old Mutual acquired a major shareholding in the newly formed Mutual & Federal, and later, in 2009, acquired the remaining shares.
- In February 2010, Mutual & Federal **became a wholly-owned subsidiary** of the Old Mutual Group and in June 2017 **rebranded** to Old Mutual Insure.
- **Managed separation:** In March 2016, Old Mutual plc announced that the long-term interests of Old Mutual plc shareholders and other stakeholders would be best served by separating the four businesses, then owned by the Old Mutual plc Group, to operate as fully independent stand-alone companies. These were Old Mutual Emerging Markets (including Old Mutual Insure), Brightsphere Investment Group, Nedbank and Quilter plc.
- Old Mutual Limited **listed on the JSE Limited (JSE)** on 26 June 2018, along with listings on the London Stock Exchange (LSE) and secondary listings on the stock exchanges of Malawi, Namibia and Zimbabwe.
- On 1 August 2018, Old Mutual Insure launched **Elite**.
- On 4 October 2018, Old Mutual Insure announced the acquisition of the Underwriting Management Agency, **Sintelum**.
- In 2019, Old Mutual Insure moved to its new corporate head office at Wanooka Place, St Andrews Road, Parktown, Johannesburg. These new premises are far more conducive to staff contentment and productivity.

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

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

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

Our brand

OUR PROMISE

We champion individuals and businesses to be their exceptional best.

OUR PURPOSE

Championing mutually positive futures every day.

BRAND CHARACTER

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

WHAT WE DO

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

HOW WE DO IT

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

WHY WE DO IT

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

COACH | MOTIVATE | ENABLE

CONSUMER TRUTH

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

OUR POINT OF VIEW

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

The values that ground us

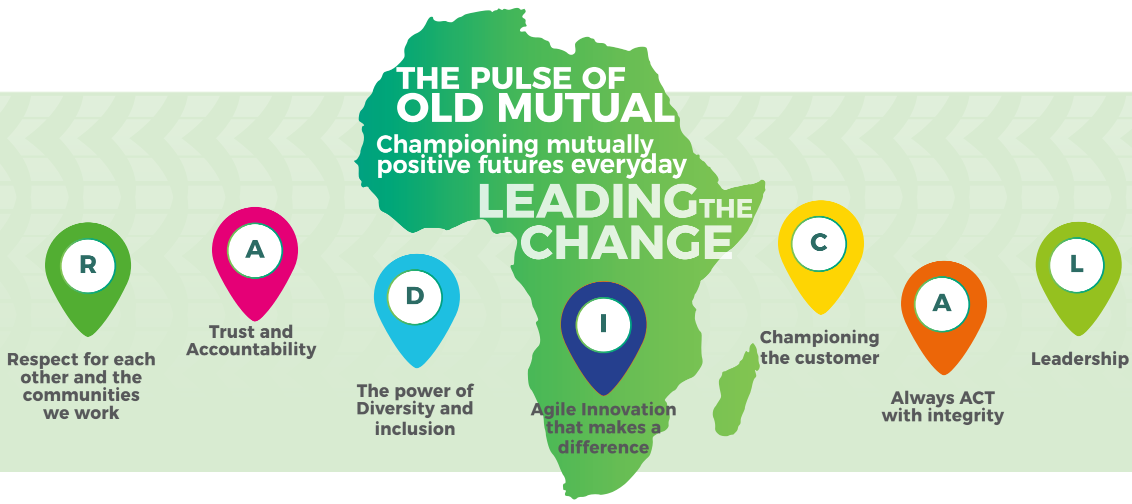
OUR VALUES

RADICAL

- **Respect** for each other and the communities we serve
- Trust and **Accountability**
- The power of **Diversity** and inclusion
- Agile **Innovation** that makes a difference
- **Championing** the customer
- Always **Act** with integrity
- **Leadership** (change needs to be led)

OUR VISION

To be our customers' most-trusted insurance partner, passionate about helping them achieve their lifetime financial goals. We will be our customers first choice to sustain and grow their prosperity



Old Mutual Insure today

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

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

Quick facts:

- **Financial Sector Charter Level 4 Broad-Based Black Economic Empowerment (B-BBEE) contributor.**
- **Employer of more than 2 500 employees – over 74% black and over 57% women.**

Our comprehensive short-term insurance offerings

Old Mutual Insure partners with brokers and advisers to offer an extensive range of short-term insurance products and solutions designed to meet personal, commercial and corporate insurance needs. These include the agricultural, engineering and marine sectors.

Since 2010, our direct channel, iWYZE, has opened and tapped into new markets with great success. This alternative distribution channel does not detract from the intermediary channel, but rather complements it by offering customers more options to access insurance products and services.

Comprehensive short-term insurance offerings

COMMERCIAL	PERSONAL	AGRICULTURE	SPECIALTY	CREDIT GUARANTEE	RISK FINANCING
· Insurance for small-businesses · Solutions include cover for: – assets such as buildings, stock, plant and machinery against perils such as fire, storm and burglary – vehicles, including sedans, light delivery vehicles and heavy commercial vehicles – legal liability for business activities	· Comprehensive cover for valuables, homes, contents and vehicles · Travel insurance	· Insurance catering for farmers' agricultural risks · Solutions include cover for: – assets, such as buildings, stock, plant and machinery against perils such as fire, storm and burglary – vehicles, including sedans, light delivery vehicles and tractors – legal liability for farming activities – crop	· Our partner-ships with specialist underwriters provide a variety of insurance solutions for specialist areas, such as engineering, marine, corporate travel, financial lines and corporate property	· Domestic and international trade credit insurance · Bonds · Guarantees	· Mutual & Federal Risk Financing (MFRF) provides large commercial and industrial organisations with a world-class risk financing facility · MFRF follows a multi-disciplined approach to risk management, giving customers access to a full range of bespoke MFRF-underwritten risk financing products

Old Mutual Insure today (continues)

People and culture

Old Mutual Insure currently employs more than 2 500 employees in South Africa. We have a talented and diverse workforce spanning across a mix of actuarial, finance, operational, legal, risk management and technology skills. We embrace all generations and the Old Mutual Insure employee profile features a good combination of experience and youth.

Our people are at the heart of fulfilling our promise to customers. We will continue to build a workforce for the future that is transformed, energised and able to deliver the exciting upcoming growth phase.

Our human capital mission is threefold:

- To source the right people, with the right skills, for the right roles to support and grow our organisation into Africa's short-term insurer of choice.
- To provide the right support and training to ensure the continuous development of our employees.
- To promote and maintain a culture of high performance, accountability, respect, integrity and pushing beyond boundaries.

A corporate culture that supports our values

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

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

In 2018, Old Mutual Insure embarked on 'Pulse', a cultural transformation journey for building teams that are delivery orientated, customer centric, and externally competitive. We engaged our leaders and our people both face-to-face and via digital channels to gather feedback on our culture. The results were used to define our culture shifts and identify key behaviours that need to underpin our RADICAL values. It also gave us a better understanding of what issues need to be addressed to transform Old Mutual Insure.

We are driving business performance by transforming our culture.

Making a difference

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

The Group structure

Simplified Old Mutual Group structure

02

WE CULTIVATE VALUE

Communication

We encourage the sharing of ideas, facts and values from one person to another or one organisation to another.

We focus on stakeholder communication, both externally and internally, while developing strategic partnerships to meet our continuous objective of delivering excellent customer service. We believe in transparent engagement and recognise the value our various teams bring to the organisation and the importance of understanding the market to meet the challenging economic environment.

The musical instrument is one form of communication that stirs up interest and provides the opportunity to open conversations.

Chairman's report

> The Board is confident that Old Mutual Insure's current strategy will deliver immediate gains and sustainable value-creation in the medium and long-term.

Steffen Gilbert *Chairman*

Introduction

I was honoured to be invited to the Board in September 2019 and, following regulatory approval from the prudential authorities in December 2019, stepping into the role of Chairman. On behalf of the Group, I extend a word of thanks to our outgoing Chairman, Mike Ilsley, for his leadership and for handing over such a well-managed team.

My first months on the Board and as Chairman were taken up with Old Mutual Insure implementing significant strategic changes against a challenging trading backdrop.

The most obvious and significant obstacle South Africa faces at present is an increasingly constrained economic operating environment. A poor economy usually mutes the insurance business, as consumers are more likely to cancel or reduce their insurance when budgets come under pressure. This adversely affects customer acquisition and persistency across all sectors of the economy.

As a consequence, insurance providers tend to compete more aggressively with one another, which can reduce profit margins. In this environment, property owners and businesses often reduce budgets for maintaining their buildings and equipment, which increases claims and reduces profitability further.

Performance

Old Mutual Insure's top-line performance was acceptable in the light of these challenging operating conditions. Strategic partnerships in our Specialty division contributed well to growth in gross written premiums and we continue identifying opportunities to diversify our offerings.

The Group's bottom line was on track to improve on 2018's results, but major weather-related claims from the Northern Cape in the final quarter dampened the final underwriting results. Our first half of 2019 was characterised by catastrophe events, compared to the relatively benign first half of the previous year. This led to losses below the reinsurance threshold that significantly reduced our net underwriting margins.

In essence, Old Mutual Insure' s underlying performance improved, although the final net underwriting outcome was disappointing.

Strategy

During my short tenure on the Old Mutual Insure Board to date, I've seen how much time and energy has been invested in the new strategy and reinsurance overhaul. These matters clearly dominated the board's attention throughout the year. The Group's revised strategy is setting the business up to be agile, adaptable and resilient, which is vital for an insurance business that undergoes volatile economic cycles.

Old Mutual Insure's new strategic direction was developed by the newly formed executive team in a deeply immersive strategy building session, including the Board, executives, key persons and shareholders. Everybody of material influence was invited to give input, so that all have bought into it.

Old Mutual has multigenerational traction across South Africa, which must be leveraged into financial results. As the Group's relatively new MD, Garth Napier's initial priority was to implement the strategy and teams to take Old Mutual Insure on the next leg of its journey.

This strategy required the executive to reorganise Old Mutual Insure into two operating divisions, being Retail and Corporate and Niche as explained in more detail in the MD's report. The resulting two prong approach enables Old Mutual Insure to more effectively pursue future growth opportunities that include more intensive use of technology and data, accelerated cross-selling across the broader Old Mutual Group and diversified income streams through partnerships with UMAs.

Getting this strategy into gear required putting the right people in place – which has now also been completed.

Any strategy is unlikely to succeed in the current environment if the business is not capital efficient. The new reinsurance structure we're introducing as part of strategy actualisation enables the company to write large risks whilst reducing the volatility of results and building longer term reinsurance partners. The incoming reinsurance philosophy rewards each business entirely on the merits of its own performance, with cross subsidisation falling away.

The Board is confident that Old Mutual Insure's current strategy will deliver immediate gains and sustainable value-creation in the medium and long-term.

Ethics, leadership and corporate governance

The Board underwent a considerable refresh during the reporting period. Paul Truyens, Pieter Rörich and Peter Moyo departed, while Mark Scharneck and I joined the Board during the year.

I am pleased to be chairing an attuned Board with the skills, integrity and diversity to guide Old Mutual Insure in this new chapter by overseeing strategy and providing insights and counsel to the executive team. The Old Mutual Group drives good governance through King IV™ practices that are continuously enhanced.

Various regulatory changes over the past year have impacted the insurance industry and Old Mutual Insure. The most recent requirement involves resubmitting and re-applying for our licences, as part of the process for phasing in the 'Twin Peaks' licensing framework. All existing insurance licence holders have been required to reapply for their licences in terms of the new framework, which is expected for completion by 31 July 2020. In recent years, the only constant in South Africa's insurance industry was change – we are sure there is more to come.

Stakeholder relationships

The Board remains well informed of stakeholder commentary and sentiment, with an efficient feedback loop in place. The Board considers these views as a fundamental to accurate decision-making.

Our employees are key stakeholders in our collective success and the leadership is determined to enhance the wellness and productivity of our current workforce and to attract high quality talent. Apart from offering attractive remuneration, Old Mutual Insure attracts the level of skills it requires to compete by being a great place to work. Old Mutual Insure is more than a business that supplies a pay cheque at the end of the month – it is a place where our employees feel valued and part of a vibrant team. The MD has pushed this approach hard during the past year and has been able to attract top talent to add to the already impressive line-up of skill throughout the organisation.

Prospects

In 2020, the Board is concentrating on the legislative and ethical aspects of governance, as well as embedding Old Mutual Insure's refreshed strategy and reinsurance strategy. As our new strategy is embedded, the Board will support the executive team to the hilt as it changes the trajectory of the company.

Our number one challenge remains South Africa's stuck economy, although the major, underlying issue is climate change, which the insurance industry must assess realistically. We need to ensure that our products and pricing take accurate account of this phenomenon.

Thanks

To my fellow directors who serve Old Mutual Insure with the highest levels of diligence and enthusiasm, I extend my sincere appreciation. I especially thank our recently departed Board members, who have been integral to Old Mutual Insure's ongoing viability.

During 2019, the Board and Executive worked through the arduous exercise of reconceptualising and reframing Old Mutual Insure for the future. I commend all for their inspired approaches to this exercise, which I'm sure will unlock results and sustainable value in the long run for all our stakeholders.

On behalf of the Board, I thank our Executive committee and employees for their relentless contribution to making our company the success it has become, in tandem with our loyal business partners and clients.

At the end of the day we rely on the interest and goodwill of our investors, who continue seeking value in ever more challenging markets. I am confident that Old Mutual Insure shows all the signs of being well on track for sustainable growth of shareholder value over the medium to longer term.

Managing director's report

> Old Mutual Insure has delivered strong growth in gross written premiums of 10.9% and seen improvement in our customer satisfaction metrics in challenging market conditions. We have made significant progress in implementing our strategic objectives, however, our net underwriting results has been significantly impacted by multiple catastrophe events in 2019.

Garth Napier *Managing Director*

Overview

Looking back at 2019, it will be remembered as a tough year with low economic growth, increased natural catastrophes and poor consumer sentiment.

Our focus over the last few years has been on delivering profitable growth by improving our customer and intermediary experience and enhancing our underwriting across our business. I'm happy to report that this focus has delivered positive results, as shown by:

- Gross Written Premium (GWP) growth of 10.9%.
- Improved customer and partner satisfaction scores.
- Growth in Gross Underwriting Margin to 6.0% (1.8% in 2018).

Unfortunately, these positive results were offset by an increase in natural catastrophes, poor performance in our Agri-Crop portfolio and higher attritional claims in our CGIC trade credit business. As a result, our Net Underwriting Margin declined to 0.4% in 2019 (5.3% in 2018), which is below our targeted 4% to 6% Net Underwriting Margin.

Gross Written Premium Growth

We delivered solid GWP growth of 10.9%, driven by strategic partnerships concluded in 2018. iWYZE, our direct insurance division, achieved 15.7% GWP growth and continues to gain market share. Our Specialty division, which includes our corporate property, marine and engineering portfolios, delivered strong growth of 17.4%.

Improving our customer and intermediary service

Our focus on improving customer and intermediary service was shown in the improved net promoter score (NPS) of 50.2% (33.9% in 2018) recorded in the most recent South African Customer Satisfaction Index (SA-CSI). We were also awarded the Sunday Times Top Brand award for the Consumer Short Term Insurance category. These awards and an improvement in our internal customer metrics are testament to the hard work that has gone into putting customers first in everything we do.

Improvement in Gross Underwriting Result

The Gross Underwriting Result is a useful metric to determine the quality of underwriting before taking into account the risk mitigation impact of reinsurance. Old Mutual Insure improved its Gross Underwriting Result to 6.0% of GWP (1.8% in 2018). Over the last three years we focused on remediating our book by reducing our exposure to possible large losses. We also recorded a significant drop in large claims in both our Corporate Property and Commercial portfolio to 2.1% of GWP in 2019 (10.5% in 2018) as a result of the hard work done in these areas. We will continue focusing on disciplined underwriting as our foundation for sustainable success.

Net underwriting

Our net underwriting results were significantly lower with the Net Underwriting Margin slipping to 0.4% (5.3% 2018). This was due to natural catastrophes, poor crop performance and the impact of a tough economy on CGIC.

Natural catastrophes

The higher number of natural catastrophe events registered during the year included fires at Betty's Bay, hailstorms at Newcastle and Ladysmith, as well as April flooding in KwaZulu-Natal. November and December featured heavy flooding in KwaZulu-Natal and Centurion. The impact of these natural disasters on our financial results again highlights the industry's exposure to weather patterns and natural disasters. Collectively, the impact of these events reduced our Net Underwriting Profit by R140 million in 2019.

Agriculture

Our Agri-Crop business struggled in 2019 due to severe frost and hail damage to crops. The combined net value of these claims amounted to R90 million after taking into account the quota share and stop loss recovery.

CGIC

As a result of load shedding and GDP contraction, trade credit was severely impacted in Q1 and Q2 of 2019 and CGIC reported a loss of R54 million at half year. We were pleased that in the second half of 2019, the CGIC team generated sufficient profit to deliver an overall profit for the year of R51 million (R102 million in 2018) for the business. This effort was highly commendable given the overall market conditions, which resulted in some competitors choosing to exit the trade credit business in 2019.

Underwriting costs

Our overall cost ratio increased to 15.4% (15.1% in 2018). These were driven mainly by:

- the costs of moving to a new head office;
- removal of administration fees previously charged to policy holders;
- fees incurred by moving to a collect direct strategy for premiums; and
- provision for losses from Insure Group Managers.

Underwriting highlights

Some businesses were able to record strong performances despite the overall downturn. These included two notable achievements:

- iWYZE sales grew by a strong 15.7%, with its new products well received by the market. iWYZE also achieved an Underwriting Profit Margin of 8.8%.
- Specialty division's net underwriting result improved significantly. From a loss in 2018, the division achieved a Net Underwriting Margin of 6.3% in 2019.

Communities

We prioritise making positive impacts in the communities we operate in, with a particular focus on financial inclusion, education and responsible investment. During the year, Old Mutual Insure invested R700 000 in Consumer Education Initiatives based on Old Mutual's On The Money 'OTM' Programme, which teaches South Africans how to manage their finances. In partnership with The Mutual Foundation, Old Mutual Insure's Corporate Social Investment (CSI) department invested R437 000 in providing healthy and safe Concretex Eaziflush toilets for rural Eastern Cape primary school goers. Old Mutual Insure also joined forces with the Nelson Mandela Education Programme and Soul City Institute to donate two Mobile Libraries, valued at R500 000.

Our Nakelela Week, meaning 'to care or to nurture something or someone' in isiXhosa, is a week where employees partner with local charities to do good. Employee teams engage with their local charitable organisations to determine their needs, then present plans and budgets to the CSI team for assessment. In 2019, our CSI department supported 17 approved projects spread across the country.

The way forward

We recently completed a strategic review of our business, which we split into two components, being Retail and Corporate and Niche.

Retail

Our Retail business will comprise our intermediated personal lines and SME commercial portfolio, as well as iWYZE, our direct business. For Retail to compete effectively, we must lower our costs and improve service levels by focusing on operational excellence.

Retail is focussing on diversifying its distribution channels and products, while leveraging data and technology to drive efficiency, pricing and risk selection. We will also be focusing on enhancing off-platform business by partnering with our key stakeholders.

Corporate and Niche

Our Corporate and Niche business includes Specialty, MFRF (Mutual and Federal Risk Financing) and CGIC (Trade Credit), which are focusing on delivering customer intimate solutions.

The Specialty division has taken on our complex commercial portfolio in addition to corporate property, marine, engineering and travel insurance. This division will prioritise developing a market leading underwriting practice, supported by optimised reinsurance structures. Performance will be driven by fit-for-purpose IT solutions that allow us to enhance risk management and improve customer and partner experiences. We are diversifying and scaling our specialist lines of business by growing our engineering, marine, travel and liability lines.

Our risk financing business (MFRF) is creating an environment that allows entrepreneurs to thrive. MFRF is achieving this by reducing the compliance and regulatory burden on the cell and introducing the high level skills to mould solutions that suit the needs of the cell owner. We are leveraging specialist skills from across the Group to offer underwriting, product, systems and claims support to the cells.

The strategic review has identified further areas of improvement that we are committed to delivering in the ongoing turnaround and growth of Old Mutual Insure.

In closing

2019 was my first full year as MD of Old Mutual Insure. It was a year in which we have made significant progress in strengthening the core of our business within a difficult economic environment. I would like to take this opportunity to thank the Board for their support and guidance over the last 12 months. I also thank our former Chairman, Mike Ilsley, for his contribution to Old Mutual Insure and for his support and counsel. Mike will stay on our Board until later this year to ensure a smooth transition over the year-end financial and regulatory reporting cycle for Steffen Gilbert.

To all the staff of Old Mutual Insure – thank you for contributing to our 2019. It was a year in which we all worked extremely hard and have much to be proud of. Our journey to complete the turnaround of Old Mutual Insure continues and I know you will all continue to work even harder in 2020 to ensure we can "Do Great things everyday" for our customers, partners, employees and communities.

Business model

HOW WE DO BUSINESS

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

PROFITABLE GROWTH

- Revitalised distribution approach
- Product upgrade in Personal Lines and Commercial Lines
- Deliver on our direct strategy
- Restore the quality of our core commercial book
- Continuously improve/enhance claims processes
- Optimise procurement and cost-efficiency leadership
- Pursue inorganic growth opportunities and build on initiatives implemented in 2018.

INCREASE AND DIVERSIFY OUR LINES OF BUSINESS

- Increase and diversify Specialty and CGIC's lines of business
- Optimise reinsurance structures to build long-term partnerships with reinsurers
- Disciplined underwriting combined with systematic improvement in the quality of the risk pool.

IMPROVE CUSTOMER AND INTERMEDIARY EXPERIENCE

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

INVEST IN PEOPLE AND TALENT TO SUPPORT OUR BUSINESS INITIATIVES

- Win the war on talent
- Leadership and culture.

OUTPUTS → OUTCOMES

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

DEFINING CONCEPTS

- **Market-leading** service proposition
- **Easy to do** business with us
- Deliver **differentiated and distinctive** customer experiences
- **Efficient** use of capital
- Upper end of **4% – 6% underwriting margin**
- **Sustainable growth** within our risk appetite
- Increased **market and portfolio understanding**
- **Data-driven** decision-making culture
- Improved decision-making **speed and accuracy**
- Higher **agility**, **faster** turn-around times and **high-volume change**
- Change delivered where it will have the **highest impact**
- **Efficiency** and **cost reduction**
- People are transformed, energised and able to deliver the **exciting upcoming growth phase**
- **Empowerment** of young leadership talent.

10.9% **GWP growth rate** (2018: 6%)

50% **Improved NPS** (2018: 33%)

36.3% **Improved NES** (2018: 24.75%)

18.5% **OSTI Complaints (excluding iWyze) overturn cases** (2018: 20%)

Winner of the 2019 Sunday Times Top Brand Award – Consumer category

Second place in the annual 2019 SAMBRA Awards for contribution to sustainability in motor body repairs

Third place in the 2019 Orange Index Customer Satisfaction Awards

Number one in Treating Customers Fairly in the customer intermediated segment as measured by SAcsi

03

OUR VALUE CUSTODIANS

Working together

Co-operation, support and unity are the driving force behind a team that works together.

Alliances, partnerships and teams are key to the link that needs to be in place for us to keep rising to the challenges in the industry. From our Board through to our Executive committee and the employees at Old Mutual Insure, our message must be understood and presented to form a united position that talks to the heart of what we do each day.

The links symbolise connecting and can form a never-ending chain of collaboration.

Executive leadership

Garth Napier (40)
Managing Director
Qualification: MBA, B.Comm Acc (Hons)
Appointed: 1 November 2018
Skills, expertise and experience: Extensive retail, consumer behaviour and stakeholder management experience.

Nokuthula (Thuli) Manyoha (36)
Financial Director
Qualification: CA(SA), B.Comm (Fin Acc), B.Comm Fin Acc (Hons)
Appointed: 1 January 2018
Skills, expertise and experience: Accounting and financial management.

Soul Abraham (34)
Chief Executive: Retail
Qualification(s): BSc Honours (Actuarial Science), Post Graduate Diploma in Leadership
Appointed: 1 January 2020
Skills, expertise and experience: Short-term insurance and actuarial.

Charles Nortje (59)
Chief Executive: Credit Guarantee Insurance Corporation (CGIC)
Qualification(s): Bachelor of Commerce, Bachelor of Accountancy, CA(SA)
Appointed: 1 August 2013
Skills, expertise and experience: Corporate risk services, as well as credit and political risks expertise.

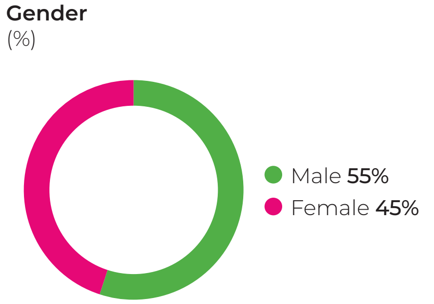
Hennie Nortje (56)
Chief Executive: Claims
Qualification(s): MCompt, CA(SA)
Appointed: 1 February 2017
Skills, expertise and experience: Extensive experience in life insurance and short-term insurance operations.

