

Old Mutual Insure Limited (previously Mutual & Federal Insurance Company Limited)

Condensed Interim Financial Statements
2017



DO GREAT THINGS



OLDMUTUAL
INSURE

OLD MUTUAL INSURE LIMITED

CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

(Registration Number 1970/006619/06)

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OLD MUTUAL INSURE LIMITED

FINANCIAL REVIEW

1. Review of activities

Main business and operations:

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

Old Mutual Insure Limited ("the company") is domiciled in South Africa and was rebranded from Mutual & Federal Insurance Company Limited on 05 June 2017.

Registered office: 19th Floor, Old Mutual Insure Centre
75 Helen Joseph street
Johannesburg

Postal address: PO Box 1120
Johannesburg
2000

2. Dividends

The company declared a dividend of R500m (2016: nil) for the six months ended 30 June 2017.

3 Events after the reporting date

The directors are not aware of any events arising after the reporting period that affect the results for the six months ended 30 June 2017.

4. Directors and Public Officers

The current directors of the company are as follows:

Appointments

Name	Date of appointment
P Moyo	June 2017

Name	Nationality	Permanent / rotation	Notice period	Retirement age
M J Harper (Chairman)	South African	Rotation #	1 Month	70
R Snyders (Chief Executive Officer)	South African	Permanent	3 Months	62
M Mia	South African	Rotation #	1 Month	70
P G M Truyens	Dutch	Rotation #	1 Month	70
P R E Tsukudu	South African	Rotation #	1 Month	70
P Rorich	South African	Rotation #	1 Month	70
R G Tomlinson	South African	Rotation #	1 Month	70
G Palser	South African	Rotation #	1 Month	70
P Moyo	South African	Rotation #	1 Month	70

A third of the directors rotate each year.

Resignations

Name	Date of resignation
J van der Sandt (Finance Director)	May 2017
N P Dongwana	June 2017

5. Holding company

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

6 Preparation of Financial Statements

The financial statements have been prepared by B Mpete CA(SA) (Senior Manager: Financial Reporting), under the supervision of T Osborne CA(SA) the Head of Finance of Old Mutual Insure Limited.

The condensed interim financial statements for six months ended 30 June 2017 are not audited nor reviewed.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 30 June 2017 Rm	Unaudited Six months ended 30 June 2016 Rm	Audited Year ended 31 Dec 2016 Rm
Gross written premiums		4 333	4 333	8 718
Less: Reinsurance premiums		538	426	1 042
Net written premiums		3 795	3 907	7 676
Change in provision for unearned premiums		27	(25)	4
Gross amount		60	44	(28)
Reinsurers' share		(33)	(69)	32
Earned premiums		3 822	3 882	7 680
Commission income from reinsurers		65	83	157
Investment returns		421	115	124
Net income		4 308	4 080	7 961
Net claims incurred		(2 540)	(2 700)	(5 183)
Acquisition costs		(643)	(642)	(1 321)
Administration expenses		(637)	(620)	(1 197)
Investment costs		(2)	(1)	(6)
Foreign exchange gains		-	(1)	(5)
Profit before taxation		486	116	249
Taxation	5	(71)	(53)	(87)
Profit after taxation		415	63	162
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss				
Revaluation of property		2	1	2
Deferred tax on actuarial gains				(41)
		2	1	(39)
Total comprehensive income for the half year		417	64	123

STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited Six months ended 30 June 2017 Rm	Unaudited Six months ended 30 June 2016 Rm	Audited Year ended 31 Dec 2016 Rm
ASSETS				
Intangible assets		145	167	150
Property and equipment		242	227	266
Deferred taxation assets		23	17	32
Investment in subsidiaries	4	1 907	2 058	2 076
Investment in associate		2	2	2
Interest in employee share trusts	7	495	618	529
Loans to share trusts		84	119	119
Loans and advances		5	10	1
Post-retirement medical benefit reimbursement asset		165	187	165
Deferred acquisition costs		114	112	129
Reinsurers' share of general insurance liabilities		1 724	1 036	1 282
Investments and securities	6	3 735	3 312	3 533
Amounts due from agents and reinsurers		1 545	1 026	719
Subrogation and salvage recoveries		278	221	292
Other receivables		600	420	553
Cash and cash equivalents		46	397	119
Total assets		11 110	9 929	9 967
LIABILITIES				
General insurance liabilities		4 289	3 688	3 809
Deferred reinsurance commission income		50	42	58
Deposits owing to reinsurers		786	440	525
Amounts due to agents and reinsurers		706	568	218
Post-retirement medical benefit liability		200	183	200
Taxation payable		28	-	16
Share based payment liability		60	70	53
Other payables		266	226	278
Total liabilities		6 385	5 217	5 157
EQUITY				
Share capital and share premium		1 797	1 797	1 797
Other reserves				
Property revaluation reserve		87	50	89
Retained income		2 841	2 865	2 924
Total equity		4 725	4 712	4 810
TOTAL LIABILITIES AND EQUITY		11 110	9 929	9 967