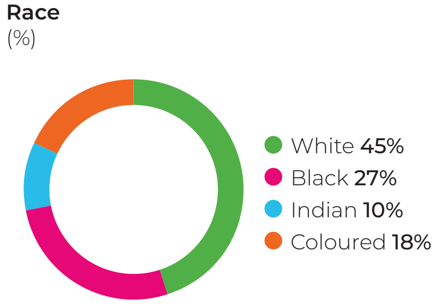
Ludwyn Lortan (42)
Chief Information Officer
Qualification(s): BCom (Information Systems & Insurance and Risk Management)
Appointed: 21 November 2019
Skills, expertise and experience: Banking, insurance and technology.

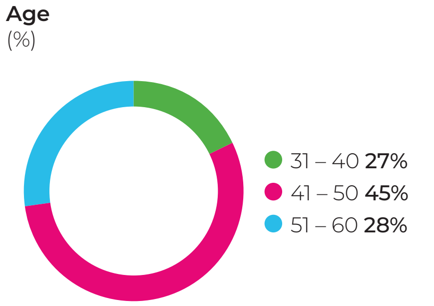
John Nienaber (47)
Chief Executive: Specialty
Qualification(s): BA LLB
Appointed: 1 July 2016
Skills, expertise and experience: Extensive experience in insurance.

Lisa Pines (51)
Chief Actuary
Qualification(s): BSc (Actuarial Science), Fellow of the Actuarial Society of South Africa (FASSA), ASSA Practising Certificate Short-term Insurance
Appointed: 1 September 2017
Skills, expertise and experience: Actuarial, capital, risk and insurance.

Liziwe Masoga (47)
Executive: People & Brand
Qualification(s): Doctorate Consulting Psychology
Appointed: 1 January 2015
Skills, expertise and experience: Human resources, business transformation and consulting.







Thabile Nyaba(45)

Chief Risk Officer

Qualification(s): Certified Risk Management Professional (CRM Prof), Certified Internal Auditor (CIA) and BTech Cost Management Accounting

Appointed: 1 January 2018

Skills, expertise and experience: Governance, Risk and Compliance (GRC), auditing and combined assurance.

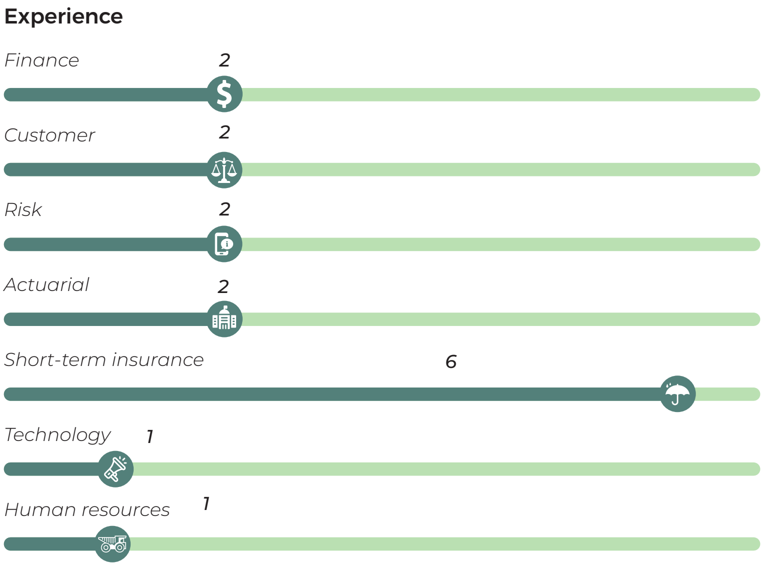
Susan Dalby(49)

Chief Operations Officer: iWYZE

Qualification(s): Business Management Degree, Master of Business Administration (MBA)

Appointed: 1 March 2016

Skills, expertise and experience: Business continuity and customer management.



Board of directors

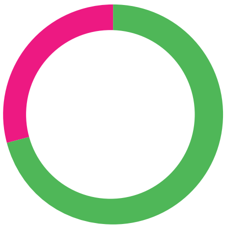
The Old Mutual Insure Board structure was optimised during 2018 in line with the Board succession plan, as well as regulatory and governance requirements in respect of Board size, composition, knowledge and skills.

Old Mutual Insure has completed the Board restructure, including the appointment of a lead independent director as recommended by the King IV™ Code, Prudential Governance and Operational Standards for Insurers, Old Mutual Insure Board Charter and Old Mutual Limited Group Governance Framework.

Board composition, mix and experience

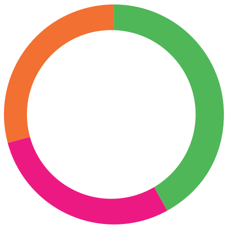
The experience of the Board of Old Mutual Insure is as follows:

Gender
(%)



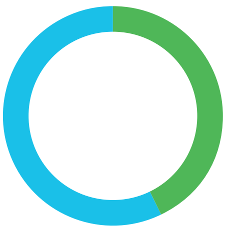
- Male **71%**
- Female **29%**

Race
(%)



- White **42%**
- Black **29%**
- Indian **0%**
- Coloured **29%**

Age
(%)



- 31 – 40 **43%**
- 41 – 50 **0%**
- 51 – and above **57%**

Steffen Gilbert (57)

Chairman – Independent non-executive Director

Qualification: FIA

Appointed: 1 September 2019

Skills, expertise and experience: Actuarial, Strategy and Customer Related.

Nokuthula (Thuli) Manyoha (36)

Financial Director

Qualification: CA(SA), B.Comm (Fin Acc), B.Comm Fin Acc (Hons)
Appointed: 1 January 2018
Skills, expertise and experience: Financial and Strategy.

Gary Steven Palser (63)

Lead Independent non-executive Director

Qualification: B.BusSc (Hons), FASSA
Appointed: 1 March 2014
Skills, expertise and experience: Financial, Risk and Actuarial.

Garth Napier (40)

Managing Director

Qualification: MBA, B.Comm Acc (Hons)
Appointed: 1 November 2018
Skills, expertise and experience: Strategy and Customer Related.

Thandeka Pamela Zondi (38)

Independent non-executive Director

Qualification: CA(SA), B.Comm Acc (Hons)
Appointed: 1 June 2018
Skills, expertise and experience: Financial and Strategy.

Mark Scharneck (58)

Independent non-executive Director

Qualification: CA(SA), B.Acc
Appointed: 1 June 2019
Skills, expertise and experience: Financial, Operations and Customer Related.

Michael Gerald Ilsley (57)

Non-executive Director

Qualification: CA(SA), B.Comm, B.Acc
Appointed: 1 April 2018
Skills, expertise and experience: Financial and Strategy.

04

HOW WE PROTECT VALUE

Protection

We are responsible for the shelter and defense of our clients.

Our customers' needs are evolving at a rapid pace and they expect it to be fulfilled effortlessly via a channel of their choice. To remain competitive, we must be agile to continually match the pace of rapidly changing customer expectations

The shield is representative of our commitment to insuring our clients' lives – be it their businesses, families or prized possessions.

How we protect value

Corporate governance and King IV™ statement of commitment

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

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

The Old Mutual Insure Board is satisfied that during 2019, it complied with the GGF, and has applied the King IV™principles on the same basis as the Group. Refer to the full governance report 2019 on our corporate website for the full detail of the application and explanation of King IV requirements.

Leading ethically and effectively

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

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

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

Specific functions have been delegated to committees to assist in meeting the Board's oversight responsibilities.

The roles and responsibilities of each committee are set out in the relevant terms of reference. Each committee will review and assess the adequacy of the terms of reference annually and recommend changes to the Board when necessary. All committees are chaired by independent non-executive directors.

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

Board charter

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

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

Board and Board committee meetings

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

Director	Board	Audit committee	Risk and compliance committee	People, customer and transformation committee
Mr MG Ilsley	4/4			
Mr MP Moyo[1]	1/2			
Ms NB Manyoha	4/4			
Mr GS Palser	4/4	4/4	4/4	
Mr PGM Truyens[2]	2/2	2/2	2/2	
Mr PC Rörich[3]	2/2	2/2	2/2	
Mr GL Napier	4/4		4/4	1/1
Ms TP Zondi	4/4	4/4	4/4	1/1
Mr MA Scharneck[4]	2/2	2/2	2/2	
Mr SC Gilbert[5]	1/1			1/1

[1] Mr Moyo resigned 27 June 2019
[2] Mr Truyens resigned 31 May 2019
[3] Mr Rörich resigned 31 May 2019
[4] Mr Scharneck was appointed 1 June 2019
[5] Mr Gilbert was appointed 9 December 2019 and attended one Board meeting as an observer

Corporate governance

Old Mutual Insure has adopted the Old Mutual Limited Group Governance Framework (GGF) and its principles, incorporating the three lines of assurance governance model.

The GGF contains a suite of various enterprise wide risk policies that have been developed in line with the risk categorisation model. Each of these policies have been developed internally by Old Mutual Limited and approved by the Board. Compliance with each of the risk policies is monitored on an on-going basis and is reported via the bi-annual letter of representation process and also in reports to the Risk Committee.

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

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

The Old Mutual Insure Board has adopted the Old Mutual Limited Board Appointment and Diversity policy to ensure that there is adequate representation on the Board.

Balance of knowledge, skills, experience, diversity and independence

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

The Old Mutual Limited Corporate Governance and Nomination Committee considers the appropriate balance of knowledge, skills and experience, mix of executive, non-executive and independent non-executive directors, as well as the need for a sufficient number of members who qualify to serve on the committees of the Board. As at 31 December 2019, the Board comprised seven directors, five non-executive directors and two executive directors. Of the five non-executive directors, four are independent.

Appointments to the Board are formal and transparent and are a matter for the Board of Directors as a whole. The Board should be appointed (and where necessary, removed) in accordance with the requirements of the GGF, which sets out the size and composition requirements and that meets applicable legal and Memorandum of Incorporation requirements. The Board considers, within the GGF requirements, the following:

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

Board delegation

The Board delegates the day-to-day management of the company to the Managing Director. A formal scheme of delegated authority has been approved by the Board, which clearly sets out the parameters of the delegated authority to take, authorise or approve decisions in respect of specified Business Actions. However, ultimate responsibility rests with the Board.

Board committees

In terms of King IV, the Board of the holding company should assume responsibility for governance across the Group, by setting the direction for how the relationships and exercise of power within the Group should be approached and conducted. 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.

The Board delegates functions to committees to assist the Board in meeting its mandated responsibilities. Formal terms of reference exist for each committee.

The committee chairpersons report back at quarterly Board meetings as to how the committees have carried out their responsibilities. An assessment of the performance of the committees and their members is conducted on an annual basis.

Old Mutual Insure Board committees are set out below:

How we protect value (continued)

Audit committee

The Audit Committee is chaired by Thandeka Zondi, 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, when relevant, group accounting standards. The committee oversees and directs the work of internal audit and considers findings by the function and holds management accountable to address these. The appointment and remuneration of external audit is mandated to the committee, and part of its responsibility is to assess the independence of the function.

Risk and compliance committee

The Risk and Compliance Committee is chaired by Gary Palser, an independent non-executive director. This committee was established to independently review, on behalf of the Board, management's recommendations on risk management, particularly in relation to the structure and implementation of the risk strategy, system of governance, risk management framework and reporting processes, risk appetite limits and exposures, and the overall risk profile of the business.

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

People, customer and transformation committee

During 2019, the Board constituted the People, Customer and Transformation Committee. The purpose of this committee is to ensure that there is a proper focus by Old Mutual Insure itself on the following key business issues:

(a) Ethical health and culture

(b) Stakeholder relationships:

- (i) Employee engagement and transformation
- (ii) Fair treatment of customers
- (iii) Regulatory compliance and responsiveness

The committee is chaired by Thandeka Zondi, an independent non-executive director with the Managing Director and Board Chairperson being members.

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

Remuneration committee

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

Corporate governance and nominations committee

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

Responsible business (incorporating social and ethics) committee

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

Company secretary

The Company Secretary appointed to the Board is Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), a fellow subsidiary within the Group. The OMLACSA representative currently providing secretarial support to the Old Mutual Insure Board is Nontando Khoza. All Directors had unlimited access to Nontando during the year.

Board evaluation

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

Leadership roles

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


OLDMUTUAL
05
MUTUAL INSURE LIMITED
al Report 2019

Trust

As a leading insurance company, we have confidence, faith and hope in a better future for all.

Every successful journey begins with trust and the foundation of trust is honesty and truth. Old Mutual is committed to being open and transparent so that the messages delivered are both clear and understood. Integrity is key to our value chain.

The baobab tree is also known as the tree of life. An icon in the history of Africa where important meetings were held and significant decisions made.

Financial director’s report

Albeit a disappointing result, 2019 has been testament to the resilience, stability and expertise of Old Mutual Insure’s management and employees.

Nokuthula (Thuli) Manyoha *Financial director*

Old Mutual Insure has delivered a marginal result following an unrelenting series of weather-related disasters and severe crop losses in the 2019 season, the core of the business is improving as evidenced through the attritional loss experience.

Albeit a disappointing result, 2019 has been testament to the resilience, stability and expertise of Old Mutual Insure’s management and employees.

Financial results (Rm)

Old Mutual Insure Group	2019	2018
GWP	14,656	13,218
Net claims ratio	64.5%	60.7%
Underwriting margin[1]	0.4%	5.3%
Net earned premium	9,922	9,048
Underwriting results[2]	35	480
Administration expenses	(2,261)	(2,003)
Profit after tax	323	705
Cost: Income ratio (GWP)	15.4%	15.1%

[1] Underwriting margin: Net underwriting result as a percentage of net earned premium.

[2] The 2018 underwriting result and cost base exclude the R70 million negative effect of the accelerated vesting of Quilter and Nedbank shares due to the Old Mutual plc managed separation.

Profit after tax

The decrease in profit after tax was driven by the following:

- Significant catastrophe losses below the reinsurance recovery threshold
- CGIC reduction in profits, largely driven by the poor economic environment
- Crop losses due to large hail and frost claims

The 2019 investment income of R387 million (2018: R459 million) decreased due to reduced cash holdings after the dividend distribution and a reduction in the interest rate.

Premium growth

While organic growth in our intermediated businesses remained challenging, good topline results from strategic partnerships, treaty reinsurance agreements and MFRF exceeded targets. iWYZE recorded strong growth in highly competitive market conditions for non-intermediated general insurance players. Our trade credit business (CGIC) continued dominating its market position with close to 80% market share. Several competitors have exited this line of business. CGIC reported satisfactory topline growth despite the low real annual gross domestic product (GDP) growth, which is directly linked to CGIC’s gross written premium (GWP).

Underwriting profit

Old Mutual Insure continued its performance turnaround journey of the past 24 months, with profitable growth being built on several key strategic pillars.

- Over the past two years the Commercial business unit invested largely in acquiring market-leading underwriting skills. Group underwriting policies are linked to restricted underwriting capacity to promote portfolio improvements in profitability.
- Our Personal lines business unit competes in the most competitive sector of the short-term insurance industry. Price is often the main driver for new business, which, coupled with a challenging economic environment, translates into tough trading conditions. The personal business unit has consolidated its market position and has stabilised its profitability over the past three years. This has been achieved primarily by improved claims procurement and process enhancements that have

managed to keep average claims costs at 2016 levels. In addition, we have focused on building a straight through processing capability to improve our customer experience.

- Our Specialty business unit results were highly pleasing, showing solid traction on its 'Return to Technical' journey. Strict adherence to our revised underwriting philosophy introduced two years ago across all Specialty divisions (Property, Engineering and Marine) has yielded positive results in the gross account.
- The Credit and Bond insurance market experienced a challenging trading environment throughout 2019, brought on by the correlation between business performance and the state of the economy. This informs the gross written premium growth for the 2019 year of 4.7%.

Old Mutual Insure's key challenges are:

- higher frequency of catastrophe events, driven by the accelerated pace of climate change;
- increasing reinsurance costs; and
- new market entrants, particularly 'insuretech' players, placing pressure on traditional players through innovative and low-cost operating models.

Investment returns

Old Mutual Insure's investments consist primarily of interest-bearing money market instruments and a protected equity portfolio. The average investment return on money market instruments during the year was 8.5% compared to 8.7% in 2018. Dividend income was in line with expectations. Investment returns decreased from the prior year mainly due to the implementation of IFRS 16. Investable funds are invested in assets that maximise the returns earned relating to funds in excess of the minimum capital requirement, while remaining within the stated risk appetite and adhering to set constraints.

Acquisitions and disposals

Following the pending disposal of our Helen Joseph building in the Johannesburg CBD, the Old Mutual Insure head office was relocated to premises at Wanooka Place in Parktown from June 2019.

Capital expenditure projects in 2019

A material contributor to additional capital expenditure during 2019 was the relocation costs of the move to Parktown. The total capital expenditure of the move was approximately R125 million and included office furniture and fittings, office equipment and IT related costs. These costs enabled employee occupation of the new building and included the transfer of connectivity, telephony systems and other IT related systems.

Net finance cost and debt repayment obligations

In 2017, the JSE Securities Exchange granted approval for the listing of the Old Mutual Insure unsecured subordinated callable notes programme. This allowed for the listing of R1 billion in notes, of which R500 million was issued. The notes are 10 years notes, not callable for the first five years and priced at JIBAR plus 209bps. The interest payment has not significantly changed from 2018.

All interest payments due to debt holders to date have been paid. This programme has been consolidated into a larger Group (Old Mutual Limited) programme.

Expenses

Administration expense growth was well contained despite incurring additional costs related to the relocation of our head office building. Higher direct channel administration costs were caused by pursuing opportunities and the cost of writing new business. This increase compares favourably with a higher level of new business premium being written.

Increasing regulatory compliance costs continue adding significantly to our expense base. Transformational changes required by the introduction of IFRS17 will add new challenges in terms of data, business processes, systems and resources. Old Mutual Insure continues to seek more innovative and cost-effective ways to comply, while still meeting short-term shareholder profit expectations.

An upgrade of our policy administration system was successfully implemented in December 2019. We have adopted a staggered approach due to the high costs and time required for full implementation.

Margins in the industry remained under pressure, while we sought to balance profitability against investing into business initiatives that will deliver real returns.

Commission and service fee payment levels are subject to regulated caps and other regulatory requirements. The cost of these fees is included in the premium or other product charges and is subject to explicit disclosure to the customer regarding quantum and purpose of the fee. We continued working to reduce internal costs associated with third-party service providers.

We also drove cost reductions for service models through process enhancements and channelling broker administration through apps and MyOMInsure. Old Mutual Insure invests significantly into making the lives of our customers easier by delivering customer experiences that meet and exceed their expectations.

Managing our risks

Inherent risk always exists, evidenced by the higher-than-average frequency and severity of natural catastrophes experienced in this period. Applying a responsible and disciplined underwriting approach, combined with class-leading claims management and service, creates a strong performance foundation to buffer the results from short-term large claim fluctuations.

Alongside our reinsurance brokers and reinsurers, we review the frequency of losses caused by natural perils and the volatility this represents. We consider revisions to structures purchased based on managing the volatility of a larger frequency of smaller events. The cost of claims arising from natural perils is, however, not an isolated reinsurance consideration. We simultaneously consider the level of pricing that should support trends in the frequency of natural catastrophes.

Financial director’s report (continued)

Old Mutual Insure’s Reinsurance philosophy is based on four main pillars:

- Alignment of results with reinsurers and managing volatility
- Long-term strategic partnership
- Continued portfolio refinement
- Sharing of Intellectual Property.

Alignment of results with reinsurers and managing volatility

Our reinsurance purchase was based on a more equitable balance between the ultimate performance of Old Mutual Insure and that of our reinsurers. In addition, this purchase will continue to manage the volatility of large losses and catastrophe losses.

Long-term strategic partnerships

We value long-term strategic partnerships and are committed to working with reinsurers who have walked the journey with us through the years. We are aiming at a reinsurer panel that represents reinsurers who support our reinsurance philosophy and provide additional capacity.

Financial position

Old Mutual Insure’s directors assessed the cash flow position of the business on a forward-looking basis for the period until 2020 to establish ourselves as a going-concern. Our cash flows are projected and managed based on the prior year business plan and we remain a going-concern with sound cash flow tracking.

Our Group capital target is 1.2 times using the Solvency Assessment and Management (SAM) Deduction and Aggregation capital requirement. Our company target is 1.3 times the solvency capital requirement. This implies that the Group holds an additional buffer over and above a 99.5% confidence level. Old Mutual Insure’s capital is allocated to subsidiaries and lines of business based on a combination of the risks associated with each line of business and the SAM capital requirements for each line of business or subsidiary. Return on equity targets are set at 17% to 20%. Investment allocation and reinsurance programmes are largely based on the company’s risk appetite and decisions are made considering the impact on the SAM capital requirements.

Old Mutual Insure, as well as all individual entities, were solvent as at 31 December 2019. Our buffer and capital requirements are lower than those of our stand-alone peers on the basis that we form part of Old Mutual Limited. As such, we remain capital light and leverage off a strong parent company balance sheet. Excess capital will be held in Old Mutual Insure if any of our subsidiaries fall below target.

Our approach to dividends

The company’s dividend policy is to consider an interim and a final dividend for each financial year. At its discretion, the Board of Directors may consider a special dividend. For the 2019 financial year, the Board of directors did not recommend the approval of any dividend (2018: R381 million).

Old Mutual Insure specifies a target solvency cover range (specified annually in the risk appetite statement) and will generally pay dividends to maintain the target required solvency cover ratio. Maintaining a target solvency cover range will also take account of the following factors:

- capital required over the planning horizon to implement the business strategy; and
- liquidity available currently and over the planning horizon in excess of the minimum required liquidity.

Divisional performance

Commercial, personal and distribution

Garth Napier

Overview

Our largest business unit distributes a wide spectrum of products through the independent intermediary network to retail, small and medium enterprises, as well as our corporate customers. Insurance cover is provided for loss or damage to movable and immovable property, as well as risks associated with ownership of the insured assets. We also extend cover to operational risks such as business interruption.

Commercial, Personal and Distribution (CPD) also offers insurance products and services to agricultural customers for farming equipment, infrastructure and protection of crops.

CPD's distribution channel combines the intermediary channel, direct channel and Old Mutual channel to enable customers to access and purchase products in the most efficient way for the business. These operations are primarily broker-led, with 96% of policies and 97% of premiums actioned through the intermediary channel. The Old Mutual Group channel provides access to the broader Old Mutual customer base.

The CPD business has set up regional underwriting "centres of excellence" throughout a network of 32 branches, with central oversight over delegated underwriting authorities. Underwriting and sales functions are maintained separately.

2019 Performance

More than 400 system enhancements to the MyOMInsure platform over the reporting year were driven by feedback from the intermediary market. These developments grew system capability, significantly improved the user experience and underpinned CPD's improving performance. Despite several catastrophe events with a net value of R130 million, our profit variance improved due to an improved loss process following extensive improvements in the risk pool, supported by other remedial actions.

Commercial lines and Agricultural assets

The commercial lines segment reported an underwriting margin of -3.9% for the year relative to the prior year margin of 2.7%. Organic gross written premium growth in the intermediated segment remains muted, while initial growth targets were exceeded due to strategic initiatives concluded in 2018.

Personal lines

Gross written premium growth of 9.6% (Elite contributed 3.5%) is satisfactory, while the reduced net underwriting ratio of 0.6% (2018: 11.6%) was mostly driven by the catastrophe losses.

Although the net contribution from catastrophe claims to the loss ratio was 2.5% higher in 2019 than the prior year, the catastrophe experience is considered to be in line with the 10-year average experience. The 10-year average was however significantly increased by the catastrophe experience in 2017. The attritional loss experience when compared to the prior year is 4.3% higher, but shows a significant improvement when compared to the 10-year average. The favourable attritional loss experience in 2018 (approximately 4% better than average) was not expected to continue into 2019.

Opportunities and challenges

Climate change and widespread poor maintenance of infrastructure has increased our risk exposure.

The underwriting result for both personal and commercial lines were impacted by catastrophe events, which included severe storms and floods across the country. Bucking the trend was underwriting performance of the commercial property class, which recorded a reduced incidence of large property fire claims when compared to the previous year and the 10-year average.

Higher catastrophe and other claims strained Old Mutual Insure capacity, which reduced underwriting margins.

Strategy

Old Mutual Insure is distinguished by the ease of doing business with us. To safeguard our distinct market presence, CPD articulates specific areas for differentiating ourselves to our brokers and clients. We are further differentiating our approach through specific Client Value Propositions aimed at each segment's needs, opportunities, and risks.

We prioritised the restated segmentation approach for optimal resource utilisation, supported by new rules on quantifiable returns and cost and waste reduction.

Distribution will be transformed from a largely intermediated model to omnichannel capabilities through a revised structure planned for 2020.

Divisional performance (continued)

Specialty

John Nienaber

Overview

This business unit offers specialist insurance cover to corporate customers and includes individual risk selection and risk pricing. Cover is provided on a non-standard basis and requires specialist intermediaries to advise customers. Solutions exist for corporate property, engineering and marine risks. Old Mutual Insure's underwriting management agencies also form part of this business unit and services, among others, the heavy commercial vehicle industry. Other than our Travelsure personal product, all our business products are intermediated.

Mutual & Federal Risk Financing (MFRF) is the Group's registered cell captive insurer, offering first and third-party insurance facilities to corporate customers, affinity groups, corporate retail customers and niche insurance administrators. MFRF retains limited underwriting risk and primarily earns fee-based income. It is wholly-owned by Old Mutual Insure and outsources its operations and all the control functions to Old Mutual Insure. It does however, have a separate insurance license, within which external companies (cells) operate ring-fenced funds to finance their insurance requirements (first-party cells) or those of their business clients (third-party cells).

2019 Performance

Specialty reported a net underwriting profit of R51,4 million, which is above the budgeted R49,5 million and a significant improvement from the prior year loss of R46,4 million. The engineering segment contributed meaningfully to this result by achieving a net underwriting profit margin of 27% (Actual: R31,6 million) versus a planned profit margin of 18.5% (BP: R18,9 million; PY: R36,3 million). Remediation of the corporate property portfolio is continuing in line with a stricter underwriting process and risk appetite. The result for the year is a profit of R4,8 million, which is a vast improvement on the prior year results (2018: -R58,3 million). Total gross written premium growth for Specialty was 17,4% and is 15% above the planned growth target.

Operating highlights for FY2019 include:

- We expanded our capacity in risk management and surveying to improve risk selection and client risk tracking.
- Underwriting actions. These included implementing premium rate increases and reducing exposure to certain types of risks.
- Our strategic partnerships with Transition Risk Solutions and Sintelum are progressing well and we exceeded growth targets for these initiatives.

The **MFRF** business reported a solid performance throughout the year, resulting in a significant increase in our net profit before tax (R25 million) compared to R12 million reported in 2018.

Contributing factors:

- Gross written premium increased by 13,1%.
- Investment income decreased by 16,6% mainly due to the disinvestment made from money market investments to pay dividends.
- The fee income reported increased by 14% as a result of revised fees charged, new business and the cells introducing new products.

Opportunities and challenges

Growth in 2019 was hampered in Specialty due to the contracted state of the construction industry and the impacts of the economic downturn. In corporate property the availability and cost of facultative reinsurance proved challenging but despite this, results have been stabilised. The lack of scale in marine, engineering, travel and casualty creates opportunities for partnerships and product development in the year ahead.

Strategy

Specialty

- Profitable growth and diversifying the Specialty business with a continued focus on non-organic opportunities.
- Continued underwriting actions, appropriate risk selection and stringent risk management to ensure a sustainable return to profitability.
- Negotiate appropriate treaty reinsurance contracts to ensure maximum protection of volatility as well as maximum commission returns. We will also secure facultative reinsurance markets through engagements and evidence of corrective actions taken.

MFRF

- Pursue a strategy of customer intimacy to continually shape products and services to fit an increasingly fine definition of the customer.
- Build capabilities that can be offered to the end client to increase income and product offerings.
- Upskill existing employees.
- Continue to build strategic partnerships that can contribute to MFRF and Old Mutual Insure.
- Partner/collaborate with tech companies to provide ready-made solutions to potential clients.

iWYZE

Susan Dalby

Overview

Since 2010, iWYZE has enabled Old Mutual Insure to engage directly with customers. The iWYZE direct distribution channel allows Old Mutual Insure to dynamically respond to the changing needs of customers and outcompete other direct insurers.

iWYZE has a comprehensive product range based on personal insurance. Products include car, home, all risk, medical gap, personal liability and hospital cash plans. Our product range is continuously being developed and will soon include business insurance and legal cover. Insurance products are supported by a range of value-added services that include 24/7 home and roadside assistance.

The 148 000 iWYZE clients are supported by 414 employee members that are based in the Old Mutual Insure Wanooka office in Parktown, Johannesburg.

2019 Performance

Total Gross Written Premium for 2019 was R1 billion, a 15.7% increase over the previous year. A comprehensive focus on claims cost and management expenses enabled an improvement in the underwriting profit of R81 million. Operational highlights included:

- Ongoing investment in customer service levels that manifested in excellent Ombudsman performance, with only 23 referred claims overturned. This confirms fair and proper policyholder outcomes for the 37 500 claims received.
- Leveraging improved processes continued to deliver productivity improvements. This is evidenced by the 4.5% growth in employee numbers over the last four years that has delivered 28% growth in administered policies.
- IWYZE became the first South African insurer to use drone technology for assessing accident damage.
- Improvements in employee safety and the work environment. The move to the Wanooka office complex benefits current iWYZE employees and positions the business to attract key talent that was previously reluctant to travel to downtown Johannesburg.

Opportunities and challenges

The 2019 iWYZE performance was delivered against a challenging economic environment and costly weather-related losses. Continued low economic growth, high levels of unemployment and crime will continue to pressure growth and our profitability. These challenges also hold opportunity, motivating the iWYZE team to continue seeking ways to offer insurance solutions at highly attractive premiums. Key drivers are to reduce costs, spread and diversify exposure to risk, judicious use of reinsurance and heightened productivity.

Strategy

The iWYZE strategic goals are aligned to support top- and bottom-line growth as well as improve customer centricity. Our goals include:

- Further modernising the customer experience
- Expanding digital capabilities
- Developing and delivering new products
- Maintaining focus on improved operational excellence

During 2019 iWYZE made significant progress on all fronts, as evidenced by our strong financial and operational performances. The business has set challenging targets for 2020.

Divisional performance (continued)

CGIC

Charles Nortje

Overview

CGIC is the leading trade credit insurance company on the African continent. We insure our clients (policyholders) against payment default by their customers (buyers) when goods and services are sold by our clients on credit terms. Buyers include South African domestic companies and buyers located overseas in export markets, resulting in CGIC underwriting risk across 146 countries. CGIC operates in the B2B space and does not offer payment default protection for private individuals.

Trade credit insurance is an important component of supporting trade in the South African economy. Most businesses are unable to operate on purely cash terms, needing time to sell their own products and services before they can pay suppliers. Credit extension has become a necessary part of modern business. CGIC enables trade by providing our clients with complete peace of mind with regard to potential bad debts.

CGIC also offers a range of bond and guarantee products, mainly those needed in the construction sector by principals requiring protection against non-performance by a contractor. Fuel guarantees and customs bonds are ancillary products.

We estimate that CGIC covers close to 20% of the insurable component of the South African GDP. CGIC is thus a major component of the Old Mutual Insure range of products for sustaining and growing the prosperity of our customers.

Our underwriting process is focussed on the credit quality of the buyers on which we offer cover. We perform comprehensive assessments of buyer financial statements, market standing, past payment behaviours and management quality, among other factors.

Our more than 4 000 clients transact with a combined 150,000 buyers with total risk exposure on our books of R340 billion. We employ 280 professional employees headquartered in Johannesburg, supported by a regional presence in Durban and Cape Town. At the core of our distribution network are 50 intermediaries with specialist trade credit and risk management skills.

2019 Performance

Over the past year we achieved GWP of R1,219 billion, with growth on the prior year at 4.7%. Net earned premium was R896 million posting growth of 8%. Underwriting profit was R51 million being a 50% reduction on the prior year, reflecting weak economic conditions.

Opportunities and challenges

CGIC's market share in South Africa is above 75% and we were impacted by the subdued financial performance of the broader credit environment in South Africa. The country recorded GDP growth for 2019 of less than 1%, with four out of the last seven quarters reporting negative GDP growth. Low business confidence and the high rate of distressed companies and business failures resulted in numerous claims. The construction sector was at the epicentre, with several high profile companies going in to business rescue. Several major businesses in the steel sector also went into failure. During the year, our largest competitor in trade credit closed its doors citing unmanageable economic headwinds and underwriting losses.

Our Domestic Credit and Bond portfolio weathered the brunt of these challenges, while our Export Credit portfolio performed strongly. Storm clouds are however, gathering on the international horizon, which is dark with trade wars, uncertainties around Brexit, regional conflicts and slowing growth in the world's major economies, along with generally rising debt levels.

CGIC continues to weather the storm through cautious underwriting and a strengthened risk-sharing philosophy with our policyholders. Business successes include our support throughout the restructuring of a large national retail chain that preserved over 100,000 jobs. We also participated in several other important business rescues. Our greatest success however, lies in enabling trade and managing risk every day for our clients, as they seek to grow and prosper in a challenging environment.

Strategy

CGIC aspires to remain the foremost trade credit insurer in Africa and the clear first choice of our customers. We intend retaining and building on our lead in the market with the support and footprint of our majority shareholder, Old Mutual, and strategic equity partner Atradius, which is a dominant global player present in more than 50 countries.

We are deeply conscious of our social responsibility for promoting growth and preserving jobs in our home market, South Africa. At the time of writing, we are seized with our role in the much needed restructuring of State Owned Enterprises such as SAA and Eskom, with spillover risks to the rest of the economy.

In so doing we sustainably provide for the needs of all our stakeholders and generate acceptable returns on capital. We intend entering into adjacent spaces through business turnaround consulting skills and working capital finance packages. These will take us closer to our vision of "Beyond Credit Insurance".

In closing

In these uncertain times we have seen competitors enter our market and expand rapidly, only to contract just as rapidly and withdraw from the market a short time later. CGIC has a stable track record of more than 60 years in sustainable credit insurance and risk management solutions, and an enviable reputation to uphold. We will continue building on our solid foundations.

People and brand

Liziwe Masoga

Overview

Our corporate culture

Old Mutual Insure believes organisational culture drives business outcomes and accelerates performance.

In 2019, our Managing Director continued prioritising engagement with leadership and employees, supported by new employee onboarding and organisational reward systems.

2019 Performance highlights

- Plans for implementing the Workday Human Capital Management solution are on track, causing excitement by this technology's potential to transform how we engage with leaders and employees.
- Implementing Phase 1 of the Zoom project led to four Old Mutual Insure head office employees gaining opportunities to work at Group level.
- Our ongoing transformation led to the Group being rated a level 4 contributor. This is the first time Old Mutual Insure has achieved this level of transformation across all elements, although the category 'access to financial services' remains a challenge.
- Some 59 graduates received invaluable work experience through positions at Old Mutual Insure.
- The Junior Board was created to introduce talented black employees to the business value chain.

Our 2019 HR focus areas:

- Culture and engagement
- Talent
- Transformation

Employee engagement

In 2019, we utilised a tool specifically designed for Old Mutual. This tool considers all feedback received through our Pulse employee engagement survey and focused interviews held across the business.

A new employee engagement model was developed to drive internal cultural change by tracking 13 selected cultural dimensions.

We prioritised engagement between leadership and employees to create a culture of transparency. In this process employees engaged directly with senior leadership on Group strategy.

Attracting, retaining and motivating people

Old Mutual Insure aims to attract, develop, motivate and retain select employees capable of delivering meaningful customer experiences at every moment of the customer journey. Only fully engaged employees will truly understand their roles and uphold consistently high customer service levels.

Succession planning

Our 'Ready Now' initiative helps build a pipeline of leadership and management skills to lead the business into the future.

Health and wellness

The Group's 'We Care' wellness programme has grown from strength to strength over the last few years. 'We Care' empowers employees to cope with life's multiple demands, make healthy lifestyle decisions, and address well-being challenges.

Transformation and B-BBEE

We have prioritised creating an environment that embraces diversity, equity and inclusion. The focus includes working towards having a representative workforce across all levels and creating a culture in which all employees feel a sense of belonging, regardless of their differences. Operating in a South African context means that issues affecting the country will also affect our employees and the company.

Our unprecedented level 4 B-BBEE score reflects our commitment to help transform the entire industry. All pillars on the scorecard displayed exceptional scoring improvement.

06

ANNUAL FINANCIAL STATEMENTS

Value

Our value-creation story is focused on the stakeholder and the return on investments.

We have a fiduciary duty to fulfil our stakeholder expectations of a return on investments and a sustainable future.

The pot, a symbol of holding, gathering and collecting to keep investments and finances secure.

General information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Short-term insurance
Directors	Mr SC Gilbert Mr G Napier Ms NB Manyoha Mr M Ilsley Mr G Palser Mr MA Scharneck Ms TP Zondi
Registered office	Wanooka Place St Andrews Road Parktown
Postal address	PO Box 1120 Johannesburg 2000
Holding company	Mutual and Federal Investments Proprietary Limited incorporated in South Africa
Ultimate holding company	Old Mutual Limited incorporated in South Africa
Auditors	KPMG Inc. Chartered Accountants (SA) Registered Auditors
Secretary	Old Mutual Life Assurance Company (South Africa) Limited
Company registration number	1970/006619/06
Level of assurance	These financial statements have been audited in compliance with the applicable requirements of the Companies Act.
Preparer	The financial statements were internally compiled by: NB Manyoha Chartered Accountant (SA) Old Mutual Insure Limited Financial Director

Contents

Audit committee report

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

1. Composition and charter

The committee comprises three independent non-executive directors of the company. During the year, Mr PC Rörich resigned as chairperson and Ms TP Zondi was appointed as the chairperson. Mr PGM Truyens resigned and Mr GS Palser and Mr MA Scharneck were appointed as members of the committee. The current members are Ms TP Zondi (Chairperson), Mr GS Palser and Mr MA Scharneck. The qualifications of the members of the committee are listed on page 25 of the governance report. The members possess the necessary expertise to direct the committee in the execution of its duties.

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

2. Role of the audit committee

The committee fulfilled its responsibilities as required by the Companies Act and its terms of reference. The committee performed among others, the following functions:

- Reviewed the operational effectiveness of the Group policies, systems and procedures.
- Reviewed the results of the work performed by the internal audit function on financial reporting, corporate governance, internal control and any significant investigations and management's responses.
- Reviewed any other relevant matters referred to it by the Board of Directors.
- Reviewed the quality of financial information included in the annual financial statements.
- Reviewed the financial statements taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and future viability of the Group.
- Reviewed the external auditor's report.
- Discussed any issues and reservations arising from the external audit, and any matters the external auditor wished to discuss (in the absence, where requested by the committee, of executive directors and any other person who is not a member of the committee).

3. Effectiveness of internal financial controls

We have established a combined assurance capability to ensure the collaboration of assurance between the various assurance providers.
The assurance has provided reasonable coverage over the internal controls of the organisation.
The audit committee has confirmed that satisfactory systems of internal control and risk management have been maintained.

There were no breakdowns in the functioning of the internal financial control systems during the year which had a material impact on the annual financial statements. However, we still have some areas of concern and these remain an area of focus for management. The areas are reinsurance, data and technology and third party management.

4. Internal and external audit

The committee ensures the appointment of a registered auditor as external auditor for the company who in the opinion of the audit committee, is independent of the company. The committee approves the terms of engagement and remuneration for the external audit engagement. The audit committee is satisfied that KPMG and the audit partner are independent. The external auditor provided assurance that its internal governance processes ensure, support and demonstrate its independence. KPMG has been the auditors of the Group for forty-nine years and Mr M Danckwerts the audit partner for three years. There were no significant changes in the audit management team from the prior year. The committee is satisfied with the quality of the external audit engagement as evidenced in the audit quality report back to the audit committee. The report included the audit quality governance structure and the results of the monitoring of audit quality.

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

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

5. Meetings

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

During the year, Mr PC Rörich resigned as chairperson and Ms TP Zondi was appointed as the chairperson.

Meetings for the year and attendance thereat are set out below:

Name	19 February 2019	17 May 2019	7 August 2019	31 October 2019
PC Rörich (resigned 31 May 2019	x	x		
PGM Truyens (resigned 31 May 2019)	x	x		
GS Palser (appointed 26 November 2018)	x	x	x	x
MA Scharneck (appointed 1 June 2019)			x	x
TP Zondi	x	x	x	x

6. Expertise and experience of the financial director and the finance team

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

7. Approval of the report

The audit committee reviewed the 2019 report and considered factors and risks that may impact on the integrity of the report and is satisfied that it is prepared in accordance with International Financial Reporting Standards and supported by reasonable and prudent judgements consistently applied. The reports of the capital management and reserving committees to the audit committee were considered in assessing the appropriateness of the judgements made relating to the valuation of insurance reserves and subsidiaries and material asset impairments, if any. The audit committee has also considered the conclusions of independent assurance providers in reviewing the relevant sections of the annual financial statements.

The Group established a combined assurance function in 2018 which was set up to ensure the optimisation of assurance services and functions to ensure the effectiveness of the overall control environment, and provide assurance of the integrity of information used for internal decision making and external reporting. The primary output of this function is ensuring increased collaboration, the sharing of information as well as reducing duplication of assurance activities which has ultimately resulted in improved efficiencies and more effective reporting within the individual assurance functions.

The combined assurance process has been supported by the establishment of appropriate governance structures namely the Combined Assurance Task Team which meets quarterly comprising operational risk and compliance staff and reviews assurance activity planning and execution as well as tracking of progress on remedial actions. The second governance structure that has been established is the Combined Assurance Management Forum comprising heads of departments which is a decision-making body primarily to approve assurance plans. Other key achievements include the establishment of a database of issues from all assurance providers, along with monthly tracking of remedial actions.

Reporting is based on assurance coverage per Level one risk, as defined by the Old Mutual Insure Limited Enterprise Risk Management methodology, and conclusions drawn by the assurance providers per assurance activity.

The committee is satisfied that the arrangements in place for combined assurance were satisfactory throughout the year.

The committee is satisfied that it has fulfilled its responsibilities regarding its terms of reference during the year under review and believes that it complied with its legal, regulatory and other responsibilities.

On behalf of the audit committee

Thandeka Zondi
Chairperson Audit Committee

Directors' responsibilities and approval

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

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

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

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

The directors have reviewed the Group's cash flow forecast for the year to 31 December 2020 and, in light of this review and the current financial position, they are satisfied that the Group has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's financial statements. The financial statements have been examined by the Group's external auditors and their report is presented on pages 52 to 55.

The financial statements set out on pages 56 to 152, which have been prepared on the going-concern basis, were approved by the Board of Directors on 12 March 2020 and were signed on their behalf by:

Approval of financial statements

Authorised Director	**Authorised Director**

Group Secretary's certification

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

Old Mutual Life Assurance Company (South Africa) Limited

Directors' report

The directors have pleasure in submitting their report on the financial statements of Old Mutual Insure Limited and the Group for the year ended 31 December 2019.

1. Nature of business

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

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

2. Review of financial results and activities

The Group and company financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The accounting policies have been applied consistently compared to the prior year, except for the adoption of new or revised accounting standards as set out in note 3.

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

3. Share capital

	Number of shares	
Authorised	**2019**	**2018**
Ordinary shares of 10 cents each	350,000,000	350,000,000

			Number of shares	
	2019	**2018**		
Issued	**R mil**	**R mil**	**2019**	**2018**
Ordinary shares of 10 cents each	32	32	319,823,465	319,823,465

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

4. Dividends

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

The Board of Directors recommend the approval of a dividend of R381,000,000 (2018: R229,000,000). This dividend relates to the 2018 financial year and was approved and paid during the 2019 year.

5. Directorate

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

Directors	Office	Designation	Changes
Mr SC Gilbert	Chairperson	Non-executive Independent	Appointed 1 September 2019
Mr G Napier	Managing Director	Executive	
Ms NB Manyoha	Financial Director	Executive	
Mr M Ilsley		Non-executive	
Mr P Moyo	Group Chief Executive	Non-executive	Resigned 27 June 2019
Mr G Palser	Lead Independent Director	Non-executive Independent	
Mr P Rörich		Non-executive Independent	Resigned 31 May 2019
Mr MA Scharneck		Non-executive Independent	Appointed 1 June 2019
Mr PGM Truyens		Non-executive Independent	Resigned 31 May 2019
Mr TP Zondi		Non-executive Independent	

6. Holding company

The Group's holding company is Mutual and Federal Investments Proprietary Limited which holds 100% (2018: 100%) of the Group's equity. Mutual and Federal Investments Proprietary Limited is incorporated in South Africa.

7. Ultimate holding company

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

8. Events after the reporting period

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infections observed. Further on 23 March 2020 the President of South Africa announced a national lockdown for 21 days, expected to last to 16 April 2020. The rapid spread of the virus has caused significant disruption in global equity markets and the impact of lockdowns in several countries worldwide is expected to reduce GDP growth in 2020, both locally and globally. These impacts associated with this pandemic could negatively impact the performance of the business in 2020 and we are in the process of assessing this impact.

There have been no other material events after 31 December 2019 up to the date of this report.

9. Going concern

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

10. Auditors

KPMG Inc. continued in office as auditors for the company and its subsidiaries for 2019.

11. Secretary

The Company Secretary is Old Mutual Life Assurance Company (South Africa) Limited.

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 56 to 152, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, 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 2019, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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.

Key audit matter	How the matter was addressed in our audit
Valuation of gross claims Incurred But Not Reported (IBNR) This key audit matter relates to our audit of the consolidated and separate financial statements. Refer to accounting policy 1.18, significant judgements and sources of estimation uncertainty note 1.22 and notes 23 and 42	
At 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 IBNR is included in outstanding claims which forms part of the general insurance liabilities financial statement caption. The calculation of IBNR is based on actuarial methods which are subject to inherent uncertainty and significant judgement is required in its determination. In determining the IBNR the group and company used patterns based on past experience and historical claims, adjusted for current year developments, to provide a basis for future development of claims.	The key procedures we undertook to address the valuation of the IBNR provision included: – Together with our actuarial specialists, we evaluated the work of management's actuaries in determining the IBNR. This included: a) independent loss projection for selected classes of business and compared the result to the point estimate determined by management; b) assessment of the appropriateness of the methodology applied in the determination of the IBNR; c) assessment of the reasonability of the key assumptions used; and d) assessment of the overall reasonability of the IBNR.

Key audit matter	How the matter was addressed in our audit
This matter is a key audit matter due to the inherent uncertainty and significant judgements required in the actuarial modelling process.	– We tested the claims development data supporting the IBNR percentages by agreeing the data in the actuarial reports to data on the underlying claims system which was adequately supported. – We tested the design, implementation and operating effectiveness of the control performed by management over the reconciliation of the claims data to the general ledger. – Where insufficient data is available to perform an actuarial analysis on specific business classes, we challenged the method applied by management in determining the IBNR percentages applied to these business classes. – We evaluated the reasonableness of current year IBNR estimates by comparing them to prior years' estimates which we had evaluated as being reasonable based on a retrospective calculation of the actual IBNR.

Key audit matter	How the matter was addressed in our audit
Valuation of the investment in subsidiaries This key audit matter relates to our audit of the separate financial statements. Refer to accounting policy 1.3, significant judgements and sources of estimation uncertainty note 1.22 and note 9	
At each year-end, the company estimates the fair value of its investments in subsidiaries. The total value of the company's investment in subsidiaries is R1,4 billion, as disclosed in note 9. The valuation is subject to inherent uncertainty and significant judgement is applied in deriving the assumptions used in the valuation model. In determining the estimated fair values of the investments in 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 This matter is a key audit matter due to the significant judgements applied in the determination of the fair values of investments in subsidiaries.	Our procedures included: – Together with our valuation specialists, we assessed the key assumptions underlying the fair values of these unlisted subsidiaries by performing the following: a) We tested the inputs into the discounted earnings models by agreeing the inputs to approved business plans of the subsidiaries and assessed the appropriateness of the business plans 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. b) Using independent discount rates and assumptions, we compared our range of determined fair values to those determined by management.

Independent auditor’s report
(continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Old Mutual Insure Limited Annual Report 2019", which includes the Directors’ report, the Audit committee report and the Group Secretary’s certification as required by the Companies Act of South Africa. The 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 and 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 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 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 and company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the group and/or company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Old Mutual Insure Limited for 49 years.