OLD MUTUAL INSURE LIMITED

STATEMENT OF CHANGES IN EQUITY

	Share capital and share premium Rm	Property revaluation reserve Rm	Retained income Rm	Total ordinary shareholders' equity Rm
Balance at 31 December 2015	1 797	51	2 801	4 649
Profit for the half year		-	63	63
Transfer from property revaluation to retained earnings		(1)	1	-
Balance at 30 June 2016	1 797	50	2 865	4 712
Profit for the half year			99	99
Property revaluation		40		40
Transfer from property revaluation to retained earnings		(1)	1	-
Actuarial loss on defined benefit earnings			(41)	(41)
Balance at 31 December 2016	1 797	89	2 924	4 810
Profit for the year			415	415
Transfer from property revaluation to retained earnings		(2)	2	-
Dividends paid			(500)	(500)
Balance at 30 June 2017	1 797	87	2 841	4 725

OLD MUTUAL INSURE LIMITED

STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June 2017	Unaudited Six months ended 30 June 2016	Audited Year ended 31 Dec 2016
	Rm	Rm	Rm
Cash flows from operating activities	(387)	190	186
Cash flows from investing activities	314	(237)	(512)
Cash flows from financing activities	-	-	-
Net increase in cash and cash equivalents	(73)	(47)	(326)
Foreign exchange gain on cash and cash equivalents	-	(1)	-
Cash and cash equivalents at beginning for the period	119	445	445
Cash and cash equivalents at end for the period	46	397	119

1. ACCOUNTING POLICIES

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

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and are in compliance with the Companies Act, 2008.

1.2 Basis of preparation

The condensed interim financial statements are prepared in accordance with International Financial Reporting Standards, IAS 34 Interim Financial Reporting Guides, as issued by the Accounting practice committee and Financial pronouncements as issued by the Financial Reporting Standards council and the requirements of the Companies Act of South Africa.

The condensed interim financial statements are presented in South African Rand, which is also the company's functional currency, rounded to the nearest million. The financial statements are prepared on the historical-cost basis except for financial instruments which are at fair valued and property which is revalued.

The preparation of the condensed interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 31 December 2016.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 2 to the financial statements.

1.3 Consolidated financial statements

Consolidated interim financial statements are not prepared as the company is a wholly-owned subsidiary of Old Mutual Emerging Markets Limited (a South African company) and Old Mutual plc (incorporated in England) prepares consolidated financial statements available for public use that comply with IFRS.

1.4 Risk Management

The company's activities expose it to a variety of financial risks: market risk (including price risk, interest rate risk, foreign currency risk and derivatives risk), credit risk and liquidity risk. Insurance activities expose the company to insurance risk (including pricing risk, reserving risk, accumulation risk and reinsurance risk).

The company is also exposed to operational risk and legal risk. The capital risk management philosophy is to maximise the return on shareholders' capital within an appropriate risk framework.

The condensed company's interim financial statements do not include all risk management information and disclosure required in the annual financial statements and should be read in conjunction with the company's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies since the previous year-end.

2 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Claims incurred

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

Defined post employment benefits

Assumptions are made regarding the level of subsidy and discount rates in calculating the company's post-retirement medical benefits.

Investments in subsidiaries and associates

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

Interest in staff share trusts

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

3. CATEGORISATION OF ASSETS AND LIABILITIES

Unaudited six months ended 30 June 2017	Notes	Financial assets at fair value through profit or loss		Loans and receivables	Financial liabilities	Other non-financial assets and liabilities
		Total				
		Rm	Rm	Rm	Rm	Rm
ASSETS						
Intangible assets		145				145
Property and equipment		242				242
Deferred taxation assets		23				23
Investment in subsidiaries	4	1 907	1 907			
Investment in associate		2	2			
Interest in staff share trusts	7	495	495			
Loans to share trusts		84		84		
Loans and advances		5		5		
Post-retirement medical benefit reimbursement asset		165				165
Deferred acquisition costs		114				114
Reinsurers' share of general insurance liabilities		1 724				1 724
Investments and securities	6	3 735	3 735			
Amounts due from agents and reinsurers		1 545		1 545		
Subrogation and salvage recoveries		278				278
Other receivables		600		600		
Cash and cash equivalents		46		46		
		11 110	6 139	2 279	-	2 692
LIABILITIES						
General insurance liabilities		4 289				4 289
Deferred reinsurance commission income		50				50
Deposits owing to reinsurers		786			786	
Amounts due to agents and reinsurers		706			706	
Post-retirement medical benefit liability		200				200
Taxation payable		28				28
Share based payment liability		60				60
Other payables		266			266	
		6 385	-	-	1 757	4 627