KPMG Inc.
Registered auditor

Per Mark Danckwerts
Chartered Accountants (SA)
Registered Auditor
Director

31 March 2020

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Statement of financial position

as at 31 December 2019

	Notes	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Assets					
Goodwill	4	21	21	–	–
Intangible assets	5	174	162	174	162
Property and equipment	6	249	129	238	120
Right-of-use assets	7	478	–	475	–
Deferred tax	8	41	67	8	46
Investments in subsidiaries	9	–	–	1,426	1,548
Investments in associates	10	79	104	13	13
Loans to share trusts	11	7	7	84	84
Investments in employee share trusts	12	–	–	634	611
Loans receivable		2	1	2	1
Retirement benefit asset	13	221	223	160	160
Deferred acquisition cost	14	243	231	174	158
Reinsurers' share of general insurance liabilities	23	2,112	2,574	1,421	1,553
Deposits with cedants		27	27	–	–
Investments and securities	15	6,561	6,305	3,183	3,516
Amounts due from agents and reinsurers	16	1,744	1,618	1,503	1,270
Subrogation and salvage recoveries	17	569	646	222	275
Non-current asset held for sale	18	257	243	257	243
Current tax receivable		18	122	15	112
Trade and other receivables	19	559	604	274	322
Cash and cash equivalents	20	1,084	1,386	283	343
Total assets		**14,446**	**14,470**	**10,546**	**10,537**
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	21	1,797	1,797	1,797	1,797
Reserves		25	62	90	90
Retained income		2,072	2,162	2,157	2,375
		3,894	4,021	4,044	4,262
Non-controlling interest		287	268	–	–
		4,181	**4,289**	**4,044**	**4,262**

		GROUP		COMPANY	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Liabilities					
General insurance liabilities	23	5,639	6,119	3,641	3,829
Lease liabilities	7	494	–	491	–
Debt instrument	24	500	500	500	500
Deferred reinsurance commission revenue	14	196	186	125	114
Amounts due to agents and reinsurers	16	1,103	514	884	355
Retirement benefit obligation	13	243	254	178	191
Share-based payment liability	25	91	68	80	54
Employee benefits	26	160	213	141	201
Deferred tax	8	41	103	–	–
Deposits owing to reinsurers		239	796	226	672
Amounts payable to cell owners	27	1,119	878	–	–
Current tax payable		8	7	–	–
Trade and other payables	28	432	543	236	359
Total liabilities		**10,265**	**10,181**	**6,502**	**6,275**
Total equity and liabilities		**14,446**	**14,470**	**10,546**	**10,537**

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

	Notes	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Gross written premiums		14,656	13,218	10,660	9,511
Reinsurers premiums		(4,710)	(4,148)	(1,645)	(1,320)
Net written premiums		9,946	9,070	9,015	8,191
Gross change in provision for unearned premiums		(97)	(175)	(79)	(156)
Reinsurers' share of change in provision for unearned premiums		73	153	42	144
Net change in provision for unearned premiums		(24)	(22)	(37)	(12)
Net earned premiums		9,922	9,048	8,978	8,179
Commissions received	29	892	792	376	236
Net income		**10,814**	**9,840**	**9,354**	**8,415**
Gross claims incurred		(9,295)	(8,839)	(6,727)	(5,942)
Reinsurers' share of claims incurred		2,896	3,344	939	1,001
Net claims incurred	30	(6,399)	(5,495)	(5,788)	(4,941)
Acquisition cost	31	(2,096)	(1,932)	(1,588)	(1,351)
Expenses		(2,261)	(2,003)	(1,984)	(1,815)
Operating profit	32	**58**	**410**	**(6)**	**308**
Investment income	33	387	459	326	10
Finance costs	34	(76)	(51)	(76)	(51)
Income from equity accounted investments		49	96	–	–
Profit before taxation		**418**	**914**	**244**	**267**
Taxation	35	(95)	(209)	(94)	(143)
Profit for the year		**323**	**705**	**150**	**124**
Other comprehensive income:					
Items that will not be reclassified to profit or loss (net of taxation):					
Remeasurements on net defined benefit liability/asset		10	6	8	1
Losses on property revaluation		–	–	–	(5)
Total items that will not be reclassified to profit or loss		**10**	**6**	**8**	**(4)**
Items that may be reclassified to profit or loss (net of taxation):					
Exchange differences on translating foreign operations		2	(36)	–	–

	Notes	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Other comprehensive income for the year net of taxation		**12**	**(30)**	**8**	**(4)**
Total comprehensive income for the year		**335**	**675**	**158**	**120**
Profit attributable to:					
Owners of the parent		299	671	150	124
Non-controlling interest		24	34	–	–
		323	**705**	**150**	**124**
Total comprehensive income attributable to:					
Owners of the parent		311	641	158	120
Non-controlling interest		24	34	–	–
		335	**675**	**158**	**120**

Statement of changes in equity

for the year ended 31 December 2019

	Share capital R million	Share premium R million	Total share capital R million
GROUP			
Balance at 1 January 2018	**32**	**1,765**	**1,797**
Profit for the year	–	–	–
Other comprehensive income – Exchange differences on translating foreign operations	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Transfer between reserves	–	–	–
Other non-distributable reserve	–	–	–
Capital distributions from the share trusts	–	–	–
Dividends	–	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**	**–**
Balance at 1 January 2019	**32**	**1,765**	**1,797**
Profit for the year	–	–	–
Other comprehensive income remeasurements on net defined benefit liability/asset	–	–	–
Other comprehensive income – Exchange differences on translating foreign operations	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Foreign currency translation on reserves	–	–	–
Capital distributions from the share trusts	–	–	–
Dividends	–	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**	**–**
Balance at 31 December 2019	**32**	**1,765**	**1,797**
Notes	21	21	21

Foreign currency translation reserve R million	Revaluation reserve R million	Other non-distributable reserve R million	Total reserves R million	Retained income R million	Total attributable to equity holders of the Group/company R million	Non-controlling interest R million	Total R million
(2)	**60**	**–**	**58**	**1,906**	**3,761**	**234**	**3,995**
–	–	–	–	671	671	34	705
(36)	–	–	(36)	–	(36)	–	(36)
–	**–**	**–**	**–**	**671**	**635**	**34**	**669**
–	30	–	30	(30)	–	–	–
–	–	10	10	–	10	–	10
–	–	–	–	(156)	(156)	–	(156)
–	–	–	–	(229)	(229)	–	(229)
–	**30**	**10**	**40**	**(415)**	**(375)**	**–**	**(375)**
(38)	**90**	**10**	**62**	**2,162**	**4,021**	**268**	**4,289**
–	–	–	–	299	299	24	323
–	–	–	–	10	10	–	10
2	–	–	2	2	2	–	2
–	**–**	**–**	**–**	**311**	**311**	**24**	**335**
(37)	–	–	(37)	–	(37)	–	(37)
–	–	–	–	(25)	(25)	–	(25)
–	–	–	–	(376)	(376)	(5)	(381)
(37)	**–**	**–**	**(37)**	**(401)**	**(438)**	**(5)**	**(443)**
(75)	**90**	**10**	**25**	**2,072**	**3,894**	**287**	**4,181**
	22						

Statement of changes in equity
(continued)

For the year ended 31 December 2019

	Share capital R million	Share premium R million	Total share capital R million
COMPANY			
Balance at 1 January 2018	**32**	**1,765**	**1,797**
Profit for the year	–	–	–
Other comprehensive income – Remeasurements on net defined benefit liability/asset	–	–	–
Other comprehensive income – Losses on property revaluation	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Foreign currency translation reserve	–	–	–
Dividends	–	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**	**–**
Balance at 1 January 2019	**32**	**1,765**	**1,797**
Profit for the year	–	–	–
Other comprehensive income – Remeasurements on net defined benefit liability/asset	–	–	–
Total comprehensive income for the year	**–**	**–**	**–**
Dividends	–	–	–
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**	**–**
Balance at 31 December 2019	**32**	**1,765**	**1,797**
Notes	21	21	21

Foreign currency translation reserve R million	Revaluation reserve R million	Other non-distributable reserve R million	Total reserves R million	Retained income R million	Total attributable to equity holders of the Group/company R million	Non-controlling interest R million	Total R million
(2)	**86**	**–**	**84**	**2,480**	**4,361**	**–**	**4,361**
–	–	–	–	124	124	–	124
–	–	–	–	1	–	–	–
–	4	–	4	(5)	–	–	–
–	**4**	**–**	**4**	**120**	**124**	**–**	**124**
2	–	–	2	–	2	–	2
–	–	–	–	(225)	(225)	–	(225)
2	**–**	**–**	**2**	**(225)**	**(223)**	**–**	**(223)**
–	**90**	**–**	**90**	**2,375**	**4,262**	**–**	**4,262**
–	–	–	–	150	150	–	150
–	–	–	–	8	8	–	8
–	**–**	**–**	**–**	**158**	**158**	**–**	**158**
–	–	–	–	(376)	(376)	–	(376)
–	**–**	**–**	**–**	**(376)**	**(376)**	**–**	**(376)**
–	**90**	**–**	**90**	**2,157**	**4,044**	**–**	**4,044**
	22						

Statement of cash flows

for the year ended 31 December 2019

	Notes	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Cash flows generated from operating activities					
Cash generated from operations	37	321	823	(164)	542
Interest income		329	366	215	253
Dividends received		61	102	168	25
Finance costs		(76)	(51)	(76)	(9)
Tax (paid)/received	38	(26)	(344)	41	(272)
Net cash generated from operating activities		**609**	**896**	**184**	**539**
Cash flows (used in)/generated from investing activities					
Purchase of property and equipment	6	(197)	(188)	(192)	(186)
Sale of property and equipment	6	3	10	4	10
Purchase of other intangible assets	5	(44)	(43)	(44)	(43)
Purchase of non-current asset held for sale		(14)	–	(14)	–
Purchase of subsidiary		–	(21)	–	(21)
Sale of investments and securities		7,083	(766)	4,397	(53)
Purchase of investments and securities		(7,361)	–	(4,019)	–
(Repayments)/Receipts from loans receivable at amortised cost			3		3
Net cash (used in)/generated from investing activities		**(530)**	**(1,005)**	**132**	**(290)**
Cash flows used in financing activities					
Dividends paid		(381)	(229)	(376)	(225)
Total cash movement for the year		**(302)**	**(338)**	**(60)**	**24**
Cash at the beginning of the year		1,386	1,724	343	319
Total cash at the end of the year	20	**1,084**	**1,386**	**283**	**343**

Accounting policies

Corporate information

Old Mutual Insure Limited is a public company incorporated and domiciled in South Africa.

The Group and company financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 12 March 2020.

1. Significant accounting policies

The principal accounting policies applied in the preparation of these Group and company financial statements are set out below:

1.1 Basis of preparation

The Group and company financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these financial statements and are in compliance with the Companies Act.

These financial statements comply with the requirements of the South African Institute of Chartered Accountants Financial Reporting Guides and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the JSE requirements for financial statements.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rand, which is the Group presentation currency.

These accounting policies are consistent with the previous period, except for the changes set out in note 3.

1.2 Segmental reporting

The segmental results are reported on a basis consistent with the manner in which the Executive committee assesses performance of the underlying businesses and allocated resources. The Group's reported segments are Commercial lines, Personal lines, Risk financing, Specialty lines and CGIC Guarantee Products. The performance of insurance activities is based on gross written premium as a measure of growth, with net underwriting result as a 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 business portfolio offers a multiproduct and multichannel distribution portfolio that provides individuals with cover through a wide range of products.
- Risk financing: Risk financing includes specialist cell captive business.
- Specialty: The Specialty business portfolio focuses on the insurance of large and complex risks in niche market segments.
- CGIC Guarantee: The main business is that of trade credit insurance in both the domestic and export trade credit insurance market.

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

The segmental information has been set out in note 39.

1.3 Consolidation

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the Group.

The Group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use of its power over the entity.

The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition to the effective date of disposal.

1. Significant accounting policies (continued)

1.3 Consolidation (continued)

Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

All inter-company transactions, balances, and unrealised gains on transactions between Group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the company.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Investments in subsidiaries in the separate financial statements

In the company's separate financial statements, investments in subsidiaries are carried at fair value.

1.4 Investment in structured entities

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

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

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

1.5 Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. It generally accompanies a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method for the Group and company, except when the investment is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the Statement of Financial Position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any impairment losses.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Losses in an associate in excess of the Group's interest in that associate, including any other unsecured receivables, are recognised only to the extent that the Group has incurred a legal or constructive obligation to make payments on behalf of the associate.

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

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in profit or loss.

Profits or losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest therein. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group reduces its level of significant influence or loses significant influence, the Group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

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

1.6 Property and equipment

Property and equipment are tangible assets which the Group holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

Property and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. Day-to-day servicing costs are included in profit or loss in the year in which they are incurred.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting year.

When an item of property and equipment is revalued, the gross carrying amount is adjusted consistently with the revaluation of the carrying amount. The accumulated depreciation at that date is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised in other comprehensive income and accumulated in the revaluation reserve in equity. 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.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current year. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation reserve in equity.

The revaluation reserve related to a specific item of property and equipment and is transferred directly to retained income when the asset is derecognised.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Group. Leasehold improvements are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

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

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight-line	6
Motor vehicles	Straight-line	4 – 5
IT equipment	Straight-line	3
Leasehold improvements	Straight-line	over the lease term

1. Significant accounting policies (continued)

1.6 Property and equipment (continued)

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss.

Impairment tests are performed on property and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.7 Goodwill and intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; 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 development team and an appropriate portion of relevant overheads.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Intangible assets are amortised on a straight-line basis over their useful life ranging between two to ten years and are expected to have a nil residual value. The amortisation method, period and residual values are reviewed at each reporting period.

Internally generated brands, customer lists and items similar in substance are not recognised as intangible assets.

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

Goodwill arising from business combinations

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

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

1.8 Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classifications, which are adopted by the Group, as applicable, are as follows:

Financial assets which are equity instruments are measured at:

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination.

Financial assets which are debt instruments are measured at:

- Amortised cost. This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows; or
- Fair value through other comprehensive income. This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments; or
- Mandatorily at fair value through profit or loss. This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income; or
- Designated at fair value through profit or loss. This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss. This applies to contingent consideration in a business combination or to liabilities which are held for trading; or
- Designated at fair value through profit or loss. This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Loans receivable at amortised cost

Classification

Amounts due from group companies (note 19), loans to share trusts (note 11), deposits with cedants and loans receivable are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in investment income.

The application of the effective interest method to calculate interest income on a loan receivable is dependent on the credit risk of the loan as follows:

- The effective interest rate is applied to the gross carrying amount of the loan, provided the loan is not credit impaired. The gross carrying amount is the amortised cost before adjusting for a loss allowance.

1. Significant accounting policies (continued)

1.8 Financial instruments (continued)

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12-month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12-months after the reporting date.

In order to assess whether to apply lifetime ECL or 12-month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the Group compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Definition of default

For purposes of internal credit risk management purposes, the Group consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Write-off policy

The Group writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate.
Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default, taking the time value of money into consideration.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 19).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Measurement and recognition of expected credit losses

The Group makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

Write-off policy

The Group writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Investments in equity instruments

Classification

Investments in equity instruments are presented in note 15. They are classified as mandatorily at fair value through profit or loss. As an exception to this classification, the Group may make an irrevocable election, on an instrument by instrument basis, and on initial recognition, to designate certain investments in equity instruments as at fair value through other comprehensive income.

The designation as at fair value through other comprehensive income is never made on investments which are either held for trading or contingent consideration in a business combination.

Recognition and measurement

Investments in equity instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition, at fair value. All other transaction costs are recognised in profit or loss.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised either in profit or loss or in other comprehensive income (and accumulated in equity in the reserve for valuation of investments), depending on their classification.

1.8 Financial instruments (continued)

Dividends received on equity investments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in investment income (note 33).

Impairment

Investments in equity instruments are not subject to impairment provisions.

Trade and other payables

Classification

Trade and other payables (note 28), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

They are recognised when the Group becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

Trade and other payables expose the Group to liquidity risk and possibly to interest rate risk. Refer to note 43 for details of risk exposure and management thereof.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Debt instrument

Debt instruments issued by the Group comprise subordinated debt instruments held at amortised cost. Interest accruals are recognised as finance costs in the statement of profit or loss and other comprehensive income.

Periodic re-estimation of cash flows to reflect the movements in the market rates of interest will alter the effective interest rate. A floating-rate financial liability is recognised initially at an amount equal to the principal payable on maturity, re-estimating the future interest payments has no significant effect on the carrying amount of the liability.

Derecognition

Financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Reclassification

Financial assets

The Group only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities

Financial liabilities are not reclassified.

1.9 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle the balances on a net basis.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income or equity; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

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

1.10 Leases

The Group assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Group has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgements and sources of estimation uncertainty section of these accounting policies.

1. Significant accounting policies (continued)

1.10 Leases (continued)

Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the Group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense (note 32) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand alone prices of the lease components and the aggregate stand alone price of the non-lease components (where non-lease components exist).

However, as an exception to the preceding paragraph, the Group has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the Group is a lessee are presented in note 7 Leases (Group as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed lease payments, including in-substance fixed payments, less any lease incentives;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses.

The lease liability is presented as a separate line item on the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 34).

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the Group will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; and
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

Lease payments included in the measurement of the right of use asset comprise the following:

- The initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;

- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Group incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property and equipment. Refer to the accounting policy for property and equipment for details of useful lives.

The useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.11 Leases (Comparatives under IAS 17)

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee (prior year and short-term leases)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.
The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.12 Non-current assets held for sale

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

Non-current assets and disposal groups are classified as held for distribution to owners when the entity is committed to distribute the asset or disposal group to the owners. This condition is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition, provided the distribution is expected to be completed within one year from the classification date.

Non-current assets or disposal groups held for sale (distribution to owners) are measured at the lower of their carrying amount and fair value less costs to sell (distribute).

A non-current asset is not depreciated or amortised while it is classified as held for sale (held for distribution to owners), or while it is part of a disposal group classified as such.

Investments which are held for sale are accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

1.13 Impairment of non-financial assets

The Group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Group also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period; and
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

1. Significant accounting policies (continued)

1.13 Impairment of non-financial assets (continued)

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment as defined by paragraph 5 of IFRS 8 Operating Segments before aggregation.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit, *pro rata* on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.14 Share capital and equity

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

1.15 Cash-settled share-based payments

Services received in a share-based payment transaction are recognised when the services are received. A corresponding increase in a liability is recognised if the services were acquired in a cash-settled share-based payment transaction.

When the services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For cash-settled share-based payment transactions, the services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of cash-settled share-based payment at the measurement dates. These vesting conditions are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.

Market conditions and non-vesting conditions are taken into account when estimating the fair value of the cash-settled share-based payment.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the Group accounts for those services as they are rendered by the counterparty during the vesting period, or on a straight-line basis over the vesting period.

If the share-based payments vest immediately the services received are recognised in full.

In circumstances where the Group is involved in a share-based payment transaction among entities in the Group, the following is applied in the entity's separate financial statements:

- Where the Group settles the share-based payment transaction and another entity in the Group receives the goods or services, the entity recognises the transaction as an equity settled share-based payment transaction only if it is settled in the entity's own equity instruments. In all other circumstances, the transaction is recognised as a cash-settled share-based payment transaction.

1.16 Employee benefits

Short-term employee benefits

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

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

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

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 fund if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method for a fund closed to new entrants and with less than 5% of the Group's employees participating in the fund.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the fund up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised as an expense at the earlier of the following dates:

- when the plan amendment or curtailment occurs; and
- when the Group recognises related restructuring cost or termination benefits.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets and adjusted for the asset ceiling. The asset is the lower of the present value of the available refund and reduction in future contribution to the plan and the surplus in the plan.

Any asset is limited to recognised actuarial losses and past service costs, plus the present value of available refund and reduction in future contributions to the plan.

Termination benefits

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

1. Significant accounting policies (continued)

1.16 Employee benefits (continued)

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

Post-employment benefits

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 2019. Service costs are recognised in profit or loss. Actuarial gains or losses are recognised in other comprehensive income.

1.17 Provisions, commitments and contingencies

Provisions are recognised when:

- the Group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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.

Contingent assets and contingent liabilities are not recognised.

1.18 Insurance contracts

Classification

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

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

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk, other than financial risk, transferred from the holder of the contract to the issuer. The Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly more than the benefits payable if the insured event did not occur.

Premiums

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

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

Claims incurred

Claims incurred consist of claims and claims-handling expenses paid during the financial year, together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred, but unpaid at the reporting date, whether reported or not, and an appropriate risk margin.

Adjustments to the amounts of claims provisions established in prior years are reflected in profit or loss for the period in which the adjustments are made and disclosed separately, if material.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances.

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

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

Claims incurred but not yet reported (IBNR)

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

Salvage and subrogation reimbursements

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

Estimates of salvage and subrogation receivables are raised as a separate asset only when the reimbursement has a high probability of certainty 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.

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

Unearned premium provision

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

Low claims and no-claims bonus

1. Significant accounting policies (continued)

1.18 Insurance contracts (continued)

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

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

Reinsurance

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

Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

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

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

Acquisition cost and deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts.

Deferred acquisition costs represent the proportion of acquisition costs incurred in order to secure new contracts and renewing of existing contracts and are deferred over the period in which the related premiums are earned, and recognised as an asset.

Acquisition costs relevant for the financial period (including the movement in deferred acquisition costs) are recognised in profit or loss. All other costs are recognised as expenses when incurred.

Commission income

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

Agents' and reinsurers' balances

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

Portfolio impairment allowance

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

A loss allowance is recognised for amounts due from agents and reinsurers and is monitored at the end of each reporting period. In addition to the loss allowance, amounts due from agents and reinsurers are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Amounts due from agents and reinsurers which have been written off are not subject to enforcement activities.

The Group measures the loss allowance for amounts due from agents and reinsurers by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on amounts due from agents and reinsurers is determined as the lifetime expected credit losses on amounts due from agents and reinsurers. These lifetime expected credit losses are estimated using a provision matrix. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

Deposits with reinsurers and cedants

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

Amounts payable to cell owners

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

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

Third party cell captive arrangements where the cell owner provides the opportunity to its own client base to purchase branded insurance products. The insurance company is the principal to the insurance contract, although the business is underwritten on behalf of the cell owner.

The shareholder's agreement, however, determines that the cell owner remains responsible for the solvency of the cell captive arrangements. In substance, the insurance company therefore reinsures this business to the cell owner as the cell owner remains responsible for the solvency of the cell captive arrangement.

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

1.19 Investment returns

Investment returns comprises interest, dividends, as well as net fair value gains or losses on financial assets held at fair value through profit or loss. Interest income is presented separately from fair value movements.

Investment income is accounted for as follows:

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

1.20 Finance cost

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

1.21 Translation of foreign currencies

Functional and presentation currency

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

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

1. Significant accounting policies (continued)

1.21 Translation of foreign currencies (continued)

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

In circumstances where the Group receives or pays an amount in foreign currency in advance of a transaction, the transaction date for purposes of determining the exchange rate to use on initial recognition of the related asset, income or expense is the date on which the Group initially recognised the non-monetary item arising on payment or receipt of the advance consideration.

If there are multiple payments or receipts in advance, the Group determines a date of transaction for each payment or receipt of advance consideration.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Investments in subsidiaries and associates as foreign operations

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. Such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

1.22 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty

Fair value estimation

Several assets and liabilities of the Group are either measured at fair value or disclosure is made of their fair values.

The Old Mutual Insure Capital Management Committee approves the assumptions and inputs applied in the fair value calculations relating to investments in subsidiaries, associates, unlisted shares and share trusts.

Observable market data is used as inputs to the extent that it is available. 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 as set out in Note 9.

Impairment testing

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash-generating unit to which the asset belongs.

Valuation of insurance policy liabilities and assets

Claims incurred

The Group's estimates for reported and unreported claims are continually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process relies upon the assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events as set out in note 23.

Incurred but not reported claims (IBNR)

The IBNR provision comprises the Group's estimate at a 75% confidence level of the undiscounted cost of settling all claims incurred but not yet reported at the reporting date and related claims handling expenses. The assumptions used in the calculation is set out in note 23.

Subrogation and salvage recoveries

An asset is raised for expected subrogation and salvage recoveries that have occurred, whether reported or based on past experience. The ultimate amounts recovered will vary as a result of subsequent information and events and may result in significant adjustments to the amounts estimated. The methods used to determine the expected amounts are reviewed regularly by management. The assumptions used in the calculation is set out in note 23.

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 13.

Share-based payment liability

The judgement applied in valuing the cash-settled share-based payment liability for employees relates to the assumption of the expected employee attrition and the associated vesting that is expected for each tranche of shares issued as set out in note 25.

Notes to the group and company Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Group are as follows:

Group as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

The effective date of the standard is for years beginning on or after 01 January 2019.

The Group has adopted the standard for the first time in the 2019 financial statements.

The impact of the standard is set out in note 3 Changes in Accounting Policy.

2.2 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 01 January 2020 or later periods:

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It will replace IFRS 4 Insurance Contracts.

The effective date of the standard is for years beginning on or after 1 January 2021, with comparative numbers for 2020 (however the IASB has made a tentative decision to defer the effective date to 2023, subject to due process).

The standard combines current measurement of the future cash flows with the recognition of profit over the services period under the contract. The standard looks at the presentation of insurance revenue separately from insurance finance income or expenses and requires and 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.

The Old Mutual Limited Group has instituted an implementation programme under the sponsorship of the Old Mutual Limited Chief Financial Officer, who chairs a programme steering committee consisting of senior finance, actuarial and information technology executives from impacted business areas. The company, as a specific IFRS 17 focus area within Old Mutual Limited, has established a project within the Old Mutual Limited programme structure. The company's project is governed by a delivery committee, which consists of senior finance and actuarial managers who make decisions on scope, design and enablement for their relevant focus areas. All decisions relating to the interpretation of the standard (i.e. policies and methodologies) are made by a Technical Review Committee (TRC), which consists of actuarial and finance subject matter experts across the company. Ratification of major decisions is done by the Old Mutual Limited programme steering committee. Project resources include a mix of dedicated and shared internal technical experts, as well as external consultants where appropriate.