3. CATEGORISATION OF ASSETS AND LIABILITIES (continued)

Unaudited six months ended 30 June 2016	Notes	Total Rm	Financial assets at fair value through profit or loss Rm	Loans and receivables Rm	Financial liabilities Rm	Other non- financial assets and liabilities Rm
ASSETS						
Intangible assets		167				167
Property and equipment		227				227
Deferred taxation assets		17				17
Investment in subsidiaries	4	2 058	2 058			
Investment in associate		2	2			
Interest in staff share trusts	7	618	618			
Loans to share trusts		119		119		
Loans and advances		10		10		
Post-retirement medical benefit reimbursement asset		187				187
Deferred acquisition costs		112				112
Reinsurers' share of general insurance liabilities		1 036				1 036
Investments and securities	6	3 312	3 312			
Amounts due from agents and reinsurers		1 026		1 026		
Subrogation and salvage recoveries		221				221
Other receivables		420		420		
Cash and cash equivalents		397		397		
		<u>9 929</u>	<u>5 990</u>	<u>1 972</u>	<u>-</u>	<u>1 967</u>
LIABILITIES						
General insurance liabilities		3 688				3 688
Deferred reinsurance commission income		42				42
Deposits owing to reinsurers		440			440	
Amounts due to agents and reinsurers		568			568	
Post-retirement medical benefit liability		183				183
Taxation payable		-				-
Share based payment liability		70				70
Other payables		226			226	
		<u>5 217</u>	<u>-</u>	<u>-</u>	<u>1 234</u>	<u>3 983</u>

3. CATEGORISATION OF ASSETS AND LIABILITIES (continued)

Audited results for year ended 31 Dec 2016	Total	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities	Other non- financial assets and liabilities
	Rm	Rm	Rm	Rm	Rm
ASSETS					
Intangible assets	150				150
Property and equipment	266				266
Deferred taxation assets	32				32
Investment in subsidiaries	4	2 076			
Investment in associate	2	2			
Interest in staff share trusts	7	529			
Loans to share trusts	119		119		
Loans and advances	1		1		
Post-retirement medical benefit reimbursement asset	165				165
Deferred acquisition costs	129				129
Reinsurers' share of general insurance liabilities	1 282				1 282
Investments and securities	6	3 533			
Amounts due from agents and reinsurers	719		719		
Subrogation and salvage recoveries	292				292
Other receivables	553		553		
Cash and cash equivalents	119		119		
	<u>9 967</u>	<u>6 140</u>	<u>1 511</u>	<u>-</u>	<u>2 316</u>
LIABILITIES					
General insurance liabilities	3 809				3 809
Deferred reinsurance commission income	58				58
Deposits owing to reinsurers	525			525	
Amounts due to agents and reinsurers	218			218	
Post-retirement medical benefit liability	200				200
Taxation payable	16				16
Share based payment liability	53				53
Other payables	278			278	
	<u>5 157</u>	<u>-</u>	<u>-</u>	<u>1 021</u>	<u>4 136</u>

	Unaudited Six months ended 30 June 2017 Rm	Unaudited Six months ended 30 June 2016 Rm	Audited Year ended 31 Dec 2016 Rm
4 INVESTMENT IN SUBSIDIARIES			
Shares at cost	907	907	907
Acquisition of additional equity interest in subsidiaries	25	190	190
Sale of equity interest in subsidiary	(426)	-	-
Fair value adjustment	1 401	961	979
	<u>1 907</u>	<u>2 058</u>	<u>2 076</u>
Amounts due from subsidiaries (included in other receivables)	27	10	28
	<u>1 934</u>	<u>2 068</u>	<u>2 104</u>
Amounts due to subsidiaries (included in other payables)	(50)	(35)	(50)
	<u>1 884</u>	<u>2 033</u>	<u>2 054</u>

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

Purchase of Subsidiaries

Credit Guarantee Insurance Company Limited (CGIC)

The company acquired an additional 13.92% interest in Credit Guarantee Insurance Company Limited (CGIC) for R190 million, effective 1 March 2016. The acquisition of the additional interest resulted in the company owning 100% of the issued share capital of CGIC on the effective date of 1 March 2016.

Old Mutual Insure sold a 25% equity stake in Credit Guarantee Insurance Company Limited ("CGIC") to Atradius N.V., a leading global trade credit insurance, surety and collections services company, with the effective date being 1 April 2017.