During 2017, 2018 and 2019, the company completed a gap analysis, initial impact assessments and provided training to the actuarial and finance teams. Progress has been made on the development of accounting and actuarial policies and methodologies for the company, with formal sign off from the TRC on each version of a paper, as well as outcomes of investigations. This also includes a comprehensive product classification model. The company's project is in the process of defining detailed enablement requirements and is also currently focusing on implementing a procured IFRS 17 reporting solution.

2.3 Standards and interpretations effective and not yet effective and not material to the Group

The following standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods but are not material to its operations:

Standard/ Interpretation	Effective date: Years beginning on or after	Expected impact:
• Definition of a business – Amendments to IFRS 3	1 January 2020	Unlikely there will be a material impact
• Presentation of Financial Statements: Disclosure initiative	1 January 2020	Unlikely there will be a material impact
• Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	1 January 2020	Unlikely there will be a material impact
• Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	1 January 2019	The impact of the amendment is not material.
• Long-term Interests in Joint Ventures and Associates – Amendments to IAS 28	1 January 2019	The impact of the amendment is not material.
• Prepayment Features with Negative Compensation – Amendment to IFRS 9	1 January 2019	The impact of the amendment is not material.
• Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 – 2017 cycle	1 January 2019	The impact of the amendment is not material.

Notes to the group and company Financial Statements (continued)

2. New standards and interpretations (continued)

2.3 Standards and interpretations effective and not yet effective and not material to the Group (continued)

Standard/ Interpretation	Effective date: Years beginning on or after	Expected impact:
• Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 – 2017 cycle	1 January 2019	The impact of the amendment is not material.
• Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 – 2017 cycle	1 January 2019	The impact of the amendment is not material.
• IFRIC 23 Uncertainty Over Income Tax Treatments	01 January 2019	The impact of the amendment is not material.

3. Changes in accounting policy

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new standard.

Application of IFRS 16 Leases

In the current year, the company has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being 1 January 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the Group's financial statements is described below.

The lease agreement for 1 Mutual Place is with a related party. The floor space can change annually to meet demand requirements to ensure optimal usage of the premises. The lease amount is variable according to the floor space consumed. The rental charges of leases with variable rates are expensed as they are incurred.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated.

Leases where Group is lessee

Leases previously classified as operating leases

The Group undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- Recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the Group's weighted average incremental borrowing rate at the date of initial application.
- Recognised right-of-use assets measured on a lease by lease basis at an amount equal to the lease liability adjusted for accruals or prepayments relating to that lease prior to the date of initial application.

The Group did not apply IAS 36 to consider if these right-of-use assets are impaired, but rather applied the practical expedient of IFRS 16 par C10(b). In accordance with this practical expedient, the carrying amounts were adjusted with the amount of any onerous provision which existed immediately prior to the date of initial application.

As an exception to the above, no adjustments were made on initial application of IFRS 16 for leases previously classified as operating leases:

- for which the underlying asset is of low value. From the date of initial application, these leases are accounted for in accordance with paragraph 6 of IFRS 16 by recognising the lease payments on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed.

The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease by lease basis:

- when a portfolio of leases contained reasonably similar characteristics, the Group applied a single discount rate to that portfolio;
- leases which were expiring within 12 months of 1 January 2019 were treated as short-term leases, with remaining lease payments recognised as an expense on a straight-line basis or another systematic basis which is more representative of the pattern of benefits consumed;
- hindsight was applied where appropriate. This was specifically the case for determining the lease term for leases which contained extension or termination options.

Impact on financial statements

On transition to IFRS 16, the Group recognised an additional R101 million of right-of-use assets and R101 million of lease liabilities.

When measuring lease liabilities, the Group discounted lease payments using its weighted average incremental borrowing rate at 1 January 2019. The weighted average rate applied is 9%.

4. Goodwill

Group	2019			2018		
	Cost R million	Accumulated impairment R million	Carrying value R million	Cost R million	Accumulated impairment R million	Carrying value R million
Goodwill	**21**	**–**	**21**	21	–	21

Reconciliation of goodwill – Group – 2019

	Opening balance R million	Total R million
Goodwill	21	21

Reconciliation of goodwill – Group – 2018

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

The goodwill relates to a 100% equity stake in Sintelum Proprietary Limited. The value of goodwill is reviewed annually for indicators of impairment. The Group uses a discounted cashflow methodology to make this assessment. Cashflows are projected over a three-year period, with a growth rate of 5% and discounted at a rate of 17%. There were no indicators of impairment of goodwill.

5. Intangible assets

	2019			2018		
	Cost R million	Accumulated amortisation R million	Carrying value R million	Cost R million	Accumulated amortisation R million	Carrying value R million
Group						
Computer software	**848**	**(674)**	**174**	804	(642)	162
Company						
Computer software	**848**	**(674)**	**174**	804	(642)	162

Notes to the group and company Financial Statements (continued)

5. Intangible assets (continued)

Reconciliation of intangible assets – Group – 2019

	Opening balance R million	Additions R million	Amortisation R million	Total R million
Computer software	162	44	(32)	174

Reconciliation of intangible assets – Group – 2018

	Opening balance R million	Additions R million	Amortisation R million	Impairment loss R million	Total R million
Computer software	161	43	(32)	(10)	162

Reconciliation of intangible assets – Company – 2019

	Opening balance R million	Additions R million	Amortisation R million	Total R million
Computer software	162	44	(32)	174

Reconciliation of intangible assets – Company – 2018

	Opening balance R million	Additions R million	Amortisation R million	Impairment loss R million	Total R million
Computer software	161	43	(32)	(10)	162

6. Property and equipment

Group	2019			2018		
	Cost or revaluation R million	Accumulated depreciation R million	Carrying value R million	Cost or revaluation R million	Accumulated depreciation R million	Carrying value R million
Buildings	1	–	1	3	(1)	2
Furniture and fixtures	109	(49)	60	45	(41)	4
Motor vehicles	16	(7)	9	16	(7)	9
IT equipment	574	(431)	143	504	(390)	114
Leasehold improvements	40	(4)	36	–	–	–
Total	**740**	**(491)**	**249**	**568**	**(439)**	**129**

Company	2019 Cost or revaluation R million	2019 Accumulated depreciation R million	2019 Carrying value R million	2018 Cost or revaluation R million	2018 Accumulated depreciation R million	2018 Carrying value R million
Buildings	1	–	1	3	(1)	2
Furniture and fixtures	106	(47)	59	41	(39)	2
Motor vehicles	8	(3)	5	8	(3)	5
IT equipment	552	(414)	138	470	(359)	111
Leasehold improvements	39	(4)	35	–	–	–
Total	**706**	**(468)**	**238**	**522**	**(402)**	**120**

Reconciliation of property and equipment – Group – 2019

	Opening balance R million	Additions R million	Disposals R million	Transfers R million	Depreciation R million	Total R million
Buildings	2	1	–	(2)	–	1
Furniture and fixtures	4	66	(2)	–	(8)	60
Motor vehicles	9	1	–	–	(1)	9
IT equipment	114	92	(1)	–	(62)	143
Leasehold improvements	–	37	–	2	(3)	36
	129	**197**	**(3)**	**–**	**(74)**	**249**

Reconciliation of property and equipment – Group – 2018

	Opening balance R million	Additions R million	Disposals R million	Classified as held for sale R million	Revaluations* R million	Other changes, movements R million	Depreciation R million	Impairment loss R million	Total R million
Buildings	161	89	–	(243)	5	–	(10)	–	2
Furniture and fixtures	6	2	–	–	–	–	(4)	–	4
Motor vehicles	14	3	–	–	–	–	(3)	(5)	9
IT equipment	72	94	(10)	–	–	1	(43)	–	114
	253	**188**	**(10)**	**(243)**	**5**	**1**	**(60)**	**(5)**	**129**

Reconciliation of property and equipment – Company – 2019

	Opening balance R million	Additions R million	Disposals R million	Transfers R million	Depreciation R million	Total R million
Buildings	2	1	–	2	–	1
Furniture and fixtures	2	66	(1)	–	(8)	59
Motor vehicles	5	1	–	–	(1)	5
IT equipment	111	88	(3)	–	(58)	138
Leasehold improvements	–	36	–	2	(3)	35
	120	**192**	**(4)**	**4**	**(70)**	**238**

Notes to the group and company Financial Statements (continued)

6. Property and equipment (continued)

Reconciliation of property and equipment – Company – 2018

	Opening balance R million	Additions R million	Disposals R million	Classified as held for sale R million	Revalua-tions* R million	Other changes, move-ments R million	Depreci-ation R million	Impair-ment loss R million	Total R million
Buildings	159	88	–	(243)	5	2	(9)	–	2
Furniture and fixtures	4	1	–	–	–	–	(3)	–	2
Motor vehicles	14	3	–	–	–	(5)	(2)	(5)	5
IT equipment	68	94	(10)	–	–	1	(42)	–	111
	245	**186**	**(10)**	**(243)**	**5**	**(2)**	**(56)**	**(5)**	**120**

*Revaluations

The Group received an offer to purchase shortly before the 2018 year end which was deemed to be market-related and determined at arm's-length. The offer price in the offer to purchase was determined to be the most appropriate value of the land and buildings.

The valuation reflects the highest and best use of the property.

The property has been reclassified in 2018 to non-current assets held for sale and no further revaluations were performed.

7. Leases (Group as lessee)

The Group leases several assets, including buildings, office equipment and motor vehicles. The lease of Wanooka Place makes up the majority of the right-of-use asset, which has a lease term of seven years.

All future cashflows to which the lessee is potentially exposed are reflected in the measurement of lease liabilities.

Details pertaining to leasing arrangements, where the Group is lessee are presented below:

The Group adopted IFRS 16 for the first time in the current financial period. Comparative figures have been accounted for in accordance with IAS 17, the previous accounting standard on leases. The information presented in this note for right-of- use assets period therefore only includes the current period.

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are as follows:

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Leasehold property	449		446	–
Office equipment	4	–	4	–
Motor vehicles	25	–	25	–
	478	–	475	–

Additions to right-of-use assets

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Leasehold property	494	–	489	–
Office equipment	6	–	6	–
Motor vehicles	35	–	35	–
	535	–	530	–

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 32).

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Leasehold property	45	–	43	–
Office equipment	2	–	2	
Motor vehicles	10	–	10	–
	57	–	55	–
Other disclosures				
Interest expense on lease liabilities	23	–	23	–
Expenses on short term leases included in operating expenses	5	–	5	–
Variable lease payments not included in the measurement of lease liabilities included in operating expenses	44	–	44	–

Lease liabilities

Lease liabilities have been disclosed separately on the statement of financial position.

The maturity analysis of lease liabilities is as follows:

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Within one year	100		100	
Two to five years	402	–	402	–
More than five years	148	–	148	–
	650	–	650	–
Lease liabilities	494	–	491	–

Notes to the group and company Financial Statements (continued)

8. Deferred tax

The deferred tax asset and the deferred tax liability relate to income tax in the same jurisdiction, and the accounting standards allow net settlement.

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Deferred tax liability				
Deferred tax liability	(41)	(103)		–
Deferred tax asset				
Deferred tax asset	41	67	8	46
Total net deferred tax liability	**–**	**(36)**	**8**	**46**
Reconciliation of deferred tax asset/(liability)				
At beginning of year	(36)	(36)	46	50
Decrease in post-retirement medical aid provision	(2)	(3)	(2)	(3)
Decrease in other provisions and impairments	37	(213)	(32)	(81)
Decrease in prepayments	(1)	(12)	–	(12)
Decrease in straight-lining of operating leases	–	(3)	–	(3)
Increase in urban development zone allowance	–	27	–	27
Increase in motor vehicle residual value	–	1	–	1
Increase/(decrease) in capital gains taxation	1	110	1	(14)
Increase/(decrease) in investments and securities	15	3	(20)	(10)
Increase in cashback, salvages and subrogation	3	65	3	65
Movement in leases	(31)	–	(2)	–
Increase in amortisation of software	14	25	14	26
	–	**(36)**	**8**	**46**

9. Interests in subsidiaries including consolidated structured entities

The following table lists the entities which are controlled by the Group, either directly or indirectly through subsidiaries:

Group

Name of company	Held by	Nature of business	% holding 2019	% holding 2018
Mutual and Federal Risk Financing Limited	Old Mutual Insure Limited	Cell captive insurer	100.00 %	100.00 %
Credit Guarantee Insurance Corporation of Africa Limited	Old Mutual Insure Limited	Credit insurer	75.00 %	75.00 %
Cougar Investment Holding Company Limited	Old Mutual Insure Limited	Investment holding	100.00 %	100.00 %
Elite Risk Acceptances Proprietary Limited	Old Mutual Insure Limited	Non-mandated intermediary	100.00 %	100.00 %
Sintelum Proprietary Limited	Old Mutual Insure Limited	Underwriting management agency	100.00 %	100.00 %
Mutual and Federal Company of Zimbabwe (Private) Limited	Old Mutual Insure Limited	Investment holding	100.00 %	100.00 %
Old Mutual Holdings (Mauritius) Limited	Old Mutual Insure Limited	Investment holding	100.00 %	100.00 %
Old Mutual Reinsurance (Mauritius) Limited	Old Mutual Holdings (Mauritius) Limited	Reinsurer	100.00 %	100.00 %
Old Mutual Business Services (Mauritius) Limited	Old Mutual Holdings (Mauritius) Limited	Business services	100.00 %	100.00 %
Old Mutual Specialty Insurance (Mauritius) Limited	Old Mutual Holdings (Mauritius) Limited	Insurer	100.00 %	100.00 %
The Mutual and Federal Management Incentive Trust		Incentive trust	100.00 %	100.00 %
The Mutual and Federal Senior Black Management Trust		Incentive trust	100.00 %	100.00 %
The Mutual and Federal Development Trust		Incentive trust	100.00 %	100.00 %
Old Mutual Insure Employee Incentive Trust		Incentive trust	100.00 %	100.00 %
Old Mutual Insure Broad-based Black Economic Empowerment Employee Trust		Incentive trust	100.00 %	100.00 %

The following table lists the entities which are controlled directly by the company, and the carrying amounts of the investments in the company's separate financial statements:

Notes to the group and company Financial Statements (continued)

9. Interests in subsidiaries including consolidated structured entities (continued)

Company

Name of company	Held by	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
Mutual and Federal Risk Financing Limited		100.00 %	100.00 %	180	178
Credit Guarantee Insurance Corporation of Africa Limited		75.00 %	75.00 %	963	1,016
Cougar Investment Holding Company Limited		100.00 %	100.00 %	77	169
Elite Risk Acceptances Proprietary Limited		100.00 %	100.00 %	6	2
Sintelum Proprietary Limited		100.00 %	100.00 %	92	22
Mutual and Federal Company of Zimbabwe (Private) Limited		100.00 %	100.00 %	86	137
Old Mutual Holdings (Mauritius) Limited		100.00 %	100.00 %	22	24
				1,426	1,548

Investment in Mutual and Federal Company of Zimbabwe (Private) Limited

The reporting and translation of the Zimbabwe operations has been significantly impacted by recent Monetary Policy changes in Zimbabwe.

On 1 October 2018, the Reserve Bank of Zimbabwe (RBZ) instructed banks to separate bank accounts into FCA Nostro (US Dollar balances (USD)) and FCA Real Time Gross Settlement (RTGS balances (RTGS)). This has resulted in the need for the Group to reassess the functional currency of the Zimbabwe operations in accordance with IAS 21: The Effects of Changes in Foreign Exchange Rates. It was determined that the functional currency changed to RTGS Dollars with effect from 1 October 2018.

On 20 February 2019 the RBZ announced that the RTGS would be recognised as an official currency and that an inter-bank foreign exchange market would be established to formalise trading in RTGS with other currencies. This further confirmed the change in functional currency of the Zimbabwe operations.

Due to the lack of a relevant and credible, observable legal exchange rate at which to translate the operations from RTGS into the Group's presentation currency, the Group has calculated the exchange rate to be utilised for the translation of its Zimbabwe operations whose functional currency now is the RTGS.

The Group applied the Old Mutual Limited (OML) Group rate. In deriving at the rate OML derived the rate by:

- Assessing the economic developments and RBZ Monetary Policy Announcements (MPA) that informed that the RTGS Dollars had become the de-facto currency of Zimbabwe and was no longer at parity with the US Dollar with effect from 1 October 2018.
- Assessing the factors around the availability of a relevant exchange rate that was legal and observable, that would meet the criteria for use as a rate in terms of extracting dividends or net investments in an entity and concluding that no such rate was available leading to the use of estimated exchange rate for translation of the Zimbabwe operations with effect from 1 October 2018.
- Reviewing the directors' calculation of the estimated rate and challenging the methodology and judgements used.

- With assistance of a valuation specialist, assessing the merits of a number of possible approaches to calculating the exchange rate and subsequently assessing the validity of the directors' adopting those as inputs to their calculation.
- Recalculating the directors' sensitivity analysis on the significant assumptions to evaluate the extent of their impact on the disclosed values.
- Assessing the appropriateness and adequacy of the Group's disclosures in accordance with IFRS.

Based on the procedures described above, the methodology used by the OML directors to estimate the exchange rate used in the translation of the Zimbabwe operations was found to be appropriate.

The table below summarises the exchange rates at which the results of Mutual and Federal Company of Zimbabwe (Private) Limited have been translated into South African Rand:

Period	Functional currency	Average rate	Closing rate
1 January 2019 to 31 December 2019	RTGS	0.832	0.832
1 January 2018 to 30 September 2018	US Dollar	12.890	n/a
1 October 2018 to 31 December 2018	RTGS	4.321	4.352

The average rate from 1 October 2018 to 31 December 2018 was calculated using the average US Dollar to Rand exchange rate of R14.24 for the same period divided by the RTGS rate of 3.3:1 US Dollar.

The closing rate for 31 December 2018 was calculated using the average US Dollar to Rand exchange rate of R14.35 for the same period divided by the RTGS rate of 3.3:1 US Dollar.

Please refer to note 43 Risk Management for the sensitivity analysis on the exchange rate.

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

Subsidiaries with material non-controlling interests

The following information is provided for subsidiaries with non-controlling interests which are material to the reporting company. The summarised financial information is provided prior to intercompany eliminations.

Summarised statement of financial position

	CREDIT GUARANTEE INSURANCE CORPORATION OF AFRICA LIMITED	
	2019 R million	2018 R million
Assets		
Non-current assets	2,060	1,850
Current assets	772	966
Total assets	2,832	2,816
Liabilities		
Non-current liabilities	1,474	1,449
Current liabilities	249	333
Total liabilities	1,723	1,782
Total net assets	1,109	1,034

Notes to the group and company Financial Statements (continued)

9. Interests in subsidiaries including consolidated structured entities (continued)

Summarised statement of profit or loss and other comprehensive income

	CREDIT GUARANTEE INSURANCE CORPORATION OF AFRICA LIMITED	
	2019 R million	2018 R million
Revenue	896	829
Other income and expenses	(756)	(628)
Profit before tax	140	201
Tax expense	(43)	(56)
Profit after tax	97	145
Other comprehensive income	(2)	(1)
Total comprehensive income	95	144
Profit allocated to non-controlling interest	24	36

Summarised statement of cash flows

	CREDIT GUARANTEE INSURANCE CORPORATION OF AFRICA LIMITED	
	2019 R million	2018 R million
Cash flows from operating activities	(23)	198
Cash flows from investing activities	(148)	(364)
Cash flows from financing activities	(21)	(16)
Net decrease in cash and cash equivalents	(192)	(182)
Dividend paid to non-controlling interest	5	4

10. Investments in associates

The following table lists all of the associates in the Group:

Group

Name of company	Held by	% ownership interest 2019	% ownership interest 2018	Carrying amount 2019 R million	Carrying amount 2019 R million
Merx Underwriting Managers Proprietary Limited	Old Mutual Insure Limited	45.00 %	45.00 %	13	13
RM Insurance Holdings Limited (incorporated in Zimbabwe)	Mutual and Federal Company of Zimbabwe (Private) Limited	41.00 %	41.00 %	66	91
				79	104

Company

Name of company	Held by	% ownership interest 2019	% ownership interest 2018	Carrying amount 2019 R million	Carrying amount 2019 R million
Merx Underwriting Managers Proprietary Limited		45.00 %	45.00 %	13	13

Material associates

The following associates are material to the Group:

	Country of incorpo-ration	Method	% OWNERSHIP INTEREST 2019	2018
RM Insurance Holdings Limited	Zimbabwe	Equity	41%	41%

RM Insurance Holdings Limited is a member of the Old Mutual Group and is one of the most mature and largest short-term insurance companies in Zimbabwe. It provides insurance solutions to the insuring public, commercial, industrial and corporate entities.

Summarised financial information of material associates

Summarised Statement of Profit or Loss and Other Comprehensive Income	RM INSURANCE HOLDINGS LIMITED 2019 R million	2018 R million
Revenue	59	139
Other income and expenses	32	(44)
Profit before tax	91	95
Tax expense	(7)	(4)
Profit from continuing operations	84	91
Total comprehensive income	84	91

Summarised Statement of Financial Position	RM INSURANCE HOLDINGS LIMITED 2019 R million	2018 R million
Assets		
Non-current	121	231
Current	124	65
Total assets	245	296
Liabilities		
Non-current	111	65
Current	6	13
Total liabilities	117	78
Total net assets	128	218

The summarised information presented above reflects the financial statements of the associates after adjusting for differences in accounting policies between the Group and the associate.

Notes to the group and company Financial Statements (continued)

11. Loans to share trusts

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
The Mutual and Federal Management Incentive Trust	–	–	63	63
The Mutual and Federal Development Trust	–	–	14	14
The Mutual and Federal Management Incentive Trust (Namibia)	7	7	7	7
	7	**7**	**84**	**84**

The loans have no interest and no fixed repayment terms and are secured by the underlying ordinary Old Mutual Limited shares held by each of the trusts.

12. Investments in employee share trusts

Interest in employee share trusts

The Mutual and Federal Management Incentive Trust, The Mutual and Federal Senior Black Management Trust, Old Mutual Insure Employee Incentive Trust and Old Mutual Insure Broad-based Black Economic Empowerment Employee Trust (the employee share trusts) were set up for the benefit of employees. Legally all shares are held by the trusts. The Statement of Financial Positions of the employee share trusts are set out below:

Company

	Carrying amount 2019 R million	Carrying amount 2018 R million
The Mutual and Federal Management Incentive Trust	188	282
The Mutual and Federal Senior Black Management Trust	160	169
The Mutual and Federal Development Trust	58	57
Old Mutual Insure Employee Incentive Trust	73	34
Old Mutual Insure Broad-based Black Economic Empowerment Trust	155	69
	634	611

Summarised financial information of employee share trusts

2019

Summarised statement of financial position

Assets	Investment in Old Mutual Limited shares*	Investment in Quilter Plc shares	Investment in Nedbank Limited shares	Other assets	Total assets
The Mutual and Federal Management Incentive Trust	83	79	56	40	258
The Mutual and Federal Senior Black Management Trust	64	3	3	93	163
The Mutual and Federal Development Trust	41	21	15	7	84
Old Mutual Insure Employee Incentive Trust	71	–	–	3	74
Old Mutual Insure Broad-based Black Economic Empowerment Trust	152	–	–	3	155
	411	**103**	**74**	**146**	**734**

Liabilities	Loan from Old Mutual Insure Limited	Other liabilities	Total liabilities
The Mutual and Federal Management Incentive Trust	(63)	(7)	(70)
The Mutual and Federal Senior Black Management Trust	–	(3)	(3)
The Mutual and Federal Development Trust	(14)	(12)	(26)
Old Mutual Insure Employee Incentive Trust	–	(1)	(1)
	(77)	**(23)**	**(100)**

* The closing market value per Old Mutual Limited share was R19.60, Nedbank Limited was R214.30 and Quilter Plc was R29.30.

2018

Summarised statement of financial position

Assets	Investment in Old Mutual Limited shares* R million	Investment in Quilter Plc shares R million	Investment in Nedbank Limited shares R million	Other assets R million	Total assets R million
The Mutual and Federal Management Incentive Trust	241	59	72	31	403
The Mutual and Federal Senior Black Management Trust	84	2	5	79	170
The Mutual and Federal Development Trust	81	–	–	8	89
Old Mutual Insure Employee Incentive Trust	24	–	9	1	34
Old Mutual Insure Broad-based Black Economic Empowerment Trust	47	–	19	3	69
	477	**61**	**105**	**122**	**765**

Notes to the group and company Financial Statements (continued)

12. Investments in employee share trusts (continued)

Liabilities	Loan from Old Mutual Insure Limited R million	Other liabilities R million	Total liabilities R million
The Mutual and Federal Management Incentive Trust	(63)	(58)	(121)
The Mutual and Federal Senior Black Management Trust	–	(1)	(1)
The Mutual and Federal Development Trust	(14)	(18)	(32)
	(77)	**(77)**	**(154)**

* The closing market value per Old Mutual Limited share was R22.40, Nedbank Limited was R274.72 and Quilter Plc was R21.84.

Valuation techniques and inputs

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

13. Retirement benefits

Defined benefit plan

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 employees. Per this plan the Group has an obligation in respect of the post-retirement medical aid cost 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 dependents 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 2019.

Defined benefit plan asset

The defined benefit plan is administered by a single medical fund that is legally separated from the Group.

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

- The annuity guarantees the present value of the liability using the consumer price index as the base for the escalating benefits in respect of existing retirees only;
- The policy will take on the liability in respect of the in-service members employed before 15 March 1999 and members of the designated fund, as and when they retire; and
- 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.

Carrying value

	GROUP		COMPANY	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
Present value of the defined benefit obligation	(243)	(254)	(178)	(191)
Fair value of plan assets	221	223	160	160
	(22)	**(31)**	**(18)**	**(31)**
Reconciliation of defined benefit obligation				
Opening balance	(254)	(272)	(191)	(210)
Current service cost	**(2)**	**(2)**	**(1)**	**(1)**
Interest cost	(24)	(24)	(17)	(18)
Actuarial gain	18	27	16	23
Benefits paid	19	17	15	15
	(243)	(254)	(178)	(191)
Reconciliation of plan assets				
Opening balance	223	235	160	170
Interest return	21	24	14	18
Actuarial loss	(11)	(19)	(4)	(13)
Benefits paid	(17)	(17)	(15)	(15)
Contributions received	5	–	5	–
	221	**223**	**160**	**160**
Asset allocation				
Equity	9.85%	10.09%	–%	–%
Property	3.15%	3.22%	–%	–%
Bonds	3.48%	3.56%	–%	–%
Cash and Money Market	4.65%	4.71%	2.00%	2.00%
Foreign	6.38%	6.53%	–%	–%
Insurance policy	70.95%	70.31%	98.00%	98.00%
Alternative assets	1.54%	1.58%	–%	–%
	100%	**100%**	**100%**	**100%**
Key assumptions used				
Discount rate – in service members	10.00%	10.00%	10.00%	10.00%
Discount rate – continuation members	8.40%	9.30%	8.40%	9.30%
Medical inflation rate – in service members	7.30%	7.80%	7.30%	7.80%
Medical inflation rate – continuation members	6.30%	7.30%	6.30%	7.30%
Expected investment return	8.60%	9.40%	8.60%	9.40%
Retirement ages	62 – 65	62 – 65	62	62

Mortality rates of in service members are in accordance with SA 85 – 90 (Light) ultimate table and mortality rates of continuation members are in accordance with PA90, adjusted for the company's experience and mortality improvements.

Sensitivity analysis

The impact on profit or loss for the Group when the discount rate is increased by 1% is R20,9 million , when the discount rate is decreased by 1%, R24,7 million, when the medical inflation rate is increased by 1%, R25,57 million and when the medical inflation rate is decreased by 1%, R22,1 million. A change in the retirement age to 60 would impact in the profit and loss by R10,42 million.

The impact on profit or loss for the company when the discount rate is increased by 1% is R14,5 million (2018: R7 million), when the discount rate is decreased by 1%, R17 million (2018: R52 million), when the medical inflation rate is increased by 1%, R18 million (2018: R51 million) and when the medical inflation rate is decreased by 1%, R15,7 million (2018: R8 million). A change in the retirement age to 60 would impact in the profit and loss by R4 million.

Notes to the group and company Financial Statements (continued)

14. Deferred acquisition cost and reinsurance commission revenue

Analysis of movements

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Deferred acquisition cost				
Balance at the beginning of the year	231	200	158	123
Acquisition cost deferred on inwards business	2	–	1	–
Change in the statement of comprehensive income	10	31	14	35
Other movements	1	–	–	–
Foreign exchange	(1)	–	1	–
Balance at the end of the year	**243**	**231**	**174**	**158**
Reinsurance commission revenue				
Balance at the beginning of the year	186	139	114	63
Change in the statement of comprehensive income	10	47	11	51
Balance at the end of the year	**196**	**186**	**125**	**114**

The net deferred acquisition cost relates to annual contracts and will be released into the Statement of Profit or Loss and Other Comprehensive Income within the next 12 months.

15. Investments and securities

Investments and securities held by the Group and company are as follows:

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Amortised cost:				
Grodidge Mahura Investments Proprietary Limited	3	3	–	–
The loan is interest free and has no repayment terms. It was issued as part of the Enterprise Social Development Programme of the trust.				
Troy partnership	30	30	30	30
The loan is unsecured and bears interest at 13.5%.				
Astute Financial	–	3	–	3
The loan is unsecured, interest free and with no repayment terms.				

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Mandatorily at fair value through profit or loss:				
Listed shares	1,144	1,114	466	468
The fair value of the listed ordinary shares is based on a quoted market price in an active market of an identical instrument. The Protected Equity Portfolio comprises two components: a protective derivative overlay portfolio and an underlying equity tracker portfolio that is intended to be passively managed relative to the SWIX benchmark. R500 million has been invested in an underlying tracker portfolio and a protective derivative structure to limit downside risk (put structure only).				
Unlisted shares	159	137	43	8
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.				
Unlisted empowerment private equity fund	90	67	90	67
The unlisted empowerment private equity fund represents black economic empowerment development investment policies with the Old Mutual Investment Group Proprietary Limited.				
Unlisted money market funds	5,135	4,951	2,554	2,940
The average interest on money market instruments earned during the year was 8.45% (2018: 8.20%).				
	6,561	**6,305**	**3,183**	**3,516**

Unconsolidated structured entities

The Group has investments in collective schemes to diversify its pool of assets. These vehicles are financed through the issue of units to investors. Some schemes are managed entities in the Old Mutual Limited Group, which generate fees from managing the assets on behalf of third party investors. The carrying value of the interest held by the Group in the unit trusts, which are included in the unlisted money market accounts, is R527 million (2018: R421 million) which equates to 2.9% (2018: 2.7%) of the value of the total unit trust. These investments are therefore not considered to be structured entities that would need to be included in the Group consolidation.

16. Amounts due to/from agents and reinsurers

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Assets				
Agents' balances	1,067	1,050	831	702
Reinsurance balances	677	568	672	568
	1,744	**1,618**	**1,503**	**1,270**
Liabilities				
Agents' balances	(299)	(113)	(285)	(100)
Reinsurance balances	(804)	(401)	(599)	(255)
	(1,103)	**(514)**	**(884)**	**(355)**

Notes to the group and company Financial Statements (continued)

16. Amounts due to/from agents and reinsurers (continued)

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Analysis of portfolio impairment allowance				
Balance at the beginning of the year	(27)	(8)	(21)	(5)
Movement for the year	(18)	(19)	(12)	(16)
Balance at the end of the year	**(45)**	**(27)**	**(33)**	**(21)**

A part of the impairment relates to an outstanding debtor from Insure Group Managers (IGM). Due to liquidity constraints within this company an additional R12 million of the debtor balance was impaired during the year, bringing the total impairment value to R28 million for this debtor (2018: R16 million).

17. Subrogation and salvage recoveries

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Balance at the beginning of the year	646	653	275	287
Change in subrogation and salvages recoveries	717	856	490	573
Subrogation and salvages received	(794)	(863)	(543)	(585)
Balance at the end of the year	**569**	**646**	**222**	**275**

18. Non-current asset held for sale

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Property and equipment	257	243	257	243

On 21 November 2018, Old Mutual Insure Limited entered into a sale agreement (Agreement) for its head office property, Erf 5230, Helen Joseph Street, as well as Section 1 in the sectional title scheme known as Palace Parkade (to be established on Erf 5286 Johannesburg Township) to Bayete Capital Proprietary Limited (Bayete), a third party purchaser for the purchase price of R259 million.

The agreement became unconditional at the end of March 2019.

Nedbank Limited (the financiers of Bayete) was not willing to issue separate guarantees for the building and the parkade, and requested for registration to take place simultaneously, notwithstanding the provisions of the Agreement.

With the linking of the matters, the transfer could only proceed after the completion of Section 1 of the sectional title scheme and the compliance with the relevant requirements to establish the scheme, which includes, obtaining a rates clearance in respect of Erf 5286 Johannesburg Township.

There were delays with receiving a rates clearance certificate. This was received at the beginning of December 2019.

The transfer of Unit 1 of the parkade to Old Mutual Insure Limited was lodged on 17 January 2020. After the transfer to Old Mutual Insure Limited, the transfer to Bayete can take place.

During November 2019, our attorneys were notified of a condition imposed by Nedbank Limited insofar as the lease and/or an addendum to the lease on the Old Mutual to proceed with the lodgment Insure Limited building is concerned. This condition remains outstanding and as such, the attorney acting for Nedbank Limited attending to the registration of the mortgage bonds over the properties in favour of Nedbank Limited, is not as yet ready to proceed with the lodgement and registration of the bond over the Old Mutual Insure Limited Building and the Section. These registrations are payment conditions imposed by Nedbank Limited under the guarantee they issued in respect of the purchase price.

The transfers of both properties are expected to take place before 31 July 2020.

19. Trade and other receivables

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Financial instruments:				
Trade receivables	403	364	173	171
Trade receivables – related parties	1	17	8	26
Trade receivables at amortised cost	404	381	181	197
Accrued interest	48	116	44	89
Non-financial instruments:				
VAT	40	45	–	2
Prepayments	67	62	49	34
Total trade and other receivables	**559**	**604**	**274**	**322**

20. Cash and cash equivalents

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Cash and cash equivalents consist of:				
Bank balances	1,083	1,385	282	342
Short-term deposits	1	1	1	1
	1,084	**1,386**	**283**	**343**

21. Share capital

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Authorised				
350 000 000 Ordinary shares of 10 cents each	35	35	35	35
Issued				
319 823 465 Ordinary shares of 10 cents each	32	32	32	32
Share premium	1,765	1,765	1,765	1,765
	1,797	**1,797**	**1,797**	**1,797**

22. Revaluation reserve

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Opening balance	90	60	90	86
Revaluation during the year	–	5	–	5
Transfer from/(to) retained earnings	–	25	–	(1)
	90	**90**	**90**	**90**

Notes to the group and company Financial Statements (continued)

23. General insurance liabilities

	2019			2018		
	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
Group						
Unearned premiums	1,612	873	739	1,515	800	715
Outstanding claims (including incurred but not reported (IBNR))	4,027	1,239	2,788	4,604	1,774	2,830
	5,639	**2,112**	**3,527**	**6,119**	**2,574**	**3,545**
Company						
Unearned premiums	1,034	505	529	955	463	492
Outstanding claims (including IBNR)	2,607	916	1,691	2,874	1,090	1,784
	3,641	**1,421**	**2,220**	**3,829**	**1,553**	**2,276**

Analysis of movements in outstanding claims (net of subrogation) including IBNR

	2019			2018		
	Gross R million	Reinsurance R million	Net R million	Gross R million	Reinsurance R million	Net R million
Group						
Balance at the beginning of the year	4,604	1,774	2,830	4,624	1,693	2,931
Current year claims incurred	9,144	2,924	6,220	8,308	3,344	4,964
Change in previous years' claims estimates	(833)	(11)	(844)	(342)	(107)	(235)
Current year claims paid net of subrogation	(6,183)	(1,892)	(4,291)	(5,517)	(1,910)	(3,607)
Previous year claims paid net of subrogation	(2,705)	(1,556)	(1,432)	(2,469)	(1,246)	(1,223)
Balance at the end of the year	**4,027**	**1,239**	**2,788**	**4,604**	**1,774**	**2,830**
Company						
Balance at the beginning of the year	2,874	1,090	1,784	2,910	1,027	1,883
Current year claims incurred	6,300	935	5,365	5,411	1,001	4,410
Change in previous years' claims estimates	(197)	(2)	(199)	(276)	(410)	134
Current year claims paid	(4,517)	(410)	(4,107)	(3,786)	2	(3,788)
Previous year claims paid	(1,853)	(701)	(1,152)	(1,385)	(530)	(855)
Balance at the end of the year	**2,607**	**916**	**1,691**	**2,874**	**1,090**	**1,784**

Analysis of movements in unearned premiums

	2019 Gross R million	2019 Reinsurance R million	2019 Net R million	2018 Gross R million	2018 Reinsurance R million	2018 Net R million
Group						
Balance at the beginning of the year	1,515	800	715	1,340	647	693
Change in unearned premium provision	97	73	24	175	153	22
Balance at the end of the year	**1,612**	**873**	**739**	**1,515**	**800**	**715**
Company						
Balance at the beginning of the year	955	463	492	799	319	480
Change in unearned premium provision	79	42	37	156	144	12
Balance at the end of the year	**1,034**	**505**	**529**	**955**	**463**	**492**

Assumptions

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

A sensitivity analysis has been performed on some of the material assumptions made in calculating the components of the gross IBNR provision and subrogation asset based on the data as at the end of December 2019.

IBNR reserve sensitivity analysis

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

For the Motor Commercial and Property Commercial contracts, the sensitivity analysis is performed on the weighted averages (i.e. the number of historical periods to which the development pattern is based) used for the incurred claims projection. For the Motor Personal contracts the sensitivity analysis is calculated on the weighted averages used for the paid claims projection.

Gross best estimate IBNR reserve assumptions

	2019 Increase/ (Decrease) in profit or loss R million	2018 Increase/ (Decrease) in profit or loss R million
Motor commercial gross of salvages and recoveries		
Incurred claims projection - using the weighted average of the three most recent years	(4)	(4)
Incurred claims projection - using the weighted average of the four most recent years	(6)	(7)
Incurred claims projection - using the weighted average of the five most recent years	(9)	(12)
Motor personal gross of salvages and recoveries		
Incurred claims projection - using the weighted average of the four (2018: three) most recent years	(3)	(1)
Property commercial net of salvages and recoveries		
Incurred claims projection – using the weighted average of the three most recent years	5	–
Incurred claims projection – using the weighted average of the five most recent years	(3)	(7)

Notes to the group and company Financial Statements (continued)

23. General insurance liabilities (continued)

Sensitivity analysis for the salvage and recovery asset

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

Salvage and recovery asset assumptions	2019 Increase/ (Decrease) in profit or loss R million	2018 Increase/ (Decrease) in profit or loss R million
Motor commercial recovery asset		
Decreased recovery ratio assumption to 5.00% from 5.60% for 2019 (2018: Increased to 6.6% from 5.6%)	(3)	3
Motor personal recovery asset		
Increased recovery ratio assumption to 6.20% from 5.35% for 2019 (2018: Increased to 6.8% from 6.04%)	12	47

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

For the Motor Commercial and Motor Personal contracts, the recovery sensitivity calculation was performed on the recovery ratio assumption for the 2019 year.

Analysis of cumulative claims

The following tables illustrate the development of gross and net Insurance cumulative claims for the past five financial periods, including the impact of re-estimation of claims provisions at the end of each financial year. The first table shows actual gross cumulative claims and the second shows actual net cumulative claims.

ESTIMATE OF CUMULATIVE CLAIMS GROSS OF REINSURANCE

Reporting year	Total R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
Group							
At end of year	40,690	8,695	8,723	8,786	8,464	6,022	–
One year later	32,408	–	8,768	8,855	8,300	6,485	–
Two years later	23,649	–	–	8,873	8,232	6,544	–
Three years later	14,777	–	–	–	8,292	6,485	–
Four years later	6,557	–	–	–	–	6,557	–
Five years later		–	–	–	–	–	32,340
	73,525	8,695	8,768	8,873	8,292	6,557	32,340
Cumulative payments	(69,498)	(6,183)	(7,926)	(8,640)	(8,162)	(6,443)	(32,144)
Estimated balance to pay	**4,027**	**2,512**	**842**	**233**	**130**	**114**	**196**

ESTIMATE OF CUMULATIVE CLAIMS GROSS OF REINSURANCE

Reporting year	Total R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
Company							
At end of year	29,663	6,127	5,838	6,169	6,137	5,392	–
One year later	23,495	–	5,759	6,283	6,009	5,444	–
Two years later	17,778	–	–	6,246	6,007	5,525	–
Three years later	11,475	–	–	–	5,999	5,476	–
Four years later	5,470	–	–	–	–	5,470	–
Five years later	–	–	–	–	–	–	30,307
	59,908	6,127	5,759	6,246	5,999	5,470	30,307
Cumulative payments	(57,301)	(4,517)	(5,178)	(6,069)	(5,925)	(5,408)	(30,204)
Estimated balance to pay	**2,607**	**1,610**	**581**	**177**	**74**	**62**	**103**

ESTIMATE OF CUMULATIVE CLAIMS NET OF REINSURANCE

Reporting year	Total R million	2019 R million	2018 R million	2017 R million	2016 R million	2015 R million	2014 and prior R million
Group							
At end of year	27,977	5,771	5,571	5,734	5,730	5,171	–
One year later	22,019	–	5,751	5,604	5,355	5,309	–
Two years later	16,505	–	–	5,700	5,271	5,534	–
Three years later	10,803	–	–	–	5,327	5,476	–
Four years later	5,547	–	–	–	–	5,547	–
Five years later		–	–	–	–	–	28,705
	56,801	5,771	5,751	5,700	5,327	5,547	28,705
Cumulative payments	(54,013)	(4,291)	(4,939)	(5,568)	(5,221)	(5,453)	(28,541)
Estimated balance to pay	**2,788**	**1,480**	**812**	**132**	**106**	**94**	**164**
Company							
At end of year	23,840	5,192	4,582	4,673	4,852	4,541	–
One year later	18,834	–	4,560	4,832	4,786	4,656	–
Two years later	14,587	–	–	4,903	4,779	4,905	–
Three years later	9,635	–	–	–	4,775	4,860	–
Four years later	4,853	–	–	–	–	4,853	–
Five years later		–	–	–	–	–	26,806
	51,089	5,192	4,560	4,903	4,775	4,853	26,806
Cumulative payments	(49,398)	(4,107)	(4,274)	(4,788)	(4,709)	(4,803)	(26,717)
Estimated balance to pay	**1,691**	**1,085**	**286**	**115**	**66**	**50**	**89**

Notes to the group and company Financial Statements (continued)

24. Debt instrument

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Unsecured subordinated callable floating rate note	500	500	500	500

The JSE 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 instruments are:

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

25. Share-based payment liability

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Employee share awards (Old Mutual Limited shares)	(91)	(68)	(80)	(54)

Overview of the employee incentive programmes

The Mutual and Federal Management Incentive Scheme and the Old Mutual Insure Employee Incentive Trust

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

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

- Bonus plan

  40% of an employee's before tax bonus is invested in ordinary Old Mutual Limited shares. The RSP shares are not subject to corporate performance targets (CPTs) and will vest immediately, subject to the condition that the employee remains in the company's employment for a period of three years from grant date. Participants are paid dividends in respect of the RSP share awards and are entitled to exercise the voting rights in respect of the ordinary Old Mutual Limited shares. The expected employee attrition rate used in the calculation was 10%.

- Long-term incentive plan (LTIP)

  A long-term incentive plan is awarded to key employees who are critical to the company achieving its strategic and financial objectives over the next three years. The share awards are subject to employees meeting CPTs and will be determined at the time of vesting based on multiples of the employees' total guaranteed pay. The expected employee attrition rate used in the calculation was 49%.

The Mutual and Federal Senior Black Management Incentive Scheme and the Broad-based Black Economic Empowerment Employee Scheme

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

- Bonus plan

  The RSP shares are not subject to corporate performance targets (CPTs) and will vest immediately, subject to the condition that the employee remains in the company's employment for a period of three years from grant date. Participants are paid dividends in respect of the RSP share awards and are entitled to exercise the voting rights in respect of the ordinary Old Mutual Limited shares. 40% of an employee's before tax bonus is invested in ordinary Old Mutual Limited shares. The expected employee attrition rate used in the calculation was 15%.

- Retention plan

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

All of the above are cash-settled plans, as the Group is not obliged to settle with Old Mutual Insure Limited equity and therefore in terms of IFRS 2 would be considered cash settled.

Group and company	**The Mutual and Federal Management Incentive Trust**	**The Mutual and Federal Senior Black Management Trust**	**Old Mutual Insure Employee Incentive Trust**	**Old Mutual Insure Broad-based Black Economic Empowerment Employee Trust**
At 1 January 2018	2,964,749	2,701,045	–	–
Number of shares granted	1,047,690	1,495,087	1,493,110	2,926,258
Number of shares vested/settled	(1,136,440)	(531,689)	(1,008)	(1,344)
Number of shares forfeited due to resignations	(309,678)	(468,312)	(5,376)	(51,425)
At 31 December 2018	2,566,321	3,196,131	1,486,726	2,873,489
Number of shares granted	8,749	–	2,209,477	4,875,606
Number of shares vested/settled	(784,944)	(470,441)	(78,988)	(16,488)
Number of shares forfeited due to resignations	(247,915)	(377,330)	(241,965)	(508,478)
Total number of shares in issue at 31 December 2019	**1,542,211**	**2,348,360**	**3,375,250**	**7,224,129**

The fair value of the ordinary Old Mutual Limited shares at 31 December 2019 was R19.6 (2018: R22.40)

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. Dividends are received by the share trust and then paid directly to the holders of the RSPs, the payment of dividends is offset against the dividend income.

26. Employee benefits

	GROUP		**COMPANY**	
	2019 R million	**2018 R million**	**2019 R million**	**2018 R million**
Leave accrual	71	60	63	51
Bonus accrual	89	153	78	150
	160	**213**	**141**	**201**

Notes to the group and company Financial Statements (continued)

27. Amounts payable to cell owners

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Retained income reserve	708	497	–	–
Preference shares	91	78	–	–
Cell captives reinsurance technical reserves	320	303	–	–
	1,119	**878**	**–**	**–**
Reconciliation of amounts payable to cell owners				
Balance at the beginning of the year	878	761	–	–
Capital contribution	13	4	–	–
Underwriting and investment income attributable to cell owners	265	220	–	–
Dividend payments to cell owners	(37)	(107)	–	–
Balance at the end of the year	**1,119**	**878**	**–**	**–**

28. Trade and other payables

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Financial instruments:				
Trade payables	34	68	31	65
Amounts due to subsidiaries	–	–	–	90
Other payables	295	474	162	204
Non-financial instruments:				
Amounts received in advance	96	–	36	–
VAT	7	1	7	–
	432	**543**	**236**	**359**

29. Commissions received

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Commissions received from reinsurers	902	858	387	287
Change in deferred reinsurance revenue liability	(10)	(47)	(11)	(51)
Prepaid expense adjustment – binder fee	–	(19)	–	–
	892	**792**	**376**	**236**

30. Net claims incurred

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Gross claims incurred	10,056	9,687	7,237	6,512
Subrogation and salvages recoveries	(761)	(848)	(510)	(570)
	9,295	8,839	6,727	5,942
Reinsurers' share of claims incurred	(2,896)	(3,344)	(939)	(1,001)
	6,399	**5,495**	**5,788**	**4,941**
Gross claims incurred				
Claims paid	9,682	8,849	6,913	5,756
Change in provision for outstanding claims	(193)	322	(243)	240
Claims administration expenses	567	516	567	516
	10,056	**9,687**	**7,237**	**6,512**
Subrogation and salvage recoveries				
Subrogation and salvage recoveries received	(794)	(863)	(543)	(585)
Change in provision for subrogation and salvage recoveries	33	15	33	15
	(761)	**(848)**	**(510)**	**(570)**
Reinsurers' share of claims incurred				
Claims paid	(3,000)	(3,156)	(1,111)	(907)
Change in provision for outstanding claims	104	(188)	172	(94)
	(2,896)	**(3,344)**	**(939)**	**(1,001)**

31. Acquisition cost

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Acquisition cost paid	(2,106)	(1,984)	(1,602)	(1,389)
Change in deferred acquisition cost	10	31	14	35
Prepaid expense adjustment – binder fee	–	21	–	3
	(2,096)	**(1,932)**	**(1,588)**	**(1,351)**

Notes to the group and company Financial Statements (continued)

32. Operating profit (loss)

Expenses by nature

The total cost of sales, selling and distribution expenses, marketing expenses, general and administrative expenses, research and development expenses, maintenance expenses and other operating expenses are analysed by nature as follows. This excludes claims administration expenses disclosed under net claims incurred as per note 30:

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Employee costs	1,209	1,144	1,045	936
Lease expenses	49	87	18	51
Depreciation, amortisation and impairment	163	116	158	109
Directors' emoluments	11	14	11	14
Impact of restructuring	–	70	–	70
Foreign exchange loss	10	25	–	1
Repairs and maintenance of property and equipment	7	4	6	3
Marketing expenses	172	116	177	116
Professional fees	93	84	92	65
Call option	15	–	15	–
Third party outsource fees	332	259	317	256
Administration fees	32	6	32	6
Other expenses	168	78	113	188
	2,261	**2,003**	**1,984**	**1,815**

33. Investment income

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Dividend income				
Group entities:				
Subsidiaries – Local	–	–	148	12
Equity instruments at fair value through profit or loss:				
Listed investments – Local	23	25	–	–
Unlisted investments – Local	38	77	20	13
Total dividend income	**61**	**102**	**168**	**25**
Interest income				
Investments in financial assets:				
Bank and other cash	63	125	49	35
Investments at fair value	265	240	165	217
Other financial assets	1	1	1	1
Fair value gains and losses:				
Subsidiaries	–	–	(121)	(309)
Investments and securities	57	(13)	43	(37)
Old Mutual Limited shares	(53)	(8)	–	–
Share trusts	–	–	22	79
Disposal of investments	(7)	12	(1)	(1)
Total interest income	**326**	**357**	**158**	**(15)**
Total investment income	**387**	**459**	**326**	**10**

34. Finance costs

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Lease liabilities	23	–	23	–
Interest paid on debt instrument	53	51	53	51
Total finance costs	**76**	**51**	**76**	**51**

Notes to the group and company Financial Statements (continued)

35. Taxation

Major components of the tax expense

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Current				
Local income tax – current period	126	306	64	244
Local income tax – recognised in current tax for prior periods	(2)	(108)	(8)	(107)
Foreign income tax or withholding tax – current period	7	9	–	–
	131	**207**	**56**	**137**
Deferred				
Originating and reversing temporary differences	11	(88)	31	(83)
Arising from previously unrecognised tax loss/tax credit/ temporary difference	7	90	7	89
Arising from prior period adjustments	(54)	–	–	–
	(36)	2	38	6
	95	**209**	**94**	**143**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Applicable tax rate	28.00%	28.00%	28.00%	28.00%
Non-taxable income	9.09%	(0.82)%	9.59%	2.09%
Disallowed expenditure	1.67%	(1.93)%	2.78%	14.50%
Prior year adjustment	1.19%	(2.18)%	(0.46)%	5.28%
Withholding tax	(2.15)%	1.28%	(0.03)%	0.12%
Capital gains tax	(15,08)%	(1.48)%	(1.36)%	3.57%
	22.72%	**22.87%**	**38.52%**	**53.56%**

36. Cash (used in)/generated from operations

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Profit before taxation	418	914	244	267
Adjustments for:				
Depreciation and amortisation	163	92	157	88
Income from equity accounted investments	(49)	(96)	–	–
Dividends received (trading)	(61)	(102)	(168)	(25)
Interest income	(329)	(366)	(215)	(253)
Finance costs	76	51	76	9
Fair value (gains) losses	3	9	57	268
Net impairments and movements in credit loss allowances	–	5	–	8
Movements in retirement benefit assets and liabilities	5	(6)	5	(9)
Movements in net insurance contract provisions	(56)	(61)	(8)	(57)
Gains on foreign exchange	10	(25)	(1)	(1)
Changes in working capital:				
Trade and other receivables	45	334	50	225
Employee benefits	(53)	–	(60)	–
Amounts due from agents and reinsurers	463	(258)	296	(93)
Trade and other payables	(111)	277	(123)	189
Share-based payment liability		(22)	28	(28)
Amounts payable to cell owners	241	117	–	–
Decrease in deposits with reinsurers	(557)	(40)	(446)	(46)
	321	**823**	**(164)**	**542**

37. Tax (paid) refunded

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Balance at beginning of the year	115	(31)	112	(23)
Current tax for the year recognised in profit or loss	(131)	(198)	(56)	(137)
Balance at end of the year	(10)	(115)	(15)	(112)
	(26)	**(344)**	**41**	**(272)**

Notes to the group and company Financial Statements (continued)

38. Segmental information

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

These reportable segments as well as the products and services from which each of them derives revenue are set out below:

Reportable Segment	Products and services
Commercial	Insurance for small- to medium-sized enterprises (SMEs)
Personal	Insurance for personal belongings, including home, household contents and vehicles
Risk financing	Cell captive insurer
Specialty	Insurance for specialist areas of corporate clients
CGIC Guarantee	Trade credit insurance

Segmental revenue and results

The segment information provided to the executive committee is presented below. The information presented includes a reconciliation of the Group's earnings per segment to net profit before tax.