	Unaudited Six months ended 30 June 2017	Unaudited Six months ended 30 June 2016	Audited Year ended 31 Dec 2016
5 TAXATION			
South African and foreign			
Current	60	19	68
Deferred	10	41	26
Withholding tax	1	(7)	(7)
	<u>71</u>	<u>53</u>	<u>87</u>

	Unaudited Six months ended 30 June 2017	Unaudited Six months ended 30 June 2016	Audited Year ended 31 Dec 2016
6 INVESTMENTS AND SECURITIES			
6.1 Investments and securities			
Unlisted ordinary shares ⁽¹⁾	9	16	16
Listed equities ⁽²⁾	1 573	1 041	1 525
Long term loans ⁽³⁾	-	8	8
Unlisted empowerment private equity fund ⁽⁴⁾	27	15	19
Money market funds and securities treated as investments	2 126	2 231	1 965
	<u>3 735</u>	<u>3 312</u>	<u>3 533</u>

Notes:

- 1 The carrying value of the unlisted ordinary shares is based on a valuation of their net assets and where appropriate an adjustment for systemic and non-systemic risk.
- 2 The carrying value of the listed equities is based on the spot rate.
- 3 The long term loans treated as investments are repayable annually until 2020. R4.7 million of the loans bear interest at a 2-3% discount to the prime lending rate, and R3 million of the loans are at an interest rate of 2%. The loans recoverability was assessed and long term loans were impaired to nil in the current year in accordance with IFRS 9.
- 4 The unlisted empowerment private equity fund represents black economic empowerment development investment policies with the Old Mutual Investment Group (Pty) Ltd.

6.2 Fair value hierarchy of assets carried at fair value

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Unaudited six months ended 30 June 2017				
Property and equipment		242		242
Investment in subsidiaries			1 907	1 907
Investment in associates			2	2
Interest in staff share trusts		495		495
Investments and securities	3 640		95	3 735
Financial assets at fair value	3 640	737	2 004	6 381

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Unaudited six months ended 30 June 2016				
Property and equipment		227		227
Investment in subsidiaries			2 058	2 058
Investment in associates			2	2
Interest in staff share trusts		618		618
Investments and securities	3 212	8	91	3 312
Financial assets at fair value	3 212	853	2 151	6 217

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Audited results for year ended 31 December 2016				
Property and equipment		266		266
Investment in subsidiaries			2 076	2 076
Investment in associates			2	2
Interest in staff share trusts		529		529
Investments and securities	3 228	210	95	3 533
Financial assets at fair value	3 228	1 005	2 173	6 406

Definitions:

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

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

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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:

	Unaudited Six months ended 30 June 2017 Rm	Unaudited Six months ended 30 June 2016 Rm	Audited Year ended 31 Dec 2016 Rm
Investment securities and subsidiary loans			
Opening balance	2 173	2 022	2 022
Subsidiary fair value adjustment through profit or loss	-	-	(44)
Acquisition of additional equity interest in subsidiary	25	190	190
Sale of equity interest in subsidiary	(426)	-	-
Investment and securities movement	-	-	-
Revaluation of investments to fair value through profit or loss	224	-	1
Revaluation of money market instruments	8	(61)	4
Realisation of black business partners	-	-	-
Closing balance	2 004	2 151	2 173

Valuation assumptions

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

Subsidiary companies are valued using the discounted cash flow method for insurance operations and fair values for all other assets and liabilities.

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.

7 SHARE TRUSTS

7.1 INTEREST IN EMPLOYEE SHARE TRUSTS

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

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

	Closing Market Value per share R	Management Incentive Trust Rm	Senior Black Management Trust Rm	Total Rm
Unaudited six months ended 30 June 2017				
Investment in Old Mutual plc shares	32.72	385	122	507
Allocated		101	47	148
Unallocated		284	75	359
Other assets		6	97	103
Loan from Old Mutual Insure		(63)	-	(63)
Other liabilities		(42)	(10)	(52)
Total Net Asset Value		286	209	495

	Closing Market Value per share R	Management Incentive Trust Rm	Senior Black Management Trust Rm	Total Rm
Unaudited six months ended 30 June 2016				
Investment in Old Mutual Plc shares	40.55	491	158	649
Allocated		161	52	213
Unallocated		330	106	436
Other assets		36	97	133
Loan from Mutual & Federal		(98)	-	(98)
Other liabilities		(48)	(18)	(66)
Total Net Asset Value		381	237	618

	Closing Market Value per share R	Management Incentive Trust Rm	Senior Black Management Trust Rm	Total Rm
Audited results for year ended 31 Dec 2016				
Investment in Old Mutual Plc shares	34.44	416	132	548
Allocated		161	51	212
Unallocated		255	81	336
Other assets		41	100	141
Loan from Mutual & Federal		(98)	-	(98)
Other liabilities		(48)	(14)	(62)
Total Net Asset Value		311	218	529

Valuation techniques and inputs

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