2019

	Revenue				Separately disclosable items		
	Gross written premium R million	Net written premium R million	Net earned premium R million	Profit before taxation R million	Net claims incurred R million	Net acquisition expenses R million	Total expenses R million
Commercial	4,733	4,222	4,215	(165)	(2,669)	(636)	(1,075)
Personal	4,081	3,947	3,944	99	(2,563)	(406)	(876)
Risk financing	3,222	46	46	10	(5)	–	(31)
Specialty	1,401	848	821	51	(455)	(138)	(177)
CGIC guarantee	1,219	883	896	51	(707)	(24)	(114)
Central expenses	–	–	–	(11)	–	–	(11)
Total	**14,656**	**9,946**	**9,922**	**35**	**(6,399)**	**(1,204)**	**(2,284)**
Reconciling items							
Investment returns and share of profit from associates				436			
Finance cost excluding IFRS 16 charge				(53)			
Profit before taxation				**418**			

2018

	Revenue				Separately disclosable items		
	Gross written premium R million	**Net written premium R million**	**Net earned premium R million**	**Profit before taxation R million**	**Net claims incurred R million**	**Net acquisition expenses R million**	**Total expenses R million**
Commercial	4,261	3,891	3,882	102	(2,239)	**(662)**	(879)
Personal	3,677	3,637	3,638	380	(2,119)	**(362)**	(777)
Risk financing	2,840	42	39	(9)	(1)	–	(47)
Specialty	1,275	662	660	(46)	(503)	**(93)**	(110)
CGIC guarantee	1,165	838	829	102	(633)	**(23)**	(71)
Central expenses	–	–	–	(49)	–	–	(49)
Total	**13,218**	**9,070**	**9,048**	**480**	**(5,495)**	**(1,140)**	**(1,933)**
Reconciling items							
Investment returns and share of profit from associates				555			
Finance cost				(51)			
Impact of restructuring (included in administration expenses)				(70)			
Profit before taxation				**914**			

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

Whilst the company has subsidiaries and investments located in Zimbabwe, Swaziland and Mauritius, the results of these foreign entities are not material to the Group. As the asset base represents approximately 1.48% in 2019 (2018: 1.76%) of the Group's total assets, no further information is provided in these financial statements.

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

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

Analysis of gross written premium by class of business

Gross written premium was derived from the following products.

Notes to the group and company Financial Statements (continued)

38. Segmental information (continued)

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Class of business				
Property	5,657	4,516	4,279	3,771
Transportation	574	590	211	201
Motor	5,913	5,352	5,002	4,474
Accident and health	147	177	80	71
Guarantee	1,219	1,215	–	3
Liability	250	197	222	165
Engineering	627	670	622	631
Miscellaneous	269	501	244	195
Total gross written premium	**14,656**	**13,218**	**10,660**	**9,511**

39. Related parties

Relationships

Ultimate holding company	Old Mutual Limited
Holding company	Mutual and Federal Investments Proprietary Limited
Subsidiaries	Refer to note 9
Employee share trusts	Refer to note 12
Associates	Refer to note 10
Fellow subsidiaries	Old Mutual Emerging Markets Proprietary Limited
	Old Mutual Life Assurance Company (South Africa) Limited
	Old Mutual Investment Group Limited
	Old Mutual Direct Holdings Limited
	Old Mutual Short-term Insurance (Botswana) Limited
	Old Mutual Short-term Insurance (Namibia) Limited
Fellow associate	Nedbank Limited (2018) Post the managed separation of Old Mutual Limited, Nedbank Limited is no longer considered a related party and therefore no 2019 disclosures have been made.

Related party balances

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
Loan accounts – Owing (to) by related parties				
Mutual and Federal Management Incentive Trust	–	–	63	63
Mutual and Federal Development Trust	–	–	14	14
Mutual and Federal Management Incentive Trust (Namibia)	7	7	7	7
Amounts included in trade receivable (trade payable) regarding related parties				
Old Mutual Direct Holdings Limited	43	41	43	41
Old Mutual Limited	–	(56)	–	(56)
Old Mutual Short-term Insurance (Botswana) Limited	3	3	3	3
Old Mutual Short-term Insurance (Namibia) Limited	(2)	7	(2)	7
Mutual and Federal Risk Financing Limited			5	
Sintelum (Proprietary) Limited			1	
Elite (Proprietary) Limited			1	
Couger Investment Holdings (Proprietary) Limited				(87)
Credit Guarantee Insurance Corporation of Africa Limited				(3)
Bank balances				
Nedbank Limited	–	536	–	210
Money market investments				
Nedbank Limited	–	577	–	548
Post-retirement medical aid asset				
Old Mutual Life Assurance Company (South Africa) Limited	221	223	160	160
Value of shares held				
Mutual and Federal Management Incentive Trust	83	241	–	–
Mutual and Federal Senior Black Management Trust	64	84	–	–
Old Mutual Insure Employee Incentive Trust	71	24	–	–
Old Mutual Insure Broad-based Black Economic Empowerment Trust	152	47	–	–
Mutual and Federal Development Trust	41	81	–	–
Related party transactions				
Dividends paid to (created) from related parties				
Credit Guarantee Insurance Corporation of Africa Limited			16	12
Mutual and federal Risk financing Limited			25	–
Cougar Investment Holding Company Limited	–	–	80	–
Interest paid to (received from) related parties				
Nedbank Limited	–	(102)	–	(61)
Mutual and Federal Risk Financing Limited	–	–	–	(8)
Investment management fees paid				
Nedbank Limited	–	28	–	27
Rent paid to (received from) related parties				
Credit Guarantee Insurance Corporation of Africa Limited	–	–	(35)	(35)
Old Mutual Limited	44	–	44	–
Commission paid				
Personal Financial Advice Limited	143	–	143	–

Notes to the group and company Financial Statements (continued)

39. Related parties (continued)

	GROUP 2019 R million	GROUP 2018 R million	COMPANY 2019 R million	COMPANY 2018 R million
Administration fees paid to (received from) related parties				
Old Mutual Emerging Markets Proprietary Limited	128	96	128	96
Mutual and Federal Risk Financing Limited	–	–	(30)	(39)
Reinsurance premium received				
Mutual and Federal Risk Financing Limited	–	–	(437)	(323)
Credit Guarantee Insurance Corporation of Africa Limited	–	–	(1)	(1)
Reinsurance claims paid				
Mutual and Federal Risk Financing Limited	–	–	276	38
Credit Guarantee Insurance Corporation of Africa Limited	–	–	3	3
Reinsurance commission received				
Mutual and Federal Risk Financing Limited	–	–	(128)	(83)
Claims incurred				
Nedbank Limited	–	88	–	88
Premium received				
Nedbank Limited	–	(154)	–	(154)

Fees paid to the Troy consortium

The intra-Group balance with Old Mutual Direct Holdings Limited relates to prepayments made by the company to the Troy consortium for the development of a direct insurance infrastructure within the wider Old Mutual Group. The R43 million (2018: R41 million) receivable at year-end represents the prepayments made by the company as well as associated interest which will be reimbursed by Old Mutual Direct Holdings.

40. Directors' and prescribed officer's emoluments

Directors' and prescribed officer's emoluments are paid by the company unless otherwise specified.

Executive

	Basic salary R'000	Bonus R '000	Pension contribution R'000	Other R'000	Total R'000	IFRS 2 charge on Nedbank/ Quilter share R'000	IFRS 2 fair value of unvested shares at year end# R'000
2019							
Mr G Napier	4,090	2,129	381	–	6,600	–	4,446
Ms NB Manyoha	2,425	364	153	–	2,942	–	1,732
	6,515	**2,493**	**534**	–	**9,542**	–	**6,178**
2018							
Mr G Napier	544	649	177	4,990	6,360	–	433
Ms NB Manyoha	2,140	1,132	197	1,500	4,969	749	1,783
	2,684	**1,781**	**374**	**6,490**	**11,329**	**749**	**2,216**

Shares awarded for performance relating to the year are granted in the following year.

Securities issued

The following share movements took place relevant to the executive directors' or individuals related to them in the year under review. Shares awarded for performance relating to the year under review are granted in the following year:

	Issue date	Vesting date	Share price R	Opening number of shares	Number of shares granted	Number of vested shares	Number of forfeited shares	Closing number of shares
R Snyders – previous managing executive	16 April 2015	16 April 2018	19.60	20,782	–	(20,782)	–	–
	11 March 2016	11 March 2019	19.60	49,877	–	–	(24,939)	24,938
NB Manyoha	19 April 2018	19 April 2021	19.60	29,349	–	–	–	29,349
	19 April 2018	19 April 2022	19.60	8,063	–	–	–	8,063
	19 April 2018	19 April 2023	19.60	8,063	–	–	–	8,063
	18 September 2018	18 September 2020	19.60	336	–	–	–	336
	14 December 2018	18 September 2020	19.60	128	–	–	–	128
	20 March 2019	20 March 2022	19.60	–	15,326	–	–	15,326
	20 March 2019	20 March 2023	19.60	–	15,326	–	–	15,326
	20 March 2019	20 March 2024	19.60	–	15,326	–	–	15,326
	20 March 2019	20 March 2024	19.60	–	34,689	–	–	34,689
G Napier	20 March 2019	20 March 2020	19.60	–	108,966	–	–	108,966
	20 March 2019	20 March 2021	19.60	–	108,966	–	–	108,966
	20 March 2019	20 March 2022	19.60	–	201,764	–	(6,517)	195,248
	20 March 2019	20 March 2023	19.60	–	72,913	–	–	72,913
	20 March 2019	20 March 2024	19.60	–	72,911	–	–	72,911

Notes to the group and company Financial Statements (continued)

40. Directors' and prescribed officer's emoluments (continued)

Non-executive

2019

	Directors' fees R'000	Basic salary R'000	Bonus R'000	Other R'000	Total R'000	IFRS 2 charge on Nedbank/ Quilter shares R'000	IFRS 2 fair value of unvested shares at year end R'000
Mr SC Gilbert	55	–	–	–	55	–	–
Mr M Ilsley*	461	1,587	2,700	303	5,051	–	19
Mr P Moyo*	–	9,012	–	147	9,159	–	–
Mr G Palser	752	–	–	–	752	–	–
Mr P Rörich	245	–	–	–	245	–	–
Mr MA Schameck	307	–	–	–	307	–	–
Mr PGM Truyens	363	–	–	–	363	–	–
Mr TP Zondi	538	–	–	–	538	–	–
	2,721	**10,599**	**2,700**	**450**	**16,470**	**–**	**19**

2018

	Directors' fees R'000	Basic salary R'000	Bonus R'000	Other R'000	Total R'000	IFRS 2 charge on Nedbank/ Quilter shares R'000	IFRS 2 fair value of unvested shares at year end R'000
Mr M Ilsley*	–	2,850	–	2,250	5,100	1,191	3,912
Mr P Moyo*	–	8,000	14,124	–	22,748	22,748	11,748
Mr M Mia	431	–	–	–	431	–	–
Mr G Palser	288	–	–	–	288	–	–
Mr Rörich	672	–	–	–	–	–	–
Mr PGM Truyens	553	–	–	–	553	–	–
Ms TP Zondi	258	–	–	–	258	–	–
Mr MJ Harper	638	–	–	–	638	–	–
	2,840	**10,850**	**14,124**	**2,250**	**30,016**	**23,939**	**15,660**

* Paid by Group companies

Securities issued

	Issue date	Vesting date	Share price (R)	Opening number of shares	Number of shares granted	Number of shares vested	Number of shares forfeited	Closing number of shares
P Moyo	6 September 2017	6 September 2020	19.60	724,639	–	–	(724,639)	–
	6 September 2017	6 September 2021	19.60	181,159	–	–	(181,159)	–
	6 September 2017	6 September 2022	19.60	181,160	–	–	(181,159)	–
	19 April 2018	19 April 2021	19.60	344,966	–	–	(344,966)	–
	18 September 2018	18 September 2019	19.60	227,140	–	–	(227,140)	–
	18 September 2018	18 September 2020	19.60	336	–	–	(336)	–
	14 December 2018	18 September 2019	19.60	86,180	–	–	(86,180)	–
	14 December 2018	18 September 2020	19.60	128	–	–	(128)	–
M Ilsley	6 September 2017	6 September 2020	19.60	78,261	–	–	–	78,261
	12 November 2018	18 September 2019	19.60	95,138	–	–	–	95,138
	18 September 2018	18 September 2020	19.60	336	–	–	–	336
	14 December 2018	18 September 2020	19.60	128	–	–	–	128
				1,919,570	**–**	**–**	**1,745,707**	**173,863**

Prescribed officers

2018

	Emoluments R'000	Other R'000	Total R'000
Mr JW Wilken	1,312	5,670	6,982
Mr JW Wilken*	2,562	–	2,562
	3,874	**5,670**	**9,544**

* Paid by Group companies

Mr JW Wilken is no longer a prescribed officer

Notes to the group and company Financial Statements (continued)

41. Financial instruments and risk management

Categories of assets and liabilities

Categories of assets

Group – 2019

	Notes	Total R million	Mandatorily at fair value through profit and loss R million	Designated fair value through profit and loss R million	Financial assets at amortised cost R million	Non-financial assets at fair value R million	Non-financial assets at other than fair value R million	Current assets* R million	Non-current assets* R million
Goodwill	4	21	–	–	–	–	21	–	21
Intangible assets	5	174	–	–	–	–	174	–	174
Property and equipment	6	249	–	–	–	–	249	–	249
Right of use asset	7	478	–	–	–	–	478	86	392
Deferred tax	8	41	–	–	–	–	41	–	41
Investments in associates	10	79	–	–	–	–	79	–	79
Loans to share trusts	11	7	–	–	7	–	–	–	7
Loans receivable		2	–	–	2	–	–	–	2
Retirement benefit asset	13	221	–	–	–	–	221	–	221
Deferred acquisition costs	14	243	–	–	–	–	243	243	–
Reinsurers' share of general insurance liabilities	23	2,112	–	–	–	–	2,112	1,720	392
Deposits with cedants		27	–	–	27	–	–	27	–
Investments and securities	15	6,561	6,528	–	33	–	–	6,561	–
Amounts due from agents and reinsurers	16	1,744	–	–	–	–	1,744	1,744	–
Subrogation and salvage recoveries	17	569	–	–	–	–	569	569	–
Non-current assets held for sale	18	257	–	–	–	257	–	257	–
Current tax receivable		18	–	–	–	–	18	18	–
Trade and other receivables	19	559	–	–	519	–	40	559	–
Cash and cash equivalents	20	1,084	–	–	1,084	–	–	1,084	–
		14,446	**6,528**	**–**	**1,672**	**257**	**5,989**	**12,868**	**1,578**

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

Group – 2018

	Notes	Total R million	Mandatorily at fair value through profit and loss R million	Designated fair value through profit and loss R million	Financial assets at amortised cost R million	Non-financial assets at fair value R million	Non-financial assets at other than fair value R million	Current assets* R million	Non-current assets* R million
Goodwill	4	21	–	–	–	–	21	–	21
Intangible assets	5	162	–	–	–	–	162	–	162
Property and equipment	6	129	–	–	–	–	129	–	129
Deferred tax	8	67	–	–	–	–	67	–	67
Investments in associates	10	104	–	–	–	–	104	–	104
Loans to share trusts	11	7	–	–	7	–	–	–	7
Loans and advances		1	–	–	1	–	–	–	1
Retirement benefit asset	13	223	–	–	–	–	223	–	223
Deferred acquisition costs	14	231	–	–	–	–	231	–	231
Reinsurers' share of general insurance liabilities	23	2,574	–	–	–	–	2,574	2,096	478
Deposits with cedants		27	–	–	27	–	–	27	–
Investments and securities	15	6,305	6,269	–	36	–	–	6,305	–
Amounts due from agents and reinsurers	16	1,618	–	–	–	–	1,618	1,618	–
Subrogation and salvage recoveries	17	646	–	–	–	–	646	646	–
Non-current assets held for sale	18	243	–	–	–	243	–	243	–
Current tax receivable		122	–	–	–	–	122	122	–
Trade and other receivables	19	604	–	–	604	–	–	604	–
Cash and cash equivalents	20	1,386	–	–	1,386	–	–	1,386	–
		14,470	**6,269**		**2,061**	**243**	**5,897**	**13,047**	**1,423**

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

Notes to the group and company Financial Statements (continued)

41. Financial instruments and risk management (continued)

Company – 2019

	Notes	Total R million	Mandatorily at fair value through profit and loss R million	Designated fair value through profit and loss R million	Financial assets at amortised cost R million	Non-financial assets at fair value R million	Non-financial assets at other than fair value R million	Current assets* R million	Non-current assets* R million
Intangible assets	5	174	–	–	–	–	174	–	174
Property and equipment	6	238	–	–	–	–	238	–	238
Right of use asset	7	475	–	–	–	–	475	86	389
Deferred tax		8	–	–	–	–	8	–	8
Investments in subsidiaries	9	1,426	1,426	–	–	–	–	–	1,426
Investments in associates	10	13	–	–	–	–	13	–	13
Loans to share trusts	11	84	–	–	84	–	–	–	84
Interest in employee share trusts	12	634	634	–	–	–	–	–	634
Loans receivable		2	–	–	2	–	–	–	2
Retirement benefit asset	13	160	–	–	–	–	160	–	160
Deferred acquisition costs	14	174	–	–	–	–	174	174	–
Reinsurers' share of general insurance liabilities	23	1,421	–	–	–	–	1,421	1,106	315
Investments and securities	15	3,183	3,153	–	30	–	–	3,183	–
Amounts due from agents and reinsurers	16	1,503	–	–	–	–	1,503	1,503	–
Subrogation and salvage recoveries	17	222	–	–	–	–	222	222	–
Non-current assets held for sale	18	257	–	–	–	257	–	–	257
Current tax receivable		15	–	–	–	–	15	15	–
Trade and other receivables	19	274	–	–	274	–	–	274	–
Cash and cash equivalents	20	283	–	–	283	–	–	283	–
		10,546	**5,213**	**–**	**673**	**257**	**4,403**	**6,846**	**3,700**

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

Company – 2018

	Notes	Total R million	Mandatorily at fair value through profit and loss R million	Designated fair value through profit and loss R million	Financial assets at amortised cost R million	Non-financial assets at fair value R million	Non-financial assets at other than fair value R million	Current assets* R million	Non-current assets* R million
Intangible assets	5	162	–	–	–	–	162	–	162
Property and equipment	6	120	–	–	–	–	120	–	120
Deferred tax	8	46	–	–	–	–	46	–	46
Investments in subsidiaries	9	1,548	1,548	–	–	–	–	–	1,548
Investments in associates	10	13	–	–	–	–	13	–	13
Loans to share trusts	11	84	–	–	84	–	–	–	84
Investments in employee share trusts	12	611	611	–	–	–	–	–	611
Loans receivable		1	–	–	1	–	1	–	1
Retirement benefit asset	13	160	–	–	–	–	160	–	160
Deferred acquisition costs	14	158	–	–	–	–	158	158	–
Reinsurers' share of general insurance liabilities	23	1,553	–	–	–	–	1,553	1,208	345
Investments and securities	15	3,516	3,483	–	33	–	–	3,516	–
Amounts due from agents and reinsurers	16	1,270	–	–	–	–	1,270	1,270	–
Subrogation and salvage recoveries	17	275	–	–	–	–	275	275	–
Non-current assets held for	18	243	–	–	–	243	–	–	243
Current tax receivable		112	–	–	–	–	112	112	–
Trade and other receivables	19	322	–	–	322	–	–	322	–
Cash and cash equivalents	20	343	–	–	343	–	–	343	–
		10,537	**5,642**	**–**	**783**	**243**	**3,870**	**7,204**	**3,333**

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

Notes to the group and company Financial Statements (continued)

41. Financial instruments and risk management (continued)

Categories of liabilities

Group – 2019

	Notes	Total R million	Designated fair value through profit or loss R million	Financial liabilities at amortised cost R million	Non-financial liabilities at fair value R million	Non-financial liabilities at other than fair value R million	Current liabilities* R million	Non-current liabilities* R million
General insurance liabilities	23	5,639	–	–	–	5,639	5,068	571
Lease liabilities	7	494	–	–	–	494	100	394
Debt instrument	24	500	–	500	–	–	–	500
Deferred reinsurance commission revenue	14	196	–	–	–	196	196	–
Amounts due to agents and reinsurers	16	1,103	–	–	–	1,103	1,103	–
Post-retirement medical benefit liability	13	243	–	–	–	243	–	243
Share-based payment liability	25	91	–	–	–	91	–	91
Employee benefits	26	160	–	–	–	160	160	–
Deferred tax	8	41	–	–	–	41	–	41
Deposits owing to reinsurers		239	–	239	–	–	239	–
Amounts payable to cell owners	27	1,119	–	1,119	–	–	1,119	–
Current tax payable		8	–	–	–	8	8	–
Trade and other payables	28	432	–	425	–	7	432	–
		10,265	**–**	**2,283**	**–**	**7,982**	**8,425**	**1,840**

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

Group – 2018

	Notes	Total R million	Designated fair value through profit or loss R million	Financial liabilities at amortised cost R million	Non-financial liabilities at fair value R million	Non-financial liabilities at other than fair value R million	Current liabilities* R million	Non-current liabilities* R million
General insurance liabilities	23	6,119	–	–	–	6,119	4,982	1,137
Debt instrument	24	500	–	500	–	–	–	500
Deferred reinsurance commission revenue	14	186	–	–	–	186	186	–
Amounts due to agents and reinsurers	16	514	–	–	–	514	514	–
Post-retirement medical benefit liability	13	254	–	–	–	254	–	254
Share-based payment liability	25	68	–	–	–	68	–	68
Employee benefits	26	213	–	–	–	213	213	–
Deferred tax	8	103	–	–	–	103	–	103
Deposits owing to reinsurers		796	–	796	–	–	796	–
Amounts payable to cell owners	27	878	–	878	–	–	878	–
Current tax payable		7	–	–	–	7	7	–
Trade and other payables	28	543	–	543	–	–	543	–
		10,181	**–**	**2,717**	**–**	**7,464**	**8,119**	**2,062**

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

Notes to the group and company Financial Statements (continued)

41. Financial instruments and risk management (continued)

Company – 2019

	Notes	Total R million	Designated fair value through profit or loss R million	Financial liabilities at amortised cost R million	Non-financial liabilities at fair value R million	Non-financial liabilities at other than fair value R million	Current liabilities* R million	Non-current liabilities* R million
General insurance liabilities	23	3,641	–	–	–	3,641	2,983	658
Lease liabilities	7	491	–	–	–	491	100	391
Debt instrument	24	500	–	500	–	–	–	500
Deferred reinsurance commission revenue	14	125	–	–	–	125	125	–
Amounts due to agents and reinsurers	16	884	–	–	–	884	884	–
Post-retirement medical benefit liability	13	178	–	–	–	178	–	178
Share-based payment liability	25	80	–	–	–	80	–	80
Employee benefits	26	141	–	–	–	141	141	–
Deposits owing to reinsurers		226	–	226	–	–	226	–
Trade and other payables	28	236	–	229	–	7	236	–
		6,502	**–**	**955**	**–**	**5,547**	**4,695**	**1,807**

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

Company – 2018

	Notes	Total R million	Designated fair value through profit or loss R million	Financial liabilities at amortised cost R million	Non-financial liabilities at fair value R million	Non-financial liabilities at other than fair value R million	Current liabilities* R million	Non-current liabilities* R million
General insurance liabilities	23	3,829	–	–	3,829	–	2,981	848
Debt instrument	24	500	–	500	–	–	–	500
Deferred reinsurance commission revenue	14	114	–	–	–	114	114	–
Amounts due to agents and reinsurers	16	355	–	–	–	355	355	–
Post-retirement medical benefit liability	13	191	–	–	–	191	–	191
Share-based payment liability	25	54	–	–	–	54	–	54
Employee benefits	26	201	–	–	–	201	201	–
Deposits owing to reinsurers		672	–	672	–	–	672	–
Trade and other payables	28	359	–	359	–	–	359	–
		6,275	**–**	**1,531**	**3,829**	**915**	**4,682**	**792**

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

Notes to the group and company Financial Statements (continued)

42. Risk management

Overview

General

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

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

- assisting the Board in setting risk strategy in liaison with management;
- assisting the Board in overseeing the Group's compliance with applicable legal and regulatory requirements and industry standards;
- providing independent and objective oversight of risk management also taking account of reports by management and the Group Audit Committee to the Board on all categories of identified risks;
- recommending the risk policy and framework to the Board for approval; and
- ensuring the establishment of independent risk management, compliance and actuarial control functions and reviewing their effectiveness.

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

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

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

The following control functions within the Group are responsible for discharging the operations of risk management and compliance:

Risk management

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

Compliance

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

Actuarial control

The purpose of the actuarial control function is the following:

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

Internal audit

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

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

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

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

42. Risk management (continued)

Underwriting risk

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

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:

Accident and personal accident
Crop
Engineering
Liability
Marine
Motor
Trade credit and guarantee
Property

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 theft of the vehicle, but the insured can select restricted forms of cover, such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third-party property or death or injury to a third party are also covered under this class of business.

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

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

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

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

Risk that arises from insurance contracts

Insurance risk and policies for mitigating insurance risk

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

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

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

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

Underwriting strategy

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

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

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

Reinsurance strategy

Reinsurance risk is the risk that the reinsurance cover placed is inadequate and/or inefficient relative to the Group's risk management strategy and objectives. The Group reinsures a portion of most of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Group buys a combination of proportional and non-proportional reinsurance treaties to reduce the overall volatility as well as the net exposure on any one risk/event to within the stated annual risk appetite limits.

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. Business is mainly carried out in South Africa with the bulk of exposure in Gauteng, followed by Cape Town. The Group has exposure to all major lines of insurance business, but the bulk of exposure is to property and motor risk.

Notes to the group and company Financial Statements (continued)

42. Risk management (continued)

Exposure relating to catastrophe events

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

The Group considers that its most significant single loss would arise in the event of an earthquake in Gauteng. However, exposure to multiple storms in a single year or a severe recession can give rise to a higher net retained loss in severe years (1 in 200). The Group's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake in Gauteng, the net retained loss would represent 1.8% of capital (2018: 1.9%). The additional reinstatement premiums, variable commissions, loss participation and inclusion of large individual losses within the catastrophe could increase this to 4.5% (2018: 3.4%) 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 levels of the IBNR provisions and the risk margins are assessed annually by management against the Group's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate.

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

- changes in processes that affect the development/recording of claims paid and incurred;
- economic, legal, political and social trends;
- changes in mix of business; and
- random fluctuations, including the impact of large losses. There were no significant changes to these methodologies from the prior year.

Claims development

The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to predetermined time scales dependent on the nature of the insurance contract. The Group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims (run-off risk). To manage run-off risk, the Group takes all the reasonable steps to ensure that it has appropriate information regarding its claims exposures and adopts sound reserving practices. Further, there is capital specifically allowed for the risk of inadequate reserves.

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. Please refer to note 23 for claims development information.

Other risks and policies mitigating these risks

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

Capital risk management

The company targets a multiple of 1.3 times the solvency assessment and management's (SAM) solvency capital requirement.

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

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

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

Operational risk

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

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

Regulatory compliance risk

Regulatory compliance risk is the risk that the Group is not able to meet the regulatory requirements, which may impact the Group's reputation and/or give rise to penalties or fines.

The Board of directors and management are actively monitoring the changes in the regulatory and compliance business landscape. The possible implications for the business plans and governance structures going forward are analysed regularly and the necessary changes are implemented. The Group seeks constructive engagement with the various regulators and policymakers.

Market conduct risk is the risk that a firm's behaviour may result in unfair treatment of its clients. Regulatory requirements relating to conduct risk are continually being strengthened by conduct risk mitigation initiatives such as the Retail Distribution Review and the Conduct of Financial Institutions Bill. The Old Mutual Limited Group Market Conduct Framework, to which the Group adheres, is in the process of being implemented and covers these regulated aspects.

Financial risk management

- Credit risk.
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, where the Group is exposed to credit risk are:

- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries and third-party recoveries (refer to note 16);
- investments and cash and cash equivalents;
- reinsurers' share of general insurance liabilities;
- amounts due from reinsurers and third parties in respect of claims already paid (refer to note 16); and
- loans to share trusts, other loans receivable and trade receivables.

Notes to the group and company Financial Statements (continued)

42. Risk management (continued)

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

Reputable financial institutions are used for investing and cash-handling purposes. In excess of 99% (2018: 99%) 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-.

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

R million Group 2019	AAA	AA	A	BBB and lower	Not rated	Total
Loans receivable	–	–	–	–	2	2
Reinsurers' share of general insurance liabilities	–	220	1,316	11	565	2,112
Loans to share trusts	–	–	–	–	7	7
Investments and securities						
Long-term loans	–	–	–	–	33	33
Unlisted empowerment private equity fund	–	–	–	–	90	90
Unlisted shares	–	–	–	–	159	159
Listed shares	–	–	–	–	1,144	1,144
Unlisted money market funds	1,796	3,252	73	–	14	5,135
Amounts due from agents and reinsurers	–	1	624	104	1,015	1,744
Trade and other receivables	–	–	–	–	443	443
Cash and cash equivalents	–	1,085	–	–	1	1,086
	1,796	**4,558**	**2,013**	**115**	**3,473**	

R million Group 2018	AAA	AA	A	BBB and lower	Not rated	Total
Loans receivables	–	–	–	–	1	1
Reinsurers' share of general insurance liabilities	–	187	2,080	49	258	2,574
Loans to share trusts	–	–	–	–	7	7
Investments and securities						
Long-term loans	–	–	–	–	36	36
Unlisted empowerment private equity fund	–	–	–	–	67	67
Unlisted shares	–	–	–	–	137	137
Listed shares	–	–	–	–	1,114	1,114
Unlisted money market funds	696	4,223	32	–	–	4,951
Amounts due from agents and reinsurers	–	44	236	–	1,338	1,618
Trade and other receivables	–	–	–	–	604	604
Cash and cash equivalents	–	1,385	–	–	1	1,386
	696	**5,839**	**2,348**	**49**	**5,181**	

R million Company 2019	AAA	AA	A	BBB and lower	Not rated	Total
Loans receivable	–	–	–	–	2	2
Reinsurers' share of general insurance liabilities	–	220	1,175	11	15	1,421
Loans to share trusts	–	–	–	–	84	84
Investments and securities						
Long-term loans	–	–	–	–	30	30
Unlisted empowerment private equity fund	–	–	–	–	90	90
Unlisted shares	–	–	–	–	43	43
Listed shares	–	–	–	–	466	466
Unlisted money market funds	1,077	1,431	44	–	2	2,554
Amounts due from agents and reinsurers	–	1	624	104	774	1,503
Trade and other receivables	–	–	–	–	274	274
Cash and cash equivalents	–	282	–	–	1	283
	1,077	**1,934**	**1,843**	**115**	**1,781**	

R million Company 2018	AAA	AA	A	BBB and lower	Not rated	Total
Loans receivable	–	–	–	–	1	1
Reinsurers' share of general insurance liabilities	–	311	914	82	246	1,553
Loans to share trusts	–	–	–	–	84	84
Investments and securities						
Long-term loans	–	–	–	–	33	33
Unlisted empowerment private equity fund	–	–	–	–	67	67
Unlisted shares	–	–	–	–	8	8
Listed shares	–	–	–	–	468	468
Unlisted money market funds	696	2,206	32	–	6	2,940
Amounts due from agents and reinsurers	–	44	236	–	990	1,270
Trade and other receivables	–	–	–	–	322	322
Cash and cash equivalents	–	342	–	–	1	343
	696	**2,903**	**1,182**	**82**	**2,226**	

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

Notes to the group and company Financial Statements (continued)

42. Risk management (continued)

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. Included in the AAA rating is AAA- as well as AAA+.

AA The financial instrument is judged to be of high quality and is subject to very low credit risk and indicates quality issuers. Included in the AA rating is AA- as well as AA+.

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. Included in the A rating is A- as well as A+.

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 listed and unlisted ordinary shares.

Reinsurance credit risk

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

The Group risk appetite requires that all reinsurers have a local/international credit rating of A- or better. Maximum exposure per reinsurer is also limited in accordance of the risk appetite.

The Group held deposits of R239 million (2018: R796 million) and the company held deposits of R226 million (2018: R672 million) as security for reinsurers' share of insurance contract provisions at the reporting date. Following regulatory changes, the Group has released some deposits owing to reinsurers during the year. No new deposits were received during the year.

Analysis of the credit quality and maximum exposure to credit risk of the financial assets of the net treaty included in amounts due from/to agents and reinsurers:

R million Group 2019	AAA	AA	A	BBB and lower	Not rated	Total
General Reinsurance Africa Ltd	–	–	(74)	–	–	(74)
GIC Re South Africa Ltd	–	–	86	–	–	86
Hannover Reinsurance Africa Ltd	–	–	25	–	–	25
Lloyd's of London			98			98
Mitsui Sumitomo (Japan)	–	–	(42)	–	–	(42)
Munich Reinsurance Co of SA Ltd	–	–	137	–	–	137
Partner Reinsurance Company Ltd	–	–	(34)	–	–	(34)
Swiss Re Africa Limited	–	–	(4)	–	–	(4)
Trans Re London Limited	–	–	112	–	–	112
Other	–	(13)	74	8	54	123
	–	(13)	378	8	54	427

R million Group 2018	AAA	AA	A	BBB and lower	Not rated	Total
General Reinsurance Africa Ltd	–	(7)	–	–	–	(7)
GIC Re South Africa Ltd	–	–	(2)	–	–	(2)
Hannover Reinsurance Africa Ltd	–	–	(1)	–	–	(1)
Lloyd's of London	–	–	13	–	–	13
Mitsui Sumitomo (Japan)	–	–	39	–	–	39
Munich Reinsurance Co of SA Ltd	–	120	–	–	–	120
Partner Reinsurance Company Ltd	–	–	1	–	–	1
Swiss Re Africa Limited	–	(21)	–	–	–	(21)
Trans Re London Limited	–	–	13	–	–	13
Other	–	8	58	–	53	119
	–	**100**	**121**	**–**	**53**	**274**

R million Company 2019	AAA	AA	A	BBB and lower	Not rated	Total
General Reinsurance Africa Ltd	–	–	(74)	–	–	(74)
GIC Re South Africa Ltd	–	–	83	–	–	83
Hannover Reinsurance Africa Ltd	–	–	32	–	–	32
Lloyd's of London	–	–	98	–	–	98
Mitsui Sumitomo (Japan)	–	–	(43)	–	–	(43)
Munich Reinsurance Co of SA	–	–	19	–	–	19
Partner Reinsurance Company Ltd	–	–	(33)	–	–	(33)
Swiss Re Africa Limited	–	–	(20)	–	–	(20)
Trans Re London Limited	–	–	112	–	–	112
Other	–	–	85	5	(9)	81
	–	**–**	**259**	**5**	**(9)**	**255**

Notes to the group and company Financial Statements (continued)

42. Risk management (continued)

R million Company 2018	AAA	AA	A	BBB and lower	Not rated	Total
General Reinsurance Africa Ltd	–	(7)	–	–	–	(7)
GIC Re South Africa Ltd	–	–	1	–	–	1
Hanover Reinsurance Africa Ltd	–	–	1	–	–	1
Lloyd's of London	–	–	13		–	13
Mitsu Sumitomo (Japan)	–	–	35	–	–	35
Munich Reinsurance Co of SA	–	21	–	–	–	21
Partner Reinsurance Company Ltd	–	–	1	–	–	1
Swiss Re Africa Limited	–	(40)	–	–	–	(40)
Trans Re London Limited	–	–	13	–	–	13
Other	–	11	56	–	(8)	59
	–	(15)	120		(8)	97

Liquidity risk

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

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

Maturity 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 maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

Group – 2019

	Less than 3 months R million	3 months to 1 year R million	1 to 5 years R million	Over 5 years R million	Total R million
Debt instruments	–	–	500	–	500
Lease liabilities	18	29	447	–	494
General insurance liabilities	3,296	1,771	572	–	5,639
Deposits owing to reinsurers	–	239	–	–	239
Trade and other payables	432	–	–	–	432
Amounts payable to cell owners	–	–	–	1,119	1,119
Amounts due to agents and reinsurers	1,011	92	–	–	1,103
	(4,757)	(2,131)	(1,519)	(1,119)	(9,526)

Group – 2018

	Less than 3 months R million	3 months to 1 year R million	1 to 5 years R million	Total R million
Debt instrument	–	–	500	500
General insurance liabilities	2,585	2,397	1,137	6,119
Deposits owing to reinsurers	669	127	–	796
Trade and other payables	543	–	–	543
Amounts payable to cell owners	–	–	878	878
Amounts due to agents and reinsurers	471	43	–	514
	(4,421)	**(2,634)**	**(2,769)**	**(9,824)**

Company – 2019

	Less than 3 months R million	3 months to 1 year R million	1 to 5 years R million	Total R million
Debt instruments	–	–	500	500
Lease liabilities	17	28	446	491
General insurance liabilities	1,719	1,264	658	3,641
Deposits owing to reinsurers	–	226	–	226
Trade and other payables	236	–	–	236
Amounts due to agents and reinsurers	831	53	–	884
	(2,803)	**(1,571)**	**(1,604)**	**(5,979)**

Company – 2018

	Less than 3 months R million	3 months to 1 year R million	1 to 5 years R million	Total R million
Debt instrument	–	–	500	500
General insurance liabilities	1,717	1,264	848	3,829
Deposits owing to reinsurers	564	108	–	672
Trade and other payables	359	–	–	359
Amounts due to agents and reinsurers	334	21	–	355
	(2,974)	**(1,393)**	**(1,348)**	**(5,715)**

Notes to the group and company Financial Statements (continued)

42. Risk management (continued)

Fair value hierarchy carried at fair value

The fair value hierarchy of assets carried at fair value are as follows:

Group – 2019

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Non-current asset held for sale	–	257	–	257
	–	**257**	**–**	**257**
Investments at fair value				
Unlisted shares	–	–	159	159
Unlisted empowerment private equity fund	–	–	90	90
Listed shares	1,144	–	–	1,144
Unlisted money market funds	5,135	–	–	5,135
	6,279	**–**	**249**	**6,528**
	6,279	**478**	**249**	**7,006**

Group – 2018

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Non-current asset held for sale	–	243	–	243
	–	**243**	**–**	**243**
Financial assets at fair value				
Unlisted shares	–	35	102	137
Unlisted empowerment private equity fund	–	–	67	67
Listed shares	1,114	–	–	1,114
Unlisted money market funds	1,675	3,276	–	4,951
	2,789	**3,311**	**169**	**6,269**
	2,789	**3,777**	**169**	**6,735**

Company – 2019

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Investment in subsidiaries	–	–	1,426	1,426
Investment in employee share trusts	–	634	–	634
Non-current asset held for sale	–	257	–	257
	–	**891**	**1,426**	**2,317**
Investments at fair value				
Unlisted shares	–	–	43	43
Unlisted empowerment private equity fund	–	–	90	90
Listed shares	466	–	–	466
Unlisted money market funds	2,554	–	–	2,554
	3,020	**–**	**133**	**3,153**
	3,020	**891**	**1,559**	**5,470**

Company – 2018

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
Investments in subsidiaries	–	–	1,548	1,548
Investments in employee share trusts	–	611	–	611
Non-current asset held for sale	–	243	–	243
	–	**854**	**1,548**	**2,402**
Investments at fair value				
Unlisted shares	–	–	8	8
Unlisted empowerment private equity fund	–	–	67	67
Listed shares	468	–	–	468
Unlisted money market funds	678	2,262	–	2,940
	1,146	**2,262**	**75**	**3,483**
	1,146	**3,116**	**1,623**	**5,885**

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.

Notes to the group and company Financial Statements (continued)

42. Risk management (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	
	2019 R million	2018 R million	2019 R million	2018 R million
Investments at fair value				
Opening balance	202	105	108	76
Acquisition of investment	35	–	35	–
Revaluation of investments to fair value through profit or loss	–	10	–	–
Revaluation of unlisted instruments	42	87	–	32
	279	**202**	143	**108**
Investments in subsidiaries				
Opening balance	–	–	1,548	1,836
Subsidiary fair value adjustment through profit or loss	–	–	(122)	(309)
Acquisition of subsidiary	–	–	–	21
	–	**–**	1,426	**1,548**

Sensitivity analysis for investments at fair value

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.

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 12% or R133 million impact on profit or loss (2018: 36% or R559 million) in the calculated fair value.

If the market interest rate associated with the unlisted money market investments changes by 1% the impact on fair value as well as the profit or loss would be R13 million for the Group and R3 million for the company.

The unlisted empowerment private equity fund consists of cash and unlisted ordinary shares. The unlisted ordinary shares are shown at fair value which is calculated by reference to expected future cash flows, discounted by an applicable risk-adjusted discount rate for similar equity securities. A 2.5% difference in earnings before interest, tax, depreciation and amortisation (EBITDA) would impact the profit or loss by R1 million (2018: R3 million).

Further information relating to investments and securities is contained in note 15 of the financial statements.

Market risk

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

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

Foreign currency risk

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

Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:

US Dollar exposure

		GROUP		COMPANY	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Assets:					
Investments and securities		23	2	–	–
Insurance related assets		47	24	47	24
Trade and other receivables	19	22	9	22	8
Cash and cash equivalents	20	53	54	35	33
Liabilities:					
Trade and other payables	28	(1)	(1)		
Other non financial liabilities		(67)	(39)	(67)	(39)
Net US Dollar exposure		**77**	**49**	**37**	**26**

RTGS exposure

		GROUP		COMPANY	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Assets:					
Trade and other receivables	19	–	9	–	–
Investments in associates		66	90	–	–
Investments and securities		20	37	–	–
RTGS exposure		**86**	**136**	**–**	**–**
Net exposure to foreign currency in Rand		**163**	**185**	**37**	**26**

Exposure in foreign currency amounts

The net carrying amounts, in foreign currency of the above exposure was as follows:

US Dollar exposure

		GROUP		COMPANY	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Assets:					
Investments and securities		2	–	–	–
Insurance related assets		3	2	3	2
Trade and other receivables	19	2	2	2	2
Cash and cash equivalents	20	4	1	3	1
Liabilities:					
Insurance related liabilities		(5)	(3)	(5)	(3)
Net US Dollar exposure		**6**	**2**	**3**	**2**

Notes to the group and company Financial Statements (continued)

42. Risk management (continued)

RTGS exposure

		GROUP		COMPANY	
	Notes	2019 R million	2018 R million	2019 R million	2018 R million
Assets:					
Trade and other receivables	19	–	2	–	–
Investments in associates		79	20	–	–
Investments and securities		24	8	–	–
RTGS exposure		**103**	**30**	**–**	**–**

Exchange rates

The following closing exchange rates were applied at reporting date:

Rand per unit of foreign currency

	GROUP		COMPANY	
	2019 R million	2018 R million	2019 R million	2018 R million
US Dollar	14.000	13.250	14.000	13.250
RTGS	0.832	4.350	0.832	4.350

Foreign currency sensitivity analysis

The following information presents the sensitivity of the Group to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Group

An increase or decrease of 10% in the Dollar currency rate would result in a change of R1 million (2018: R26 million) to the profit after tax and a resultant increase or decrease in retained earnings.

The RTGS rate is sensitive to a number of variables. An increase or decrease of 10% in the RTGS rate would result in a change of R5,94 million to the profit after tax and a resultant increase or decrease in retained earnings.

For the 2018 financial year a decrease of the RTGS rate to 2.5:1 against the US Dollar would result in an increase in profit or loss of R3 million and an increase of the rate to 5:1 against the US Dollar would result in a decrease in profit or loss of R4 million.

Interest rate risk

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

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Group

An increase or decrease of 1% in the interest rate on cash instruments would result in a change of R3,4 million (2018: R3,7 million) to the profit after tax of the Group and a resultant increase or decrease in retained earnings.

Company

An increase or decrease of 1% in the interest rate on cash instruments would result in a change of R2 million (2018: R2 million) to the profit after tax of the Company and a resultant increase or decrease in retained earnings.

Equity price risk

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 exposure to listed equities is protected from severe drops in equity markets by using hedging derivatives selected by management after consideration of the benefits and corresponding risk related to the investment where this is possible. Please refer to note 15 for more information on the protected equity portfolio.

Equity price risk sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when price risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant prices. All other variables remain constant. The sensitivity analysis includes only investments held at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Group

An increase or decrease of 10% in the equity prices relating to the protected equity portfolio would result in a change of R39 million (2018: R50 million) to the profit after tax of the Group and a resultant increase or decrease in retained earnings.

An increase or decrease of 20% in the equity prices relating to the protected equity portfolio would result in a change of R78 million (2018: R100 million) to the profit after tax of the Group and a resultant increase or decrease in retained earnings.

An increase or decrease of 10% in the equity prices relating to the Old Mutual Limited shares and other listed shares would result in a change of R58 million (2018: R61 million) to the profit after tax of the Group and a resultant increase or decrease in retained earnings.

An increase or decrease of 20% in the equity prices relating to the Old Mutual Limited shares and other listed shares would result in a change of R117 million (2018: R122 million) to the profit after tax of the Group and a resultant increase or decrease in retained earnings.

Company

An increase or decrease of 10% in the equity prices relating to the protected equity portfolio would result in a change of R39 million (2018: R50 million) to the profit after tax of the company and a resultant increase or decrease in retained earnings.

An increase or decrease of 20% in the equity prices relating to the protected equity portfolio would result in a change of R78 million (2018: R100 million) to the profit after tax of the company and a resultant increase or decrease in retained earnings.

Notes to the group and company Financial Statements (continued)

43. Contingencies, guarantees and options

Frontline Underwriting Managers (Pty) Ltd and Old Mutual Insure Limited have agreed that the company will have an option to purchase the Call Option Shares in Frontline during the Call Option Period at the Share Purchase Price. The call option consideration was expensed in the current period.

44. Going concern

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

45. Events after the reporting period

On 11 March 2020, COVID-19 was declared as a pandemic due to the rising rate and scale of infections observed. Further on 23 March 2020 the President of South Africa announced a national lockdown for 21 days, expected to last to 16 April 2020. The rapid spread of the virus has caused significant disruption in global equity markets and the impact of lockdowns in several countries worldwide is expected to reduce GDP growth in 2020, both locally and globally. These impacts associated with this pandemic could negatively impact the performance of the business in 2020 and we are in the process of assessing this impact.

There have been no other material events after 31 December 2019 up to the date of this report.